

Össur hf.

Condensed Consolidated
Financial Statements

March 31st 2011

Össur hf.
Grjóthálsi 5
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 31 March 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 Condensed Interim Consolidated Financial Statements are not audited nor reviewed by the Company's auditors.

The total sales of the Össur Consolidation amounted to USD 97.0 million. The net profit amounted to USD 8.0 million and according to the Balance Sheets the total assets of the Össur Consolidation amounted to USD 594.0 million at the end of period, liabilities were 233.5 million, and equity was 360.5 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 31 March 2011 and operating performance of the period ended 31 March 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 31 March 2011 and confirm them by means of their signatures.

Reykjavik, 4 May 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	96,995	86,468	358,538	330,580	346,835
Gross profit	USD '000	61,437	54,088	222,622	201,815	214,203
Operating expenses ²	USD '000	46,335	41,363	163,964	154,071	167,678
Profit from operations	USD '000	15,158	14,143	60,245	48,240	55,958
Net profit	USD '000	8,022	9,693	35,362	22,762	28,488
EBITDA	USD '000	18,270	17,832	74,358	66,988	79,440
Balance Sheet						
Total assets	USD '000	594,014	606,432	607,078	628,217	603,778
Equity	USD '000	360,488	312,457	343,558	312,223	249,648
Net interest-bearing debt (NIBD)	USD '000	138,369	143,180	132,816	157,633	234,281
Cash Flow						
Cash generated by operations	USD '000	12,483	11,401	64,331	85,770	71,460
Cash provided by operating activities	USD '000	1,448	8,276	39,995	69,155	52,835
Cash flows from investing activities	USD '000	(3,370)	(346)	(18,987)	(16,423)	(6,648)
Cash flows from financing activities	USD '000	(32,251)	(14,011)	(45,594)	(4,284)	(30,610)
Free Cash flow	USD '000	(1,874)	7,930	33,389	60,238	46,040
Key figures						
Sales Growth USD	%	12.2	12.0	8.5	(4.7)	4.5
Operating margin	%	15.6	16.4	16.8	14.6	16.0
EBITDA margin	%	18.8	20.6	20.7	20.3	22.9
Equity ratio	%	60.7	51.5	56.6	49.7	41.3
Ratio of net debt to EBITDA ¹		1.8	2.0	1.8	2.4	2.9
Ratio of debt to EBITDA ¹		2.1	3.0	2.5	3.5	3.3
Current ratio		2.0	2.6	1.9	2.3	1.1
Return on equity ¹	%	9.8	8.0	10.2	8.1	11.0
Market						
Market value of equity	USD '000	726,247	700,252	777,593	529,151	349,263
Number of shares	Millions	454	454	454	454	423
Price/earnings ratio, (P/E) ¹		22.1	28.1	22.3	23.2	12.3
Diluted EPS ¹	US Cent	7.40	5.48	7.77	5.30	6.73
Diluted Cash EPS ¹	US Cent	10.37	9.32	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.

Consolidated Income Statements for the period 1.1 - 31.3.2011 and 1.1 - 31.3.2010

	Notes	2011 YTD	2010 YTD
Net sales	4	96,995	86,468
Cost of goods sold		<u>(35,558)</u>	<u>(32,380)</u>
Gross profit		61,437	54,088
Other income	6	56	1,418
Sales and marketing expenses		(27,409)	(24,763)
Research and development expenses		(4,621)	(5,102)
General and administrative expenses		<u>(14,305)</u>	<u>(11,498)</u>
Profit from operations		15,158	14,143
Financial income		36	31
Financial expenses		(3,467)	(3,792)
Net exchange rate difference		<u>(862)</u>	<u>2,763</u>
Net financial income / (expenses)	7	<u>(4,293)</u>	<u>(998)</u>
Profit before tax		10,865	13,145
Income tax	8	<u>(2,843)</u>	<u>(3,452)</u>
Net profit		<u>8,022</u>	<u>9,693</u>
Attributable to:			
Owners of the Company		7,555	9,562
Non-controlling interests		<u>467</u>	<u>131</u>
		<u>8,022</u>	<u>9,693</u>
Earnings per Share			
Basic Earnings per Share		<u>1.77</u>	<u>2.14</u>
Diluted Earnings per Share		<u>1.76</u>	<u>2.13</u>

Consolidated Statements of Comprehensive Income for the period 1.1 - 31.3.2011 and 1.1 - 31.3.2010

	Notes	2011 YTD	2010 YTD
Net profit		8,022	9,693
Other comprehensive income			
Gain / (loss) on hedge of a net investment in foreign operations.....		(1,175)	3,182
Change on cash flow hedges		874	1,318
Transl. difference of shares in foreign operations.....		9,874	(13,218)
Income tax relating to components of other comprehensive income.....		(721)	(810)
Other comprehensive income (net of tax).....		<u>8,852</u>	<u>(9,528)</u>
Total comprehensive income		<u><u>16,874</u></u>	<u><u>165</u></u>
	Attributable to:		
Owners of the Company		16,407	34
Non-controlling interests		<u>467</u>	<u>131</u>
		<u><u>16,874</u></u>	<u><u>165</u></u>

Consolidated Balance Sheets

Assets

	Notes	31.3.2011	31.12.2010
Non-current assets			
Property, plant and equipment	11	33,891	32,089
Goodwill	12	346,732	339,153
Other intangible assets	13	30,683	29,975
Other financial assets	15	4,303	4,160
Deferred tax asset	26	36,294	36,171
		<u>451,903</u>	<u>441,548</u>
Current assets			
Inventories	17	49,085	46,261
Accounts receivables	18	58,320	52,322
Other assets	19	11,925	11,349
Assets classified as held for sale	16	1,199	1,199
Bank balances and cash		21,582	54,399
		<u>142,111</u>	<u>165,530</u>
Total assets		<u><u>594,014</u></u>	<u><u>607,078</u></u>

31 March 2011 and 31 December 2010

Equity and liabilities

	Notes	31.3.2011	31.12.2010
Equity			
Issued capital	20	201,997	201,997
Reserves	21	10,402	1,420
Retained earnings	22	146,068	138,513
Equity attributable to owners of the Company		<u>358,467</u>	<u>341,930</u>
Non-controlling interest in equity		2,021	1,628
Total equity		<u>360,488</u>	<u>343,558</u>
Non-current liabilities			
Borrowings	24	143,282	158,378
Deferred tax liabilities	26	14,242	13,691
Provisions	27	5,019	4,718
Other financial liabilities	25	0	1,358
		<u>162,543</u>	<u>178,145</u>
Current liabilities			
Borrowings	24	16,669	28,837
Accounts payable		18,419	15,462
Taxes payable		1,644	3,339
Provisions	27	2,522	2,582
Accrued salaries and related expenses		16,990	16,006
Other liabilities	29	14,739	19,149
		<u>70,983</u>	<u>85,375</u>
Total equity and liabilities		<u>594,014</u>	<u>607,078</u>

Consolidated Statements of Cash Flows

for the period 1.1 - 31.3.2011 and 1.1 - 31.3.2010

	Notes	YTD 2011	YTD 2010
Cash flows from operating activities			
Profit from operations		15,158	14,143
Depreciation and amortization	11, 13	3,112	3,689
(Gain) / loss on disposal of assets		7	(1,246)
Change in provisions		204	(554)
Changes in operating assets and liabilities		(5,998)	(4,631)
Cash generated by operations		<u>12,483</u>	<u>11,401</u>
Interest received		206	29
Interest paid	10	(8,609)	(2,294)
Taxes paid		(2,632)	(860)
Net cash provided by operating activities		<u>1,448</u>	<u>8,276</u>
Cash flows from investing activities			
Purchase of fixed assets	11, 13	(3,386)	(2,512)
Proceeds from sale of fixed assets		64	2,420
Changes in financial assets		(48)	(254)
		<u>(3,370)</u>	<u>(346)</u>
Cash flows from financing activities			
Proceeds from long-term borrowings		152,606	0
Repayments of long-term borrowings		(184,782)	(14,011)
Dividends from subsidiaries paid to non-controlling interests		(75)	0
		<u>(32,251)</u>	<u>(14,011)</u>
Net change in cash		(34,173)	(6,081)
Effects of foreign exchange rate adjustments		1,356	(1,015)
Cash at beginning of period		<u>54,399</u>	<u>79,831</u>
Cash at end of period		<u>21,582</u>	<u>72,735</u>
Additional information regarding cash flow	10		

Consolidated Statements of Changes in Equity for the period ended 31 March 2011

	Share capital	Share premium	Statutory reserve	Stock 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.....							9,562	9,562	131	9,693
Gain on hedge of a net investment in foreign operations net of tax.....						2,609		2,609		2,609
Change in cash flow hedges net of tax.....					1,081			1,081		1,081
Translation difference of shares in foreign operations.....						(13,218)		(13,218)		(13,218)
Total comprehensive income for the period.....	0	0	0	0	1,081	(10,609)	9,562	34	131	165
Stock option charge for the period.....				69				69		69
Balance at 31 March 2010.....	5,068	196,929	1,267	1,484	(7,399)	771	113,209	311,329	1,128	312,457
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.....							7,555	7,555	467	8,022
Loss on hedge of a net investment in foreign operations net of tax.....						(984)		(984)		(984)
Change in cash flow hedges net of tax.....					(38)			(38)		(38)
Translation difference of shares in foreign operations.....						9,874		9,874		9,874
Total comprehensive income for the period.....	0	0	0	0	(38)	8,890	7,555	16,407	467	16,874
Payment of dividends.....								0	(74)	(74)
Stock option charge for the period.....				130				130		130
Balance at 31 March 2011.....	5,068	196,929	1,267	2,074	(4,061)	11,122	146,068	358,467	2,021	360,488

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, Swiss, S-Africa and China in addition to the Iceland-based parent company.

The main production of the Company is conducted at Össur hf. in Iceland, Gibaud Group (La Tour Finance) in St. Etienne, Trevoux in 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

	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Net sales	96,995	94,612	87,437	90,021	86,468
Cost of goods sold	(35,558)	(36,078)	(32,991)	(34,467)	(32,380)
Gross profit	61,437	58,534	54,446	55,554	54,088
Other income	56	(25)	130	64	1,418
Sales and marketing expenses	(27,409)	(25,844)	(22,980)	(23,645)	(24,763)
Research and development expenses	(4,621)	(5,148)	(4,743)	(4,738)	(5,102)
General and administrative expenses	(14,305)	(13,157)	(11,122)	(11,224)	(11,498)
Profit from operations	15,158	14,360	15,731	16,011	14,143
Net financial income /expenses	(3,431)	(4,186)	(3,890)	(3,802)	(3,761)
Net exchange rate difference	(862)	1,155	(6,514)	5,692	2,763
Total financial income/(expenses)	(4,293)	(3,031)	(10,404)	1,890	(998)
Profit before tax	10,865	11,329	5,327	17,901	13,145
Income tax	(2,843)	(3,268)	(1,312)	(4,308)	(3,452)
Net profit	8,022	8,061	4,015	13,593	9,693
EBITDA	18,270	17,876	19,082	19,568	17,832

Notes to the Condensed Consolidated Financial Statements

4. Net sales

Specified according to geographical segments:

	YTD 2011	YTD 2010
Americas.....	49,873	41,767
EMEA.....	42,994	41,044
Asia.....	4,128	3,657
	<u>96,995</u>	<u>86,468</u>

Specified according to product lines:

Bracing and Supports.....	52,317	43,337
Prosthetics.....	39,970	37,720
Compression Therapy (Phlebology).....	4,456	4,847
Other products.....	252	564
	<u>96,995</u>	<u>86,468</u>

Specified according to currency:

US Dollar, USD.....	48,874	40,182
Euro, EUR.....	30,639	31,440
British Pound, GBP.....	4,659	4,471
Canadian Dollar, CAD.....	4,311	3,810
Swedish Krona, SEK.....	2,561	2,934
Norwegian Krona, NOK.....	2,100	1,840
Australian Dollar, AUD.....	1,102	916
Icelandic Krona, ISK.....	250	358
Other.....	2,499	517
	<u>96,995</u>	<u>86,468</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.....	49,873	42,994	4,128	0	96,995
Inter-segment sales.....	8,787	20,312	0	(29,099)	0
Total sales.....	<u>58,660</u>	<u>63,306</u>	<u>4,128</u>	<u>(29,099)</u>	<u>96,995</u>
Result					
Segment result.....	<u>10,227</u>	<u>3,522</u>	<u>1,409</u>	<u>0</u>	15,158
Financial income/(expenses).....					<u>(4,293)</u>
Profit before tax.....					10,865
Income tax.....					<u>(2,843)</u>
Net profit.....					<u>8,022</u>
Balance sheet 31.3.2011					
Assets					
Segment assets.....	396,775	1,741,603	11,860	(1,556,224)	<u>594,014</u>
Liabilities					
Segment liabilities.....	163,075	291,379	4,377	(225,305)	<u>233,526</u>
Other information					
Capital additions.....	1,421	1,907	58	0	3,386
Depreciation and amortization.....	948	2,093	71	0	3,112

Sales of approximately 5.2 million USD (YTD 2010: 5.3 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.....	41,767	41,044	3,657	0	86,468
Inter-segment sales.....	5,216	17,716	0	(22,932)	0
Total sales.....	<u>46,983</u>	<u>58,760</u>	<u>3,657</u>	<u>(22,932)</u>	<u>86,468</u>
Result					
Segment result.....	<u>7,379</u>	<u>5,527</u>	<u>1,237</u>	<u>0</u>	14,143
Financial income/(expenses).....					(998)
Profit before tax.....					13,145
Income tax.....					(3,452)
Net profit.....					<u>9,693</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.....	1,189	1,318	5	0	2,512
Depreciation and amortization.....	1,328	2,311	50	0	3,689

Notes to the Condensed Consolidated Financial Statements

6. Other income

Included in other income in YTD 2010 is 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:

	<u>YTD 2011</u>	<u>YTD 2010</u>
Financial income		
Interests on bank deposits.....	23	26
Other financial income.....	13	5
	<u>36</u>	<u>31</u>
Finance expenses		
Interest on loans.....	(3,319)	(3,697)
Other financial expenses.....	(148)	(95)
	<u>(3,467)</u>	<u>(3,792)</u>
Net exchange rate differences.....	(862)	2,763
Net financial income / (expenses).....	<u>(4,293)</u>	<u>(998)</u>

8. Income tax

Income tax is specified as follows:

	<u>YTD 2011</u>	<u>YTD 2010</u>
Current tax expenses.....	(3,094)	(2,491)
Deferred tax expenses.....	286	(1,091)
Deferred tax reclassified from equity to income.....	(35)	130
	<u>(2,843)</u>	<u>(3,452)</u>

	<u>YTD 2011</u>		<u>YTD 2010</u>	
	Amount	%	Amount	%
Profit before taxes.....	<u>10,865</u>		<u>13,145</u>	
Income tax calculated at 20% / 18%	(2,173)	20%	(2,366)	18%
Effect of different tax rates of other jurisdictions.....	(396)	4%	(687)	5%
Effect of non-deductible expenses.....	(157)	1%	(260)	2%
Other changes.....	(117)	1%	(139)	1%
	<u>(2,843)</u>	26%	<u>(3,452)</u>	26%

Notes to the Condensed Consolidated Financial Statements

9. Earnings per share

The calculation of Earnings per Share is based on the following data:

	YTD 2011	YTD 2010
Net profit.....	8,022	9,693
Total weighted average number of ordinary shares (in thousands).....	453,732	453,714
Total average number of shares including potential shares from options (in thousands).....	455,107	454,133
Basic Earnings per Share (US cent)	1.77	2.14
Diluted Earnings per Share (US cent)	1.76	2.13
Cash Earnings per Share	2.45	2.95
Diluted Cash Earnings per Share	2.45	2.95

10. Additional information regarding cash flow

	YTD 2011	YTD 2010
Net profit	8,022	9,693
Items not affecting cash	795	(1,214)
Working capital provided by operating activities	8,817	8,479
(Increase) / decrease in inventories	(1,674)	1,348
(Increase) / decrease in receivables	(5,345)	(4,681)
Increase / (decrease) in payables	(350)	3,130
Net cash provided by operating activities	1,448	8,276

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 swap remains effective and the cost will be expensed in the next seven 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.....	91	755	2,367	3,213
Exchange rate differences.....	887	706	414	2,007
Eliminated on disposal.....	0	(184)	(3)	(187)
Fully depreciated assets.....	0	(646)	(1,461)	(2,107)
At 31 March 2011.....	<u>15,085</u>	<u>35,311</u>	<u>22,118</u>	<u>72,514</u>
Accumulated depreciation				
At 1 January 2011.....	8,098	18,631	10,770	37,499
Charge for the period.....	100	1,003	891	1,994
Exchange rate differences.....	510	565	278	1,353
Eliminated on disposal.....	0	(115)	(1)	(116)
Fully depreciated assets.....	0	(646)	(1,461)	(2,107)
At 31 March 2011.....	<u>8,708</u>	<u>19,437</u>	<u>10,478</u>	<u>38,623</u>
Carrying Amount:				
At 31 March 2011.....	<u>6,377</u>	<u>15,874</u>	<u>11,640</u>	<u>33,891</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	1,031	1,008
Sales and marketing expenses	160	131
Research and development expenses.....	128	122
General and administrative expenses	675	612
	<u>1,994</u>	<u>1,873</u>

12. Goodwill

	31.3.2011
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.....	7,579
At 31 March 2011.....	<u>346,732</u>
Carrying amount	
At 31 March 2011.....	<u>346,732</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:

	31.3.2011	31.12.2010
Americas.....	215,843	215,309
EMEA.....	127,746	120,726
Asia.....	3,142	3,118
	<u>346,732</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	173	173
Fully depreciated assets.....	0	(1,400)	0	(54)	(1,454)
Exchange rate differences.....	993	84	983	260	2,320
At 31 March 2011.....	<u>23,292</u>	<u>10,755</u>	<u>16,581</u>	<u>11,032</u>	<u>61,660</u>
Amortization					
At 1 January 2011.....	10,247	10,247	583	9,569	30,646
Charge for the period.....	577	343	0	198	1,118
Fully depreciated assets.....	0	(1,400)	0	(54)	(1,454)
Exchange rate differences.....	428	71	149	19	667
At 31 March 2011.....	<u>11,252</u>	<u>9,261</u>	<u>732</u>	<u>9,732</u>	<u>30,977</u>
Carrying Amount:					
At 31 March 2011.....	<u>12,040</u>	<u>1,494</u>	<u>15,849</u>	<u>1,300</u>	<u>30,683</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.....	5	0
Sales and marketing expenses.....	629	794
Research and development expenses.....	347	792
General and administrative expenses.....	137	230
	<u>1,118</u>	<u>1,816</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 France SAS.....	France	100%	Manufacturer, sales, distribution and services
Össur Europe, BV.....	Netherlands	100%	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
Orthopaedic partner 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 hf. operates a finance branch in Switzerland to govern certain intercompany long-term liabilities.

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

15. Other financial assets

	31.3.2011	31.12.2010
Investment in associates.....	21	20
Restricted cash.....	1,259	1,156
Loans and receivables.....	3,023	2,984
	<u>4,303</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

	31.3.2011	31.12.2010
Raw material.....	11,606	12,984
Work in progress.....	3,586	3,568
Finished goods	33,893	29,709
	<u>49,085</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: 8.7 million) were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of 2.7 million (YTD 2010: 2.1 million) is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

18. Accounts receivables

	31.3.2011	31.12.2010
Nominal value.....	60,838	54,790
Allowances for doubtful accounts.....	(1,669)	(1,619)
Allowances for sales return.....	(849)	(849)
	<u>58,320</u>	<u>52,322</u>

19. Other assets

	31.3.2011	31.12.2010
VAT refundable.....	2,749	2,160
Prepaid expenses.....	5,753	5,704
Other.....	3,423	3,485
	<u>11,925</u>	<u>11,349</u>

20. Issued capital

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

	Shares	Nominal value
Total share capital at 31 March 2011.....	454	5,068

Total shares issued and outstanding at balance sheet date is 453,732,008, unchanged from last year. The nominal value of each share is one Icelandic krona.

The share capital has remained unchanged over the period:

	Share capital	Share premium	Issued capital
Balance at 1 January 2010 until 31 March 2011.....	<u>5,068</u>	<u>196,929</u>	<u>201,997</u>

Notes to the Condensed Consolidated Financial Statements

21. Reserves

	Statutory reserve	Stock 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.....			(38)		(38)
Share option charge for the period.....		130			130
Change in hedge of a net investment.....				(984)	(984)
Transl. diff. of foreign operations.....				9,874	9,874
Balance at 31 March 2011.....	1,267	2,074	(4,061)	11,122	10,402

22. Retained earnings

	Retained earnings
At 1 January 2010.....	103,647
Net profit.....	34,866
At 1 January 2011.....	138,513
Net profit.....	7,555
Balance at 31 March 2011.....	146,068

23. Stock 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 stock option contracts are 0.8 million which will be expensed over the next four years, there of 0.6 million in 2011. An expense of 0.1 million is recognised in the Income Statement for the period.

Notes to the Condensed Consolidated Financial Statements

24. Borrowings

	31.3.2011		31.12.2010	
	Current	Non-current	Current	Non-current
Loans in USD.....	11,422	83,251	13,797	83,085
Loans in EUR.....	3,429	55,957	13,218	71,219
Other borrowings.....	1,818	4,074	1,822	4,074
	<u>16,669</u>	<u>143,282</u>	<u>28,837</u>	<u>158,378</u>

Aggregated maturities of borrowings are as follows:

	31.3.2011	31.12.2010
In 1.4.2011 - 31.3.2012 / 2011.....	16,669	28,837
In 1.4.2012 - 31.3.2013 / 2012.....	15,699	28,656
In 1.4.2013 - 31.3.2014 / 2013.....	20,287	27,835
In 1.4.2014 - 31.3.2015 / 2014.....	20,437	20,545
In 1.4.2015 - 31.3.2016 / 2015.....	86,859	81,342
	<u>159,951</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, Össur closed its interest rate swap agreement, which had a negative value of USD 5.4 million (2010: 4.6 million). The swap remains effective and the cost will be expensed during the next seven quarters. A new interest rate swap agreement was signed in April, which results in appr. 50% of the interest payments on new term loan is bearing fixed interest.

26. Deferred tax asset / (liability)

	31.3.2011	31.12.2010
At beginning of period.....	22,480	31,343
Income tax payable for the period.....	3,094	6,826
Calculated tax for the period.....	(2,843)	(12,340)
Arising on acquisition of a subsidiary.....	0	(1,690)
Recognised directly through equity.....	(756)	(1,380)
Deferred tax recycled from equity to income.....	35	(91)
Exchange rate differences.....	42	(188)
	<u>22,052</u>	<u>22,480</u>

Notes to the Condensed Consolidated Financial Statements

27. Provisions

	31.3.2011		31.12.2010	
	Current	Non-current	Current	Non-current
Warranty (i).....	1,003	4,964	1,110	4,653
Other.....	1,519	55	1,472	65
	<u>2,522</u>	<u>5,019</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.....	988	4	992
Utilization of provision.....	(784)	(3)	(787)
Exchange differences.....	0	36	36
At 31 March 2011.....	<u>5,967</u>	<u>1,574</u>	<u>7,541</u>
Non-current.....	4,964	55	5,019
Current.....	1,003	1,519	2,522
At 31 March 2011.....	<u>5,967</u>	<u>1,574</u>	<u>7,541</u>

28. Related party transactions

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

29. Other liabilities

	31.3.2011	31.12.2010
Accrued expenses.....	7,876	8,004
Accrued Royalties.....	502	1,400
Sales tax and VAT.....	1,270	960
Payable due to previous acquisition.....	2,324	2,324
Interest rate swap contracts, current portion.....	0	3,200
Other.....	2,767	3,261
	<u>14,739</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 4 May 2011.