

Össur hf.

Condensed Consolidated
Financial Statements

June 30 2011

Össur hf.
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110 Reykjavík
Id-no. 560271-0189

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Statement by the Board of Directors and President and CEO

The Condensed Interim Consolidated Financial Statements of Össur hf. for the period from 1 January to 30 June 2011 consist of the Financial Statements of Össur hf. and its subsidiaries. The Financial Statements are prepared in accordance with International Financial Reporting Standards for Interim Financial Reporting, IAS 34 as adopted by the EU.

The total sales of the Össur Consolidation amounted to USD 202.0 million. The net profit amounted to USD 18.3 million and according to the Balance Sheets the total assets of the Össur Consolidation amounted to USD 606.2 million at the end of period, liabilities were 239.9 million, and equity was 366.3 million.

It is our opinion that these Condensed Interim Consolidated Financial Statements present all the information necessary to give a true and fair view of the Company's assets and liabilities, financial position at 30 June 2011 and operating performance of the period ended 30 June 2011.

The Board of Directors and the President and CEO of Össur hf. have today discussed the Condensed Interim Consolidated Financial Statements for the period from 1 January to 30 June 2011 and confirm them by means of their signatures.

Reykjavik, 28 July 2011

Board of Directors

Niels Jacobsen
Chairman of the Board

Arne Boye Nielsen

Kristján T. Ragnarsson

Þórður Magnússon

Svafa Grönfeldt

President and CEO

Jón Sigurðsson

Financial Ratios

Consolidated statement

		YTD 2011	YTD 2010	2010	2009	2008
Income Statement						
Net sales	USD '000	202,019	176,489	358,538	330,580	346,835
Gross profit	USD '000	124,833	109,642	222,622	201,815	214,203
Operating expenses ²	USD '000	93,489	80,970	163,964	154,071	167,678
Profit from operations	USD '000	32,054	30,154	60,245	48,240	55,958
Net profit	USD '000	18,330	23,286	35,362	22,762	28,488
EBITDA	USD '000	38,192	37,400	74,358	66,988	79,440
Balance Sheet						
Total assets	USD '000	606,176	580,149	607,078	628,217	603,778
Equity	USD '000	366,254	311,510	343,558	312,223	249,648
Net interest-bearing debt (NIBD)	USD '000	135,685	130,808	132,816	157,633	234,281
Cash Flow						
Cash generated by operations	USD '000	30,024	30,276	64,331	85,770	71,460
Cash provided by operating activities	USD '000	17,720	18,301	39,995	69,155	52,835
Cash flows from investing activities	USD '000	(9,080)	(4,947)	(18,987)	(16,423)	(6,648)
Cash flows from financing activities	USD '000	(41,881)	(25,308)	(45,594)	(4,284)	(30,610)
Free Cash flow	USD '000	10,384	15,395	33,389	60,238	46,040
Key figures						
Sales Growth USD	%	14.5	11.3	8.5	(4.7)	4.5
Operating margin	%	15.9	17.1	16.8	14.6	16.0
EBITDA margin	%	18.9	21.2	20.7	20.3	22.9
Equity ratio	%	60.4	53.7	56.6	49.7	41.3
Ratio of net debt to EBITDA ¹		1.8	1.8	1.8	2.4	2.9
Ratio of debt to EBITDA ¹		2.1	2.6	2.5	3.5	3.3
Current ratio		1.8	2.2	1.9	2.3	1.1
Return on equity ¹	%	8.7	11.6	10.2	8.1	11.0
Market						
Market value of equity	USD '000	713,246	641,269	777,593	529,151	349,263
Number of shares	Millions	454	454	454	454	423
Price/earnings ratio, (P/E) ¹		24.2	17.8	22.3	23.2	12.3
Diluted EPS ¹	US Cent	6.69	8.15	7.77	5.30	6.73
Diluted Cash EPS ¹	US Cent	9.55	11.71	10.87	9.66	12.29

Notes

1. Financial ratios for YTD 2011 and YTD 2010 are based on operations for the preceding 12 months.
2. Excluding other income.

Report on Review of Financial Information

To the Board of Directors and shareholders of Össur hf.

Introduction

We have reviewed the accompanying statement of financial position of Össur hf. as of June 30, 2011 and the related statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this financial information in accordance with International Financial Reporting Standards for Interim Financial Reporting, IAS 34 as adopted by the EU. Our responsibility is to express a conclusion on this financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information performed by the Independent Auditor of the Entity. A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information does not give a true and fair view of the financial position of the entity as at June 30, 2011, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34 as adopted by the EU.

Kópavogur, 28 July 2011

Deloitte hf.

Sigurður Páll Hauksson
State authorized public accountant

Þorsteinn Pétur Guðjonsson
State authorized public accountant

Consolidated Income Statements for the period 1.1 - 30.6.2011 and 1.1 - 30.6.2010

	Notes	2011 YTD	2010 YTD	Unreviewed	
				2011 Q2	2010 Q2
Net sales	4	202,019	176,489	105,024	90,021
Cost of goods sold		<u>(77,186)</u>	<u>(66,847)</u>	<u>(41,628)</u>	<u>(34,467)</u>
Gross profit		124,833	109,642	63,396	55,554
Other income	6	710	1,482	654	64
Sales and marketing expenses		(55,312)	(48,408)	(27,903)	(23,645)
Research and development expenses		(9,686)	(9,840)	(5,065)	(4,738)
General and administrative expenses		<u>(28,491)</u>	<u>(22,722)</u>	<u>(14,186)</u>	<u>(11,224)</u>
Profit from operations		32,054	30,154	16,896	16,011
Financial income		66	150	30	119
Financial expenses		(5,941)	(7,713)	(2,474)	(3,921)
Net exchange rate difference		<u>(1,244)</u>	<u>8,455</u>	<u>(382)</u>	<u>5,692</u>
Net financial income / (expenses)	7	<u>(7,119)</u>	<u>892</u>	<u>(2,826)</u>	<u>1,890</u>
Profit before tax		24,935	31,046	14,070	17,901
Income tax	8	<u>(6,605)</u>	<u>(7,760)</u>	<u>(3,762)</u>	<u>(4,308)</u>
Net profit		<u>18,330</u>	<u>23,286</u>	<u>10,308</u>	<u>13,593</u>
Attributable to:					
Owners of the Company		17,576	22,999	10,021	13,437
Non-controlling interests		<u>754</u>	<u>287</u>	<u>287</u>	<u>156</u>
		<u>18,330</u>	<u>23,286</u>	<u>10,308</u>	<u>13,593</u>
Earnings per Share					
Basic Earnings per Share		<u>4.04</u>	<u>5.26</u>	<u>2.28</u>	<u>3.00</u>
Diluted Earnings per Share		<u>4.03</u>	<u>5.25</u>	<u>2.28</u>	<u>2.99</u>

Consolidated Statements of Comprehensive Income for the period 1.1 - 30.6.2011 and 1.1 - 30.6.2010

	Notes	2011 YTD	2010 YTD	Unreviewed	
				2011 Q2	2010 Q2
Net profit		18,330	23,286	10,308	13,593
Other comprehensive income					
Gain / (loss) on hedge of a net investment in foreign operations.....		(1,175)	6,711	0	3,529
Change on cash flow hedges		604	1,920	(270)	602
Transl. difference of shares in foreign operations.....		12,121	(31,320)	2,247	(18,102)
Income tax relating to components of other comprehensive income.....		(536)	(1,268)	185	(458)
Other comprehensive income (net of tax).....		11,014	(23,957)	2,162	(14,429)
Total comprehensive income		<u>29,344</u>	<u>(671)</u>	<u>12,470</u>	<u>(836)</u>
	Attributable to:				
Owners of the Company		28,590	(958)	12,183	(992)
Non-controlling interests		754	287	287	156
		<u>29,344</u>	<u>(671)</u>	<u>12,470</u>	<u>(836)</u>

Consolidated Balance Sheets

Assets

	Notes	30.6.2011	31.12.2010
Non-current assets			
Property, plant and equipment	11	35,601	32,089
Goodwill	12	348,724	339,153
Other intangible assets	13	30,822	29,975
Other financial assets	15	6,028	4,160
Deferred tax asset	26	37,312	36,171
		<u>458,487</u>	<u>441,548</u>
Current assets			
Inventories	17	51,216	46,261
Accounts receivables	18	63,120	52,322
Other assets	19	9,458	11,349
Assets classified as held for sale	16	1,199	1,199
Bank balances and cash		22,696	54,399
		<u>147,689</u>	<u>165,530</u>
Total assets		<u><u>606,176</u></u>	<u><u>607,078</u></u>

30 June 2011 and 31 December 2010

Equity and liabilities

	Notes	30.6.2011	31.12.2010
Equity			
Issued capital	20	195,408	201,997
Reserves	21	12,694	1,420
Retained earnings	22	156,089	138,513
Equity attributable to owners of the Company		<u>364,191</u>	<u>341,930</u>
Non-controlling interest in equity		2,063	1,628
Total equity		<u>366,254</u>	<u>343,558</u>
Non-current liabilities			
Borrowings	24	137,709	158,378
Deferred tax liabilities	26	12,221	13,691
Provisions	27	5,541	4,718
Other financial liabilities	25	1,176	1,358
		<u>156,647</u>	<u>178,145</u>
Current liabilities			
Borrowings	24	20,672	28,837
Accounts payable		21,971	15,462
Taxes payable		5,034	3,339
Provisions	27	2,622	2,582
Accrued salaries and related expenses		16,751	16,006
Other liabilities	29	16,225	19,149
		<u>83,275</u>	<u>85,375</u>
Total equity and liabilities		<u>606,176</u>	<u>607,078</u>

Consolidated Statements of Cash Flows

for the period 1.1 - 30.6.2011 and 1.1 - 30.6.2010

	Notes	2011 YTD	2010 YTD	Unreviewed	
				2011 Q2	2010 Q2
Cash flows from operating activities					
Profit from operations		32,054	30,154	16,896	16,011
Depreciation and amortization	11, 13	6,138	7,246	3,026	3,557
(Gain) / loss on disposal of assets		(109)	(1,051)	(116)	195
Change in provisions		800	(581)	596	(27)
Changes in operating assets and liabilities		(8,859)	(5,492)	(2,861)	(861)
Cash generated by operations		30,024	30,276	17,541	18,875
Interest received		3	78	(203)	49
Interest paid	10	(9,407)	(11,099)	(798)	(8,805)
Taxes paid		(2,900)	(954)	(268)	(94)
Net cash provided by operating activities		17,720	18,301	16,272	10,025
Cash flows from investing activities					
Purchase of fixed and intangible assets	11, 13	(7,525)	(4,092)	(4,139)	(1,580)
Proceeds from sale of fixed assets		189	2,549	125	129
Acquisition of subsidiaries		0	(2,041)	0	(2,041)
Changes in financial assets		(1,744)	(1,363)	(1,696)	(1,109)
		(9,080)	(4,947)	(5,710)	(4,601)
Cash flows from financing activities					
Proceeds from long-term borrowings		158,419	(1,287)	5,813	(1,287)
Repayments of long-term borrowings		(193,293)	(23,725)	(8,511)	(9,714)
Dividends from subsidiaries paid to non-controlling interests		(418)	(296)	(343)	(296)
Purchased treasury shares		(6,589)	0	(6,589)	0
		(41,881)	(25,308)	(9,630)	(11,297)
Net change in cash		(33,241)	(11,954)	932	(5,873)
Effects of foreign exch rate adjustments ...		1,538	(2,576)	182	(1,561)
Cash at beginning of period		54,399	79,831	21,582	72,735
Cash at end of period		22,696	65,301	22,696	65,301
Additional information regarding cash flow	10				

Consolidated Statements of Changes in Equity for the period ended 30 June 2011

	Share capital	Share premium	Statutory reserve	Share option reserve	Hedging reserve	Translation reserve	Accumulated profits	Attributable to owners of the parent	Non-controlling interests	Total equity
Balance at 1 January 2010.....	5,068	196,929	1,267	1,415	(8,480)	11,380	103,647	311,226	997	312,223
Net profit.....							22,999	22,999	287	23,286
Gain on hedge of a net investment in foreign operations net of tax.....						6,997		6,997		6,997
Change in cash flow hedges net of tax.....					1,574			1,574		1,574
Translation difference of shares in foreign operations.....						(32,528)		(32,528)		(32,528)
Total comprehensive income for the period.....	0	0	0	0	1,574	(25,531)	22,999	(958)	287	(671)
Share option charge for the period.....				190				190		190
Payment of dividends.....								0	(232)	(232)
Balance at 30 June 2010.....	5,068	196,929	1,267	1,605	(6,906)	(14,151)	126,646	310,458	1,052	311,510
Balance at 1 January 2011.....	5,068	196,929	1,267	1,944	(4,023)	2,232	138,513	341,930	1,628	343,558
Net profit.....							17,576	17,576	754	18,330
Loss on hedge of a net investment in foreign operations net of tax.....						(1,175)		(1,175)		(1,175)
Change in cash flow hedges net of tax.....					68			68		68
Translation difference of shares in foreign operations.....						12,121		12,121		12,121
Total comprehensive income for the period.....	0	0	0	0	68	10,946	17,576	28,590	754	29,344
Payment of dividends.....								0	(319)	(319)
Share option charge for the period.....				260				260		260
Purchased treasury shares.....	(35)	(6,554)						(6,589)		(6,589)
Balance at 30 June 2011.....	5,033	190,375	1,267	2,204	(3,955)	13,178	156,089	364,191	2,063	366,254

Notes to the Condensed Consolidated Financial Statements

1. General information

Össur hf. (the Company) is a global orthopaedics company, specializing in the development, manufacturing and sales of prosthetics, bracing and supports and compression therapy products. The principal market areas of the Company are Americas, Europe, Middle East and Africa (EMEA) and Asia, which are served by subsidiaries in the United States, Canada, Sweden, Norway, the Netherlands, UK, France, Australia, Spain, Switzerland, S-Africa, China and Hong Kong in addition to the Iceland-based parent company.

The main production of the Company is conducted at Össur hf. in Iceland, Össur France Group in St. Etienne and Trevoux France, Össur Mexico in Tijuana Mexico and at Össur Americas in California USA. Part of the production is outsourced to Asia.

According to the Company's organizational structure, the consolidation is divided into four main functions; Corporate Finance, responsible for overall financial management; Manufacturing & Operations, responsible for quality control and all production, inventory management and distribution; Research & Development, responsible for product development and product management; Sales & Marketing responsible for sales and marketing through the subsidiaries.

2. Adoption of new and revised Standards

2.1 Statement of compliance

The Condensed Interim Consolidated Financial Statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU. They do not include all of the information required for full annual Financial Statements, and should be read in conjunction with the Company's Annual Financial Statements for the period ended 31 December 2010.

2.2 Basis of preparation

The Condensed Interim Consolidated Financial Statements have been prepared under the historical cost basis except for the revaluation of financial instruments. The accounting policies adopted are consistent with those followed in the preparation of the Company's Annual Financial Statements for the period ended 31 December 2010.

3. Quarterly statements (Unreviewed)

The following quarterly split is not reviewed as the Company only requires review for the six month year to date figures.

	Q2	Q1	Q4	Q3	Q2
	2011	2011	2010	2010	2010
Net sales	105,024	96,995	94,612	87,437	90,021
Cost of goods sold	(41,628)	(35,558)	(36,078)	(32,991)	(34,467)
Gross profit	63,396	61,437	58,534	54,446	55,554
Other income	654	56	(25)	130	64
Sales and marketing expenses	(27,903)	(27,409)	(25,844)	(22,980)	(23,645)
Research and development expenses	(5,065)	(4,621)	(5,148)	(4,743)	(4,738)
General and administrative expenses	(14,186)	(14,305)	(13,157)	(11,122)	(11,224)
Profit from operations	16,896	15,158	14,360	15,731	16,011
Net financial income / expenses	(2,444)	(3,431)	(4,186)	(3,890)	(3,802)
Net exchange rate difference	(382)	(862)	1,155	(6,514)	5,692
Total financial income/(expenses)	(2,826)	(4,293)	(3,031)	(10,404)	1,890
Profit before tax	14,070	10,865	11,329	5,327	17,901
Income tax	(3,762)	(2,843)	(3,268)	(1,312)	(4,308)
Net profit	10,308	8,022	8,061	4,015	13,593
EBITDA	19,922	18,270	17,876	19,082	19,568

Notes to the Condensed Consolidated Financial Statements

4. Net sales

Specified according to geographical segments:

	YTD 2011	YTD 2010	Unreviewed	
			Q2 2011	Q2 2010
Americas.....	103,647	88,522	53,774	46,755
EMEA.....	89,823	80,583	46,829	39,539
Asia.....	8,549	7,384	4,421	3,727
	<u>202,019</u>	<u>176,489</u>	<u>105,024</u>	<u>90,021</u>

Specified according to product lines:

Bracing and Supports.....	106,613	87,541	54,296	44,204
Prosthetics.....	85,505	79,144	45,535	41,424
Compression Therapy (Phlebology).....	9,205	8,900	4,749	4,053
Other products.....	696	904	444	340
	<u>202,019</u>	<u>176,489</u>	<u>105,024</u>	<u>90,021</u>

Specified according to currency:

US Dollar, USD.....	101,898	85,166	53,024	44,984
Euro, EUR.....	64,061	60,373	33,422	28,933
British Pound, GBP.....	9,425	9,169	4,766	4,698
Canadian Dollar, CAD.....	9,022	8,044	4,711	4,234
Swedish Krona, SEK.....	5,324	6,352	2,763	3,418
Norwegian Krona, NOK.....	4,412	3,738	2,312	1,898
Australian Dollar, AUD.....	2,256	1,786	1,154	870
Icelandic Krona, ISK.....	559	604	309	246
Other.....	5,062	1,257	2,563	740
	<u>202,019</u>	<u>176,489</u>	<u>105,024</u>	<u>90,021</u>

Notes to the Condensed Consolidated Financial Statements

5. Segment information

2011	<u>Americas</u>	<u>EMEA</u>	<u>Asia</u>	<u>Eliminations</u>	<u>Consolidated</u>
	<u>YTD 2011</u>	<u>YTD 2011</u>	<u>YTD 2011</u>	<u>YTD 2011</u>	<u>YTD 2011</u>
Sales					
External sales.....	103,647	89,823	8,549	0	202,019
Inter-segment sales.....	19,238	48,037	0	(67,275)	0
Total sales.....	<u>122,885</u>	<u>137,860</u>	<u>8,549</u>	<u>(67,275)</u>	<u>202,019</u>
Result					
Segment result.....	<u>20,312</u>	<u>8,805</u>	<u>2,937</u>	<u>0</u>	32,054
Financial income/(expenses).....					<u>(7,119)</u>
Profit before tax.....					24,935
Income tax.....					<u>(6,605)</u>
Net profit.....					<u>18,330</u>
Balance sheet 30.6.2011					
Assets					
Segment assets.....	422,782	632,452	10,385	(459,443)	<u>606,176</u>
Liabilities					
Segment liabilities.....	213,717	260,301	4,620	(238,716)	<u>239,922</u>
Other information					
Capital additions.....	3,047	4,355	123	0	7,525
Depreciation and amortization.....	1,830	4,162	146	0	6,138

Sales of approximately 11.2 million USD (YTD 2010: 11.4 million USD) arose from sales to the Company's largest customer.

Notes to the Condensed Consolidated Financial Statements

2010	<u>Americas</u> <u>YTD 2010</u>	<u>EMEA</u> <u>YTD 2010</u>	<u>Asia</u> <u>YTD 2010</u>	<u>Eliminations</u> <u>YTD 2010</u>	<u>Consolidated</u> <u>YTD 2010</u>
Sales					
External sales.....	88,522	80,583	7,384	0	176,489
Inter-segment sales.....	11,337	44,078	0	(55,415)	0
Total sales.....	<u>99,859</u>	<u>124,661</u>	<u>7,384</u>	<u>(55,415)</u>	<u>176,489</u>
Result					
Segment result.....	<u>17,223</u>	<u>10,506</u>	<u>2,425</u>	<u>0</u>	30,154
Financial income/(expenses).....					<u>892</u>
Profit before tax.....					31,046
Income tax.....					<u>(7,760)</u>
Net profit.....					<u>23,286</u>
Balance sheet 31.12.2010					
Assets					
Segment assets.....	406,359	856,458	13,167	(668,906)	<u>607,078</u>
Liabilities					
Segment liabilities.....	270,710	470,231	6,025	(483,446)	<u>263,520</u>
Other information					
Capital additions.....	1,996	2,029	67	0	4,092
Depreciation and amortization.....	2,617	4,529	100	0	7,246

Notes to the Condensed Consolidated Financial Statements

6. Other income

Included in other income is 0.6 million received when settling a patent infringement. The 2010 figures includes a gain from sale of an office building in Alisio Viejo, California, amounting to 1.2 million.

7. Financial income / (expenses)

Financial income and (expenses) are specified as follows:

	YTD 2011	YTD 2010	Unreviewed	
			Q2 2011	Q2 2010
Financial income				
Interests on bank deposits.....	36	73	13	47
Other financial income.....	30	77	17	72
	<u>66</u>	<u>150</u>	<u>30</u>	<u>119</u>
Finance expenses				
Interest on loans.....	(5,557)	(7,470)	(2,238)	(3,773)
Other financial expenses.....	(384)	(243)	(236)	(148)
	<u>(5,941)</u>	<u>(7,713)</u>	<u>(2,474)</u>	<u>(3,921)</u>
Net exchange rate differences.....	(1,244)	8,455	(382)	5,692
Net financial income / (expenses).....	<u>(7,119)</u>	<u>892</u>	<u>(2,826)</u>	<u>1,890</u>

8. Income tax

Income tax is specified as follows:

	YTD 2011	YTD 2010	Unreviewed	
			Q2 2011	Q2 2010
Current tax expenses.....	(7,803)	(3,596)	(4,709)	(1,105)
Deferred tax expenses.....	1,198	(4,435)	912	(3,344)
Deferred tax reclassified from equity to income.....	0	271	35	141
	<u>(6,605)</u>	<u>(7,760)</u>	<u>(3,762)</u>	<u>(4,308)</u>

	YTD 2011		YTD 2010	
	Amount	%	Amount	%
Profit before taxes.....	<u>24,935</u>		<u>31,046</u>	
Income tax calculated at 20% / 18%	(4,987)	20%	(5,588)	18%
Effect of different tax rates of other jurisdictions.....	(1,226)	5%	(1,601)	5%
Effect of non-deductible expenses.....	(119)	0%	(312)	1%
Other changes.....	(273)	1%	(259)	1%
	<u>(6,605)</u>	<u>26%</u>	<u>(7,760)</u>	<u>25%</u>

Notes to the Condensed Consolidated Financial Statements

9. Earnings per share

	YTD 2011	YTD 2010	Unreviewed	
			Q2 2011	Q2 2010
Net profit.....	18,330	23,286	10,308	13,593
Total weighted average number of ordinary shares (in thousands).....	453,250	443,024	451,819	453,732
Total average number of shares including potential shares from options (in thousands).....	454,472	443,711	452,900	454,133
Basic Earnings per Share (US cent)	4.04	5.26	2.28	3.00
Diluted Earnings per Share (US cent)	4.03	5.25	2.28	2.99
Cash Earnings per Share	5.40	6.89	2.95	3.78
Diluted Cash Earnings per Share	5.38	6.88	2.94	3.77

10. Additional information regarding cash flow

	YTD 2011	YTD 2010	Unreviewed	
			Q2 2011	Q2 2010
Net profit	18,330	23,286	10,308	13,593
Items not affecting cash	3,334	1,777	2,539	2,991
Working capital provided by operating activities	21,664	25,063	12,847	16,584
(Increase) / decrease in inventories	(3,501)	1,404	(1,827)	56
(Increase) / decrease in receivables	(6,785)	(6,016)	(1,440)	(1,335)
Increase / (decrease) in payables	6,342	(2,150)	6,692	(5,280)
Net cash provided by operating activities	17,720	18,301	16,272	10,025

Interest paid:

As part of the refinancing, Össur closed its interest rate swap agreement and paid the outstanding fair value of USD 5.4 million. The hedging relationship remains effective and the cost will be expensed in the next six quarters thereafter.

Notes to the Condensed Consolidated Financial Statements

11. Property, plant and equipment

Operating fixed assets are specified as follows:

2011	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Total
Cost				
At 1 January 2011.....	14,107	34,680	20,801	69,588
Additions.....	206	2,435	3,982	6,623
Exchange rate differences.....	1,176	1,022	469	2,667
Eliminated on disposal.....	0	(236)	(3)	(239)
Fully depreciated assets.....	0	(664)	(1,806)	(2,470)
At 30 June 2011.....	<u>15,489</u>	<u>37,237</u>	<u>23,443</u>	<u>76,169</u>
Accumulated depreciation				
At 1 January 2011.....	8,098	18,631	10,770	37,499
Charge for the period.....	205	1,952	1,804	3,961
Exchange rate differences.....	677	738	321	1,736
Eliminated on disposal.....	0	(156)	(2)	(158)
Fully depreciated assets.....	0	(664)	(1,806)	(2,470)
At 30 June 2011.....	<u>8,980</u>	<u>20,502</u>	<u>11,086</u>	<u>40,568</u>
Carrying Amount:				
At 30 June 2011.....	<u>6,509</u>	<u>16,736</u>	<u>12,356</u>	<u>35,601</u>
At 31 December 2010.....	<u>6,009</u>	<u>16,049</u>	<u>10,031</u>	<u>32,089</u>

Depreciation classified by operational category, is shown in the following schedule:

	YTD 2011	YTD 2010
Cost of goods sold	2,074	2,019
Sales and marketing expenses	285	250
Research and development expenses.....	268	268
General and administrative expenses	1,334	1,053
	<u>3,961</u>	<u>3,590</u>

12. Goodwill

	30.6.2011
Cost	
At 1 January 2010.....	334,844
Reclass due to previous acquisitions.....	(1,905)
Arising on acquisition of subsidiaries.....	15,332
Exchange rate differences.....	(9,118)
At 31 December 2010.....	339,153
Exchange rate differences.....	9,571
At 30 June 2011.....	<u>348,724</u>
Carrying amount	
At 30 June 2011.....	<u>348,724</u>
At 31 December 2010.....	<u>339,153</u>

Notes to the Condensed Consolidated Financial Statements

The carrying amount of goodwill was allocated to the following cash-generating units:

	30.6.2011	31.12.2010
Americas.....	215,843	215,309
EMEA.....	129,739	120,726
Asia.....	3,142	3,118
	<u>348,724</u>	<u>339,153</u>

13. Other intangible assets

	Cust./distrib. relationships	Patents	Trademarks	Software and other	Total
Cost					
At 1 January 2011.....	22,299	12,071	15,598	10,653	60,621
Additions.....	0	0	0	902	902
Fully depreciated assets.....	0	(1,400)	0	(54)	(1,454)
Exchange rate differences.....	1,260	105	1,310	387	3,062
At 30 June 2011.....	<u>23,559</u>	<u>10,776</u>	<u>16,908</u>	<u>11,888</u>	<u>63,131</u>
Amortization					
At 1 January 2011.....	10,247	10,247	583	9,569	30,646
Charge for the period.....	1,157	684	0	336	2,177
Fully depreciated assets.....	0	(1,400)	0	(54)	(1,454)
Exchange rate differences.....	572	87	140	141	940
At 30 June 2011.....	<u>11,976</u>	<u>9,618</u>	<u>723</u>	<u>9,992</u>	<u>32,309</u>
Carrying Amount:					
At 30 June 2011.....	<u>11,583</u>	<u>1,158</u>	<u>16,185</u>	<u>1,896</u>	<u>30,822</u>
At 31 December 2010.....	<u>12,052</u>	<u>1,824</u>	<u>15,015</u>	<u>1,084</u>	<u>29,975</u>

Amortization classified by operational category, is shown in the following schedule:

	YTD 2011	YTD 2010
Cost of goods sold.....	11	10
Sales and marketing expenses.....	1,239	1,550
Research and development expenses.....	699	1,558
General and administrative expenses.....	228	538
	<u>2,177</u>	<u>3,656</u>

Notes to the Condensed Consolidated Financial Statements

14. The Consolidation

The Consolidation is split into three geographical segments, Americas, EMEA and ASIA. The main operation is carried out in the following companies:

Name of subsidiary	Place of registration and operation	Ownership %	Principal activity
Americas			
Össur Americas, Inc.....	USA	100%	Manufacturer, sales, distribution and services
Össur Canada, Inc.....	Canada	100%	Manufacturer, sales, distribution and services
EMEA			
Össur Europe BV.....	Netherlands	100%	Sales, distribution and services
Gibaud SAS.....	France	100%	Manufacturer, sales, distribution and services
Össur Nordic AB.....	Sweden	100%	Sales, distribution and services
Össur UK Ltd.....	UK	100%	Sales, distribution and services
Össur Iberia SA.....	Spain	100%	Sales, distribution and services
Össur South Africa (Pty) Ltd.....	South Africa	100%	Sales, distribution and services
Asia			
Össur Asia Pacific PTY, Ltd.....	Australia	100%	Sales, distribution and services
Össur Prosth. & Rehabilit. Co, Ltd.....	China	100%	Sales, distribution and services
Össur Hong Kong, Ltd.....	Hong Kong	100%	Sales, distribution and services

The Group established Össur Americas LP and Össur Finance AG during the period. The Consolidation is financed through these two companies.

15. Other financial assets

	30.6.2011	31.12.2010
Investment in associates.....	1,700	20
Restricted cash.....	1,289	1,156
Loans and receivables.....	3,039	2,984
	<u>6,028</u>	<u>4,160</u>

16. Assets classified as held for sale

At end of 2010 the Company classified its office facilities in Aliso Viejo, California as held for sale. The book value is USD 1.2 million at balance sheet date. Due to uncertainty of timing of the sale the facility has been rented out with a two year lease contract that is transferrable.

Notes to the Condensed Consolidated Financial Statements

17. Inventories

	30.6.2011	31.12.2010
Raw material.....	11,183	12,984
Work in progress.....	3,465	3,568
Finished goods	36,568	29,709
	<u>51,216</u>	<u>46,261</u>

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to 9.8 million (YTD 2010: 8.5 million) were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of 3.1 million (YTD 2010: 2.0 million) is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

18. Accounts receivables

	30.6.2011	31.12.2010
Nominal value.....	65,545	54,790
Allowances for doubtful accounts.....	(1,430)	(1,619)
Allowances for sales return.....	(995)	(849)
	<u>63,120</u>	<u>52,322</u>

19. Other assets

	30.6.2011	31.12.2010
VAT refundable.....	2,365	2,160
Prepaid expenses.....	4,858	5,704
Other.....	2,235	3,485
	<u>9,458</u>	<u>11,349</u>

20. Issued capital

Common stock is as follows in thousands of shares and nominal value in USD thousands:

	Shares	Nominal value
Total share capital at 30 June 2011.....	453,750	5,068
Treasury shares at period-end.....	(4,018)	(35)
	<u>449,732</u>	<u>5,033</u>

During the period the company purchased 4.0 million of treasury shares to meet its obligation under share option contracts. Total shares issued at balance sheet date is 453,750,008. The nominal value of each share is one Icelandic krona.

	Share capital	Share premium	Issued capital
Balance at 1 January 2010.....	5,068	196,929	201,997
Balance at 1 January 2011.....	5,068	196,929	201,997
Purchased treasury shares.....	(35)	(6,554)	(6,589)
Balance at 30 June 2011.....	<u>5,033</u>	<u>190,375</u>	<u>195,408</u>

Notes to the Condensed Consolidated Financial Statements

21. Reserves

	Statutory reserve	Share option reserve	Hedging reserve	Translation reserve	Total reserves
Balance at 1 January 2010.....	1,267	1,415	(8,480)	11,380	5,582
Change on cash flow hedges.....			4,457		4,457
Share option charge for the period.....		529			529
Change in hedge of a net investment.....				2,879	2,879
Transl. diff. of foreign operations.....				(12,027)	(12,027)
Balance at 1 January 2011.....	1,267	1,944	(4,023)	2,232	1,420
Change on cash flow hedges.....			68		68
Share option charge for the period.....		260			260
Change in hedge of a net investment.....				(1,175)	(1,175)
Transl. diff. of foreign operations.....				12,121	12,121
Balance at 30 June 2011.....	1,267	2,204	(3,955)	13,178	12,694

22. Retained earnings

	Retained earnings
At 1 January 2010.....	103,647
Net profit.....	34,866
At 1 January 2011.....	138,513
Net profit.....	17,576
Balance at 30 June 2011.....	156,089

23. Share option contracts and obligations to increase share capital

The following share-based payment arrangements were in existence at balance sheet date:

	Number	Grant/Issue date	Exercise date	Exercise price DKK	Fair value at grant date DKK
Issued to President and CEO	1,250,000	5.2.2007	1.12.2011	7.8	5.5
Issued to Executive Management	1,540,000	5.2.2007	1.12.2011	7.8	5.5
Issued to Management team	1,750,000	23.2.2008	23.2.2012	6.9	5.5
Issued to Executive Management	500,000	15.7.2008	15.7.2012	5.4	5.5
Issued to Management team	200,000	2.3.2009	2.3.2013	4.4	5.2
Issued to Management team	300,000	15.12.2009	15.12.2013	5.2	5.2
Issued to Management team	300,000	2.1.2010	2.1.2014	5.3	5.8
Issued to Management team	50,000	26.5.2010	26.5.2014	8.5	8.5
Issued to Management team	100,000	29.7.2010	29.7.2014	8.7	8.7
Issued to Management team	200,000	22.10.2010	22.10.2014	10.7	10.7
Issued to Management team	100,000	21.2.2011	21.2.2014	9.5	9.0
Issued to Management team	100,000	22.3.2011	22.3.2014	8.7	8.6
Total issued option contracts.....	6,390,000				

Estimated remaining cost due to the share option contracts are 0.6 million (2010: 0.8) which will be expensed over the next four years, thereof 0.3 million in 2011. An expense of 0.3 million (2010: 0.2) is recognised in the Income Statement for the period.

Notes to the Condensed Consolidated Financial Statements

24. Borrowings

	30.6.2011		31.12.2010	
	Current	Non-current	Current	Non-current
Loans in USD.....	12,762	80,310	13,797	83,085
Loans in EUR.....	6,416	53,331	13,218	71,219
Other borrowings.....	1,494	4,068	1,822	4,074
	<u>20,672</u>	<u>137,709</u>	<u>28,837</u>	<u>158,378</u>

Aggregated maturities of borrowings are as follows:

	30.6.2011	31.12.2010
In 1.7.2011 - 30.6.2012 / 2011.....	20,672	28,837
In 1.7.2012 - 30.6.2013 / 2012.....	20,970	28,656
In 1.7.2013 - 30.6.2014 / 2013.....	19,907	27,835
In 1.7.2014 - 30.6.2015 / 2014.....	20,284	20,545
In 1.7.2015 - 30.6.2016 / 2015.....	76,548	81,342
	<u>158,381</u>	<u>187,215</u>

In March Össur signed an agreement with three international banks, ING Bank, Nordea and SEB on long-term financing in the amount of USD 231 million, thereof USD 111 million revolving credit facility. The financing is for five years, maturing in 2016. Interest terms are subject to a margin grid, changing in line with financial leverage. The initial average interest terms are 145 bps + LIBOR/EURIBOR. Shares in Össur hf. and major subsidiaries are pledged against these loans.

25. Other financial liabilities

As part of the refinancing in March, Össur closed its interest rate swap agreement, which had a negative value of USD 5.4 million (2010: 4.6 million). The hedging relationship remains effective and the cost will be expensed during the next six quarters. In April a new interest rate swap agreement was signed whereas roughly 50% of the interest payments of the new term loan has fixed interest from June 2011.

26. Deferred tax asset / (liability)

	30.6.2011	31.12.2010
At beginning of period.....	22,480	31,343
Income tax payable for the period.....	7,803	6,826
Calculated tax for the period.....	(6,605)	(12,340)
Arising on acquisition of a subsidiary.....	801	(1,690)
Recognised directly through equity.....	(536)	(1,380)
Deferred tax recycled from equity to income.....	0	(91)
Exchange rate differences.....	1,148	(188)
	<u>25,091</u>	<u>22,480</u>
Deferred tax in the balance sheet:		
Deferred tax asset.....	37,312	36,171
Deferred tax liabilities.....	(12,221)	(13,691)
	<u>25,091</u>	<u>22,480</u>

Notes to the Condensed Consolidated Financial Statements

27. Provisions

	30.6.2011		31.12.2010	
	Current	Non-current	Current	Non-current
Warranty (i).....	982	5,463	1,110	4,653
Other.....	1,640	78	1,472	65
	<u>2,622</u>	<u>5,541</u>	<u>2,582</u>	<u>4,718</u>

(i) The warranty provision represents management's best estimate of the Company's liability under warranties granted on prosthetics products, based on past experience.

	Warranty provisions	Other provisions	Total
At 1 January 2010.....	4,986	3,444	8,430
Additional provision recognised.....	4,473	464	4,937
Utilization of provision.....	(3,696)	(2,210)	(5,906)
Exchange differences.....	0	(161)	(161)
At 31 December 2010.....	5,763	1,537	7,300
Additional provision recognised.....	2,282	111	2,393
Utilization of provision.....	(1,600)	17	(1,583)
Exchange differences.....	0	53	53
At 30 June 2011.....	<u>6,445</u>	<u>1,718</u>	<u>8,163</u>
Non-current.....	5,463	78	5,541
Current.....	982	1,640	2,622
At 30 June 2011.....	<u>6,445</u>	<u>1,718</u>	<u>8,163</u>

28. Related party transactions

The Company had no material transactions with related parties during the period.

29. Other liabilities

	30.6.2011	31.12.2010
Accrued expenses.....	8,328	8,004
Accrued Royalties.....	1,261	1,400
Sales tax and VAT.....	1,530	960
Payable due to previous acquisition.....	2,804	2,324
Interest rate swap contracts, current portion.....	0	3,200
Other.....	2,302	3,261
	<u>16,225</u>	<u>19,149</u>

30. Approval of the Consolidated Financial Statements

The Condensed Interim Consolidated Financial Statements were approved by the board of directors and authorised for issue on 28 July 2011.