

Össur hf.

Condensed Consolidated

Financial Statements

September 30 2012

Össur hf.
Grjóthálsi 5
110 Reykjavík
Id-no. 560271-0189

Össur hf.

Condensed Consolidated Financial Statements

September 30 2012

Table of Contents

Statement by the Board of Directors and President and CEO	2
Financial Highlights and Key Ratios	3
Consolidated Income Statements	4
Consolidated Statements of Comprehensive Income	5
Consolidated Balance Sheets	6
Consolidated Statements of Cash Flows	8
Consolidated Statements of Changes in Equity	9
Notes to the Condensed Consolidated Financial Statements	10

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 September 2012 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 301.0 million and the net profit amounted to USD 29.7 million. According to the Balance Sheets the total assets of the Össur Consolidation amounted to USD 599.4 million at the end of period, liabilities were 202.6 million, and equity was 396.8 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 financial position at 30 September 2012 and operating performance of the period ended 30 September 2012.

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 September 2012 and confirm them by means of their signatures.

Reykjavík, 23 October 2012

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 Highlights and Key Ratios

Consolidated statements

		YTD 2012	YTD 2011 ¹	2011 ¹	2010	2009
Income Statements						
Net sales	USD '000	301,042	301,084	398,325	358,538	330,580
Gross profit	USD '000	187,625	186,302	246,070	222,622	201,815
Operating expenses (excl. other income)	USD '000	141,444	139,799	188,773	163,964	154,071
Profit from operations	USD '000	46,008	47,403	59,400	60,245	48,240
Net profit	USD '000	29,692	27,459	34,608	35,362	22,762
EBITDA	USD '000	55,572	57,003	72,606	74,358	66,988
Sales Growth						
Sales Growth USD	%	0	14	11	9	(5)
Growth breakdown:						
Organic growth in LCY	%	2	5	5	6	(1)
Currency effect	%	(3)	4	3	(1)	(4)
Acquired/divested business	%	1	5	4	4	0
Balance Sheets						
Total assets	USD '000	599,398	581,943	579,968	607,078	628,217
Equity	USD '000	396,828	362,622	364,733	343,558	312,223
Net interest-bearing debt (NIBD)	USD '000	95,349	123,254	111,413	132,816	157,633
Cash Flows						
Cash generated by operations	USD '000	45,430	48,145	68,377	64,331	85,770
Cash provided by operating activities	USD '000	38,949	32,520	48,447	39,995	69,155
Cash flows from investing activities	USD '000	(22,285)	(13,456)	(18,585)	(18,987)	(16,423)
Cash flows from financing activities	USD '000	(17,399)	(57,778)	(64,507)	(45,594)	(4,284)
Free Cash flow	USD '000	28,518	20,556	32,493	33,389	60,238
Key figures						
Operating margin	%	15.3	15.7	14.9	16.8	14.6
EBITDA margin	%	18.5	18.9	18.2	20.7	20.3
Equity ratio	%	66.2	62.3	62.9	56.6	49.7
Ratio of net debt to EBITDA ²		1.3	1.6	1.5	1.8	2.4
Ratio of debt to EBITDA ²		1.6	1.9	1.8	2.5	3.5
Current ratio		1.8	1.6	1.7	1.9	2.3
Return on equity ²	%	9.7	10.0	9.6	10.2	8.1
Market						
Market value of equity	USD '000	637,795	658,569	675,533	777,593	529,151
Number of shares	Millions	454	454	454	454	454
Price/earnings ratio, (P/E) ²		17.3	18.9	20.0	22.3	23.2
Diluted EPS ²	US Cent	8.32	7.83	7.66	7.77	5.30
Diluted Cash EPS ²	US Cent	11.25	10.72	10.58	10.87	9.66

Notes

1. Financial ratios for YTD 2011 and 2011 are based on restated figures, see note 2.
2. Financial ratios for YTD 2012 and YTD 2011 are based on operations for the preceding 12 months.

Consolidated Income Statements for the period 1.1 - 30.09.2012 and 1.1 - 30.09.2011

	Notes	2012 YTD	2011 YTD	2012 Q3	2011 Q3
Net sales	4	301,042	301,084	98,517	100,565
Cost of goods sold		<u>(113,417)</u>	<u>(114,782)</u>	<u>(36,830)</u>	<u>(37,596)</u>
Gross profit		187,625	186,302	61,687	62,969
Other income	6	(173)	900	42	190
Sales and marketing expenses		(89,670)	(88,938)	(29,353)	(29,442)
Research and development expenses		(16,234)	(14,497)	(5,531)	(4,811)
General and administrative expenses		<u>(35,540)</u>	<u>(36,364)</u>	<u>(11,818)</u>	<u>(12,057)</u>
Profit from operations		46,008	47,403	15,027	16,849
Financial income		111	174	32	108
Financial expenses		(5,332)	(8,575)	(1,620)	(2,634)
Net exchange rate difference		<u>(466)</u>	<u>(1,661)</u>	<u>206</u>	<u>(417)</u>
Net financial income / (expenses)	7	<u>(5,687)</u>	<u>(10,062)</u>	<u>(1,382)</u>	<u>(2,943)</u>
Profit before tax		40,321	37,341	13,645	13,906
Income tax	8	<u>(10,629)</u>	<u>(9,882)</u>	<u>(3,758)</u>	<u>(3,766)</u>
Net profit		<u>29,692</u>	<u>27,459</u>	<u>9,887</u>	<u>10,140</u>
Attributable to:					
Owners of the Company		29,879	26,878	10,483	10,030
Non-controlling interests		<u>(187)</u>	<u>581</u>	<u>(596)</u>	<u>110</u>
		<u>29,692</u>	<u>27,459</u>	<u>9,887</u>	<u>10,140</u>
Earnings per Share					
Basic Earnings per Share		<u>6.62</u>	<u>6.07</u>	<u>2.20</u>	<u>2.26</u>
Diluted Earnings per Share		<u>6.61</u>	<u>6.06</u>	<u>2.20</u>	<u>2.25</u>

Consolidated Statements of Comprehensive Income

for the period 1.1 - 30.09.2012 and 1.1 - 30.09.2011

	Notes	2012 YTD	2011 YTD	2012 Q3	2011 Q3
Net profit		29,692	27,459	9,887	10,140
Other comprehensive income					
Gain / (loss) on hedge of a net investment in foreign operations.....		0	(1,175)	0	0
Change on cash flow hedges		1,055	477	311	(127)
Transl. difference of shares in foreign operations.....		2,190	1,200	5,048	(10,921)
Income tax relating to components of other comprehensive income.....		(132)	(536)	242	0
Other comprehensive income (net of tax).....		3,113	(34)	5,601	(11,048)
Total comprehensive income		<u>32,805</u>	<u>27,425</u>	<u>15,488</u>	<u>(908)</u>
	Attributable to:				
Owners of the Company		32,992	26,844	16,084	(1,018)
Non-controlling interests		(187)	581	(596)	110
		<u>32,805</u>	<u>27,425</u>	<u>15,488</u>	<u>(908)</u>

Consolidated Balance Sheets

Assets

	Notes	30.09.2012	31.12.2011
Non-current assets			
Property, plant and equipment	11	35,655	36,239
Goodwill	12	346,387	333,484
Other intangible assets	13	32,030	29,921
Other financial assets	15	6,395	6,809
Deferred tax assets	26	31,531	31,951
		<u>451,998</u>	<u>438,404</u>
Current assets			
Inventories	16	54,620	52,171
Accounts receivables	17	62,051	52,549
Other assets	18	11,553	17,188
Bank balances and cash	19	19,176	19,656
		<u>147,400</u>	<u>141,564</u>
Total assets		<u>599,398</u>	<u>579,968</u>

30 September 2012 and 31 December 2011

Equity and liabilities

	Notes	30.09.2012	31.12.2011
Equity			
Issued capital	20	193,791	193,791
Reserves	21	(1,512)	(3,841)
Retained earnings	22	202,999	173,120
Equity attributable to owners of the Company		<u>395,278</u>	<u>363,070</u>
Non-controlling interest in equity		1,550	1,663
Total equity		<u>396,828</u>	<u>364,733</u>
Non-current liabilities			
Borrowings	24	94,466	110,113
Deferred tax liabilities	26	18,828	16,010
Provisions	27	4,854	4,493
Other financial liabilities	25	2,371	2,216
		<u>120,519</u>	<u>132,832</u>
Current liabilities			
Borrowings	24	20,059	20,956
Accounts payable		17,984	20,305
Taxes payable		7,752	3,915
Provisions	27	3,588	3,634
Accrued salaries and related expenses		16,976	18,192
Other liabilities	28	15,692	15,401
		<u>82,051</u>	<u>82,403</u>
Total equity and liabilities		<u>599,398</u>	<u>579,968</u>

Consolidated Statements of Cash Flows

for the period 1.1 - 30.09.2012 and 1.1 - 30.09.2011

	Notes	2012 YTD	2011 YTD	2012 Q3	2011 Q3
Cash flows from operating activities					
Profit from operations		46,008	47,403	15,027	16,849
Depreciation and amortization	11, 13	9,564	9,600	3,215	3,462
(Gain) / loss on disposal of assets		139	(109)	155	0
Change in provisions		251	955	(289)	155
Changes in operating assets and liabilities		(10,532)	(9,704)	(1,168)	(2,345)
Cash generated by operations		<u>45,430</u>	<u>48,145</u>	<u>16,940</u>	<u>18,121</u>
Interest received		112	143	51	140
Interest paid		(3,443)	(10,944)	(861)	(1,537)
Taxes paid		(3,150)	(4,824)	(892)	(1,924)
Net cash provided by operating activities		<u>38,949</u>	<u>32,520</u>	<u>15,238</u>	<u>14,800</u>
Cash flows from investing activities					
Purchase of fixed and intangible assets	11, 13	(10,463)	(12,151)	(3,728)	(4,626)
Proceeds from sale of fixed assets		32	189	3	0
Acquisition of subsidiaries		(11,460)	0	(143)	0
Changes in financial assets		(394)	(1,494)	(373)	250
		<u>(22,285)</u>	<u>(13,456)</u>	<u>(4,241)</u>	<u>(4,376)</u>
Cash flows from financing activities					
Proceeds from long-term borrowings		0	116,119	0	0
Repayments of long-term borrowings		(16,109)	(188,707)	(5,376)	(3,823)
Changes in revolving credit facility		(1,152)	23,560	(5,407)	(10,331)
Dividends from subsidiaries paid to non-controlling interests		(138)	(545)	0	(127)
Purchased treasury shares		0	(8,205)	0	(1,616)
		<u>(17,399)</u>	<u>(57,778)</u>	<u>(10,783)</u>	<u>(15,897)</u>
Net change in cash		(735)	(38,714)	214	(5,473)
Effects of exchange rate changes on:					
Balance of cash held in foreign currencies		(93)	(104)	(354)	1,370
Other items held in foreign currencies		348	525	811	(2,487)
Cash at beginning of period		<u>19,656</u>	<u>54,399</u>	<u>18,505</u>	<u>22,696</u>
Cash at end of period		<u>19,176</u>	<u>16,106</u>	<u>19,176</u>	<u>16,106</u>

Additional information regarding cash flow 10

Consolidated Statements of Changes in Equity for the period ended 30 September 2012

	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 2011.....	5,068	196,929	1,267	1,944	(4,023)	2,232	138,513	341,930	1,628	343,558
Net profit.....							26,878	26,878	581	27,459
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.....					(59)			(59)		(59)
Translation difference of shares in foreign operations....						1,200		1,200		1,200
Total comprehensive income for the period.....	0	0	0	0	(59)	25	26,878	26,844	581	27,425
Payment of dividends.....								0	(545)	(545)
Share option charge for the period.....				389				389		389
Purchased treasury shares.....	(44)	(8,162)						(8,206)		(8,206)
Balance at 30 September 2011.....	5,024	188,767	1,267	2,333	(4,082)	2,257	165,391	360,957	1,664	362,622
Balance at 1 January 2012.....	5,024	188,767	1,267	1,453	(2,979)	(3,582)	173,120	363,070	1,663	364,733
Net profit.....							29,879	29,879	(187)	29,692
Change in cash flow hedges.....					1,040			1,040		1,040
Translation difference of shares in foreign operations....						2,072		2,072		2,072
Total comprehensive income for the period.....	0	0	0	0	1,040	2,072	29,879	32,991	(187)	32,804
Payment of dividends.....								0	(138)	(138)
Share option charge for the period.....				204				204		204
Arising on acquisition.....								0	212	212
Share option vested during the period.....				(987)				(987)		(987)
Balance at 30 September 2012.....	5,024	188,767	1,267	670	(1,939)	(1,510)	202,999	395,278	1,550	396,828

Notes to the Condensed Consolidated Financial Statements

1. Summary of Significant Accounting Policies

1.1 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 2011.

1.2 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 2011.

The Consolidated Financial Statements are presented in accordance with the new and revised standards (IFRS / IAS) and new interpretations (IFRIC), applicable in the year 2012. Management believes that those new and revised IFRSs will not have material effect on amounts reported in the Consolidated Financial Statements. The Company Group has not early applied new and revised IFRSs that have been issued but are not yet effective.

2. Restatement of comparative figures

An accounting error in the 2011 financial statements of a majority held subsidiary, which has annual sales of approximately USD 20 million, was recently discovered. Össur invested in the company in Q4 2010 and the company has been managed as an independent business unit operated by the co-owner. The cause of the accounting error was a control deficiency contributing to weaknesses in accounting processes resulting in a need to restate Össur's 2011 consolidated financial statements. The restatement decreases sales in 2011 by USD 3 million and net profit by USD 2 million, equally distributed between quarters, as can be seen below. Össur has now taken over the operation of the company to address control deficiencies. The company is also addressing Medicare-related compliance issues which arose prior to Össur assuming operation of the Company and that could financially impact Össur.

Management is continuing to review these issues and cannot currently determine with specificity the likelihood or scope of potential financial exposure related to such issues.

Restatement of 2011 figures

Income statement

	Reported 2011	Adjustment 2011	Restated 2011
Net sales.....	401,325	(3,000)	398,325
Cost of goods sold.....	(152,255)		(152,255)
Gross profit.....	249,070	(3,000)	246,070
Other income.....	2,103		2,103
OPEX.....	(188,773)		(188,773)
Profit from operations.....	62,400	(3,000)	59,400
Total financial income/(expenses).....	(12,569)		(12,569)
Profit before tax.....	49,831	(3,000)	46,831
Income tax.....	(13,200)	977	(12,223)
Net profit.....	36,631	(2,023)	34,608
EPS (US cent).....	8.1	(0.4)	7.7
Organic growth.....	5%		5%
LC growth.....	9%	-1%	8%
EBITDA.....	75,606	(3,000)	72,606
EBITDA ratio.....	19%	-1%	18%

Notes to the Condensed Consolidated Financial Statements

Balance sheet

	Reported 31.12.2011	Adjustment 31.12.2011	Restated 31.12.2011
Assets			
Non-current assets.....	437,427	977	438,404
Current assets.....	144,564	(3,000)	141,564
Total assets.....	581,991	(2,023)	579,968
Equity and liabilities			
Equity.....	366,756	(2,023)	364,733
Non-current liabilities.....	132,832	0	132,832
Current liabilities.....	82,403	0	82,403
Total equity and liabilities.....	581,991	(2,023)	579,968
Equity ratio.....	63.0%		62.9%

The reclass does not affect cash or cashflow results.

3. Quarterly statements

	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Net sales	98,517	102,708	99,817	97,241	100,565
Cost of goods sold	(36,830)	(38,804)	(37,783)	(37,473)	(37,596)
Gross profit	61,687	63,904	62,034	59,768	62,969
Gross profit margin	63%	62%	62%	61%	63%
Other income	42	(106)	(109)	1,203	190
Sales and marketing expenses	(29,353)	(30,186)	(30,131)	(30,375)	(29,442)
Research and development expenses	(5,531)	(5,427)	(5,276)	(5,157)	(4,811)
General and administrative expenses	(11,818)	(11,855)	(11,867)	(13,442)	(12,057)
Profit from operations	15,027	16,330	14,651	11,997	16,849
Net financial income / (expenses)	(1,588)	(1,779)	(1,854)	(2,116)	(2,526)
Net exchange rate difference	206	(1,228)	556	(391)	(417)
Total financial income / (expenses)	(1,382)	(3,007)	(1,298)	(2,507)	(2,943)
Profit before tax	13,645	13,323	13,353	9,490	13,906
Income tax	(3,758)	(3,320)	(3,551)	(2,341)	(3,766)
Net profit	9,887	10,003	9,802	7,149	10,140
EBITDA	18,242	19,493	17,837	15,603	20,311
EBITDA ratio	19%	19%	18%	16%	20%

2011 figures are restated, see note 2.

Notes to the Condensed Consolidated Financial Statements

4. Net sales

Specified according to geographical segments:

	YTD 2012	YTD 2011	Q3 2012	Q3 2011
Americas.....	158,631	157,082	53,667	54,935
EMEA.....	126,228	130,537	38,772	40,714
Asia.....	16,183	13,465	6,078	4,916
	<u>301,042</u>	<u>301,084</u>	<u>98,517</u>	<u>100,565</u>

Specified according to product lines:

Bracing and Supports.....	158,088	156,753	51,458	51,640
Prosthetics.....	128,979	130,209	43,110	44,704
Compression Therapy (Phlebology).....	13,348	13,364	3,708	4,159
Other products.....	627	758	241	62
	<u>301,042</u>	<u>301,084</u>	<u>98,517</u>	<u>100,565</u>

Specified according to currency:

US Dollar, USD.....	160,520	155,066	55,557	54,668
Euro, EUR.....	86,701	92,417	25,112	28,356
British Pound, GBP.....	14,653	14,306	5,162	4,881
Canadian Dollar, CAD.....	13,848	13,325	4,990	4,303
Swedish Krona, SEK.....	5,353	7,489	944	2,165
Norwegian Krona, NOK.....	6,631	6,603	2,169	2,191
Australian Dollar, AUD.....	3,464	3,489	1,086	1,233
Icelandic Króna, ISK.....	1,285	830	369	271
Other.....	8,587	7,559	3,128	2,497
	<u>301,042</u>	<u>301,084</u>	<u>98,517</u>	<u>100,565</u>

2011 figures are restated, see note 2.

Notes to the Condensed Consolidated Financial Statements

5. Segment information

2012	Americas	EMEA	Asia	Eliminations	Consolidated
	YTD 2012	YTD 2012	YTD 2012	YTD 2012	YTD 2012
Sales					
External sales.....	158,631	126,228	16,183	0	301,042
Inter-segment sales.....	29,991	84,097	6	(114,094)	0
Total sales.....	<u>188,622</u>	<u>210,326</u>	<u>16,189</u>	<u>(114,094)</u>	<u>301,042</u>

The results from global functions including R&D, Headquarters, Global manufacturing and Global marketing have been divided between the segments using appropriate methods.

Result

Segment result.....	<u>18,967</u>	<u>23,194</u>	<u>3,847</u>	<u>0</u>	46,008
Financial income/(expenses).....					<u>(5,687)</u>
Profit before tax.....					40,321
Income tax.....					<u>(10,629)</u>
Net profit.....					<u>29,692</u>

Balance sheet 30.9.2012

Assets

Segment assets.....	496,831	383,232	15,771	(296,436)	<u>599,398</u>
---------------------	---------	---------	--------	-----------	----------------

Liabilities

Segment liabilities.....	193,468	229,534	7,063	(227,495)	<u>202,570</u>
--------------------------	---------	---------	-------	-----------	----------------

Other information

Capital additions.....	3,746	6,097	620	0	10,463
Depreciation and amortization.....	3,304	6,019	241	0	9,564

Notes to the Condensed Consolidated Financial Statements

2011	Americas	EMEA	Asia	Eliminations	Consolidated
	YTD 2011	YTD 2011	YTD 2011	YTD 2011	YTD 2011
Sales					
External sales.....	157,082	130,537	13,465	0	301,084
Inter-segment sales.....	29,569	68,509	0	(98,078)	0
Total sales.....	<u>186,651</u>	<u>199,046</u>	<u>13,465</u>	<u>(98,078)</u>	<u>301,084</u>

The results from global functions including R&D, Headquarters, Global manufacturing and Global marketing have been divided between the segments using appropriate methods. This is a change from allocating it according to geographical location of the global function.

Result

Segment result.....	<u>18,656</u>	<u>25,464</u>	<u>3,283</u>	<u>0</u>	47,403
Financial income/(expenses).....					(10,062)
Profit before tax.....					37,341
Income tax.....					<u>(9,882)</u>
Net profit.....					<u>27,459</u>

Balance sheet 30.9.2011

Assets

Segment assets.....	461,038	387,034	10,032	(276,161)	<u>581,943</u>
---------------------	---------	---------	--------	-----------	----------------

Liabilities

Segment liabilities.....	165,204	252,924	4,103	(202,910)	<u>219,321</u>
--------------------------	---------	---------	-------	-----------	----------------

Other information YTD

Capital additions.....	4,459	7,562	130	0	12,151
Depreciation and amortization.....	3,009	6,371	220	0	9,600

Notes to the Condensed Consolidated Financial Statements

6. Other income

Included in other income 2011 is 0.6 million received when settling a patent infringement.

7. Financial income / (expenses)

Financial income and (expenses) are specified as follows:

	YTD 2012	YTD 2011	Q3 2012	Q3 2011
Financial income				
Interests on bank deposits.....	53	47	11	11
Other financial income.....	58	127	21	97
	<u>111</u>	<u>174</u>	<u>32</u>	<u>108</u>
Financial expenses				
Interest on loans.....	(5,058)	(8,140)	(1,589)	(2,583)
Other financial expenses.....	(274)	(435)	(31)	(51)
	<u>(5,332)</u>	<u>(8,575)</u>	<u>(1,620)</u>	<u>(2,634)</u>
Net exchange rate differences.....	(466)	(1,661)	206	(417)
Net financial income / (expenses).....	<u>(5,687)</u>	<u>(10,062)</u>	<u>(1,382)</u>	<u>(2,943)</u>

8. Income tax

Income tax is specified as follows:

	YTD 2012	YTD 2011	Q3 2012	Q3 2011
Current tax expenses.....	(7,367)	(12,248)	(2,535)	(4,445)
Deferred tax expenses.....	(3,262)	2,366	(1,223)	679
	<u>(10,629)</u>	<u>(9,882)</u>	<u>(3,758)</u>	<u>(3,766)</u>

	YTD 2012		YTD 2011	
	Amount	%	Amount	%
Profit before taxes.....	<u>40,321</u>		<u>37,341</u>	
Income tax calculated at 20%.....	(8,064)	20%	(7,468)	20%
Effect of different tax rates of other jurisdictions.....	(1,764)	4%	(2,590)	7%
Effect of non-deductible expenses / non taxable income.....	(315)	1%	248	(1%)
Other changes.....	(486)	1%	(72)	0%
	<u>(10,629)</u>	<u>26%</u>	<u>(9,882)</u>	<u>26%</u>

Deferred tax expense:

	YTD 2012	YTD 2011
Origination and reversal of temporary differences.....	(3,256)	2,571
Losses (recognised) and utilised.....	0	(197)
Effect of changes in tax rate and laws.....	(6)	(8)
	<u>(3,262)</u>	<u>2,366</u>

2011 figures are restated, see note 2.

Notes to the Condensed Consolidated Financial Statements

9. Earnings per share

	YTD 2012	YTD 2011	Q3 2012	Q3 2011
Net profit.....	29,692	27,459	9,887	10,140
Total weighted average number of ordinary shares (in thousands).....	448,732	452,137	448,732	449,319
Total average number of shares including potential shares from options (in thousands).....	449,016	453,245	449,016	450,197
Basic Earnings per Share (US cent).....	6.62	6.07	2.20	2.26
Diluted Earnings per Share (US cent).....	6.61	6.06	2.20	2.25
Cash Earnings per Share.....	8.75	8.19	2.92	3.02
Diluted Cash Earnings per Share.....	8.74	8.17	2.92	3.02

2011 figures are restated, see note 2.

10. Additional information regarding cash flow

	YTD 2012	YTD 2011	Q3 2012	Q3 2011
Net profit.....	29,692	27,459	9,887	10,140
Items not affecting cash	14,767	9,146	4,401	6,301
Working capital provided by operating activities.....	44,459	36,605	14,288	16,441
(Increase) / decrease in inventories.....	(2,036)	(3,286)	(842)	215
(Increase) / decrease in receivables.....	(3,433)	(5,783)	315	(498)
Increase / (decrease) in payables.....	(41)	4,984	1,477	(1,358)
Net cash provided by operating activities.....	38,949	32,520	15,238	14,800

2011 figures are restated, see note 2.

Notes to the Condensed Consolidated Financial Statements

11. Property, plant and equipment

2012	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Total
Cost				
At 1 January 2012.....	13,865	38,957	25,469	78,291
Reclassification.....	0	(126)	76	(50)
Additions.....	228	3,298	2,252	5,778
Acquired on acquisition of subsidiary.....	0	0	496	496
Additions relating to previous acquisitions.....	0	390	0	390
Exchange rate differences.....	1	49	53	103
Eliminated on disposal.....	(123)	(328)	(35)	(486)
Fully depreciated assets.....	0	(1,674)	(1,153)	(2,827)
At 30 September 2012.....	<u>13,971</u>	<u>40,567</u>	<u>27,157</u>	<u>81,695</u>
Depreciation				
At 1 January 2012.....	8,226	21,453	12,373	42,052
Reclassification.....	0	(80)	46	(34)
Charge for the period.....	289	3,893	2,675	6,857
Acquired on acquisition of subsidiary.....	0	119	97	216
Exchange rate differences.....	(3)	25	69	91
Eliminated on disposal.....	(37)	(275)	(2)	(314)
Fully depreciated assets.....	0	(1,674)	(1,153)	(2,827)
At 30 September 2012.....	<u>8,475</u>	<u>23,461</u>	<u>14,105</u>	<u>46,041</u>
Carrying Amount:				
At 30 September 2012.....	<u>5,496</u>	<u>17,106</u>	<u>13,053</u>	<u>35,655</u>
At 31 December 2011.....	<u>5,639</u>	<u>17,504</u>	<u>13,096</u>	<u>36,239</u>

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

	YTD 2012	YTD 2011
Cost of goods sold	3,704	3,134
Sales and marketing expenses	492	465
Research and development expenses.....	513	450
General and administrative expenses	2,148	2,094
	<u>6,857</u>	<u>6,143</u>

Notes to the Condensed Consolidated Financial Statements

12. Goodwill

Cost

At 1 January 2011.....	339,153
Reclass due to previous acquisitions (purchase price allocation, PPA).....	(1,939)
Exchange rate differences.....	<u>(3,730)</u>
At 31 December 2011.....	333,484
Reclass due to previous acquisitions (purchase price allocation, PPA).....	1,161
Arising on acquisition of subsidiaries.....	10,182
Exchange rate differences.....	<u>1,560</u>
At 30 September 2012.....	<u>346,387</u>

Carrying amount

At 30 September 2012.....	<u>346,387</u>
At 31 December 2011.....	<u>333,484</u>

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

	<u>30.09.2012</u>	<u>31.12.2011</u>
Americas.....	224,952	213,046
EMEA.....	118,276	117,323
Asia.....	3,159	3,115
	<u>346,387</u>	<u>333,484</u>

Notes to the Condensed Consolidated Financial Statements

13. Other intangible assets

	Cust./distrib. relationships	Patents	Trademarks	Software and other	Total
2012					
Cost					
At 1 January 2012.....	23,403	10,892	15,438	13,739	63,472
Reclassification.....	0	0	0	50	50
Additions.....	295	30	0	4,360	4,685
Acquired on acquisition of subsidiary.....	0	165	0	0	165
Fully depreciated assets.....	0	(6,360)	0	0	(6,360)
Exchange rate differences.....	30	22	103	8	163
At 30 September 2012.....	23,728	4,749	15,541	18,157	62,175
Amortization					
At 1 January 2012.....	12,394	10,172	593	10,392	33,551
Reclassification.....	0	0	0	34	34
Charge for the period.....	1,783	242	0	682	2,707
Fully depreciated assets.....	0	(6,360)	0	0	(6,360)
Exchange rate differences.....	42	61	112	(2)	213
At 30 September 2012.....	14,219	4,115	705	11,106	30,145
Carrying Amount:					
At 30 September 2012.....	9,509	634	14,836	7,051	32,030
At 31 December 2011.....	11,009	720	14,845	3,347	29,921

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

	YTD 2012	YTD 2011
Cost of goods sold.....	36	16
Sales and marketing expenses.....	1,867	2,020
Research and development expenses.....	298	1,057
General and administrative expenses.....	506	364
	2,707	3,457

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%	Sales, R&D, distribution and services
Össur Canada, Inc.....	Canada	100%	Manufacturer, sales, distribution and services
Össur Mexico S. de R.L. de C.V.....	Mexico	100%	Manufacturer
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 Consolidation is financed through two companies, Össur Americas LP and Össur Finance AG.

15. Other financial assets

	30.09.2012	31.12.2011
Investment in associates.....	3,557	2,986
Restricted cash.....	1,290	1,273
Loans and receivables.....	1,548	2,550
	<u>6,395</u>	<u>6,809</u>

Investments in associates

The Company has invested 30-50% of shares in associated companies located in France and USA. The principal activities of those companies are manufacturing and distribution.

	2012	2011
At 1 January.....	2,986	20
Additions due to acquisition.....	525	2,830
Share in net profit (net of dividend received).....	45	61
Exchange differences.....	0	75
	<u>3,557</u>	<u>2,986</u>

Notes to the Condensed Consolidated Financial Statements

16. Inventories

	<u>30.09.2012</u>	<u>31.12.2011</u>
Raw material.....	13,626	12,840
Work in progress.....	3,070	2,762
Finished goods	37,924	36,569
	<u>54,620</u>	<u>52,171</u>

17. Accounts receivables

	<u>30.09.2012</u>	<u>31.12.2011</u>
Nominal value.....	64,750	55,049
Allowances for doubtful accounts.....	(1,515)	(1,419)
Allowances for sales return.....	(1,184)	(1,081)
	<u>62,051</u>	<u>52,549</u>

2011 figures are restated, see note 2.

18. Other assets

	<u>30.09.2012</u>	<u>31.12.2011</u>
VAT refundable.....	2,203	2,349
Prepaid expenses.....	5,431	4,285
Taxes receivable.....	1,998	4,490
Receivable from sale of fixed assets.....	0	2,412
Other.....	1,921	3,652
	<u>11,553</u>	<u>17,188</u>

19. Bank balances and cash

	<u>30.09.2012</u>	<u>31.12.2011</u>
Bank accounts.....	17,504	16,817
Bankers draft received.....	1,654	2,778
Cash and other cash equivalents.....	18	61
	<u>19,176</u>	<u>19,656</u>

Notes to the Condensed Consolidated Financial Statements

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 September 2012.....	453,750	5,068
Treasury shares at period-end.....	(5,018)	(44)
	<u>448,732</u>	<u>5,024</u>

Total shares issued at balance sheet date is 453,750,008. The nominal value of each share is one Icelandic Króna.

	Share capital	Share premium	Issued capital
Balance at 1 January 2011.....	5,068	196,929	201,997
Purchased treasury shares.....	(44)	(8,162)	(8,206)
Balance at 1 January 2012.....	<u>5,024</u>	<u>188,767</u>	<u>193,791</u>
Balance at 30 September 2012.....	<u>5,024</u>	<u>188,767</u>	<u>193,791</u>

21. Reserves

	Statutory reserve	Share option reserve	Hedging reserve	Translation reserve	Total reserves
Balance at 1 January 2011.....	1,267	1,944	(4,023)	2,232	1,420
Change on cash flow hedges.....			1,044		1,044
Share option vested during the period.....		(211)			(211)
Share option charge for the period.....		517			517
Change in hedge of a net investment.....				(1,175)	(1,175)
Transl. diff. of foreign operations.....				(4,639)	(4,639)
Share option reserve release.....		(797)			(797)
Balance at 1 January 2012.....	<u>1,267</u>	<u>1,453</u>	<u>(2,979)</u>	<u>(3,582)</u>	<u>(3,841)</u>
Change on cash flow hedges.....			1,040		1,040
Share option vested during the period.....		(987)			(987)
Share option charge for the period.....		204			204
Transl. diff. of foreign operations.....				2,072	2,072
Balance at 30 September 2012.....	<u>1,267</u>	<u>670</u>	<u>(1,939)</u>	<u>(1,510)</u>	<u>(1,512)</u>

Notes to the Condensed Consolidated Financial Statements

22. Accumulated profits

	<u>Accumulated profits</u>
At 1 January 2011.....	138,513
Share option reserve release.....	797
Net profit.....	<u>33,810</u>
At 1 January 2012.....	173,120
Net profit.....	<u>29,879</u>
Balance at 30 September 2012.....	<u>202,999</u>

2011 figures are restated, see note 2.

23. Share option contracts and obligations to increase share capital

23.1 Employee share option plan

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

	<u>Number of shares</u>	<u>Grant/Issue year</u>	<u>Exercise year</u>	<u>Exercise price (in DKK)</u>	<u>Fair value at grant date (in DKK)</u>
Issued to Management team	500,000	2009	2013	4.4 - 5.3	5.2 - 5.3
Issued to Management team	200,000	2010	2014	5.7 - 10.7	5.7 - 10.7
Issued to Management team	300,000	2011	2014 / 2015	7.9 - 9.5	7.6 - 9.0
Issued to Executive Management	3,750,000	2012	2015	8.6	8.8
Issued to Management team	<u>2,100,000</u>	2012	2015	8.7	8.8
Total issued option contracts.....	<u>6,850,000</u>				

The employee must remain continuously employed with Össur until expiring date, either as an employee or in any other way, deemed satisfactory by the company.

23.2 Movements in shares options during the period

The following reconciles the share options outstanding at the beginning and end of the period.

	<u>30.09.2012</u>		<u>31.12.2011</u>	
	<u>Number of shares</u>	<u>Weighted average contract rate (in DKK)</u>	<u>Number of shares</u>	<u>Weighted average contract rate (in DKK)</u>
Outstanding at beginning of period	3,300,000	6.6	6,290,000	7.1
Granted during period	5,850,000	8.6	300,000	8.7
Forfeited during period	0	0.0	(500,000)	7.5
Exercised during period.....	<u>(2,300,000)</u>	6.4	<u>(2,790,000)</u>	7.8
Outstanding at end of period.....	<u>6,850,000</u>	8.4	<u>3,300,000</u>	6.6

Notes to the Condensed Consolidated Financial Statements

23.3 Share options exercised during the period

The following share options were exercised during the period

	Number exercised	Exercise date	Share price at exercise date (in DKK)
Issued to Management team	1,800,000	23.2.2012	8.2
Issued to Executive team	500,000	15-08-12	8.5

Share options issued to Management team on 23 February 2008 vested on 23 February 2012 and shares issued to Executive team on 15 July 2009 vested on 15 August 2012. The share options could not be exercised due to restrictions in the Icelandic Foreign Exchange Act. The Board decided to settle the contracts with the respective parties by cash payment equalling the difference of exercise price and market price. The total payment amounted to USD 1.0 million.

23.4 Costs due to share options

Estimated remaining cost due to the share option contracts are 2.1 million (2011: 0.4 million). An expense of 0.2 million (2011: 0.4 million) is recognised in the Income Statement for the period.

24. Borrowings

	30.09.2012		31.12.2011	
	Current	Non-current	Current	Non-current
Loans in USD.....	12,747	48,205	12,670	57,548
Loans in EUR.....	6,514	22,691	6,458	27,832
Revolver in USD.....	0	16,060	0	16,500
Revolver in EUR.....	0	5,821	0	6,472
Other borrowings.....	798	1,689	1,828	1,761
	<u>20,059</u>	<u>94,466</u>	<u>20,956</u>	<u>110,113</u>

The maturity of the revolving credit facility is March 2016. The Company has classified the revolver as non current liability as the intention is to use it for further growth of the Company.

Aggregated maturities of borrowings are as follows:

	30.09.2012	31.12.2011
In 1.10.2012 - 30.9.2013 / 2012.....	20,059	20,956
In 1.10.2013 - 30.9.2014 / 2013.....	20,181	19,913
In 1.10.2014 - 30.9.2015 / 2014.....	20,502	20,425
In 1.10.2015 - 30.9.2016 / 2015.....	53,783	42,655
In 1.10.2016 - 30.9.2017 / 2016.....	0	27,120
	<u>114,525</u>	<u>131,069</u>

25. Other financial liabilities

At balance sheet date three interest rate swap agreements are effective, with a negative value of 2.4 million. (2011 2.3 million)

Notes to the Condensed Consolidated Financial Statements

26. Deferred tax asset / (liability)

	30.09.2012	31.12.2011
At beginning of period.....	15,941	22,480
Income tax payable for the period.....	7,367	6,525
Calculated tax for the period.....	(10,629)	(12,223)
Arising on acquisition of a subsidiary.....	0	(880)
Recognised directly through equity.....	47	(56)
Exchange rate differences.....	(23)	95
	<u>12,703</u>	<u>15,941</u>
Deferred tax in the balance sheet:		
Deferred tax asset.....	31,531	31,951
Deferred tax liabilities.....	<u>(18,828)</u>	<u>(16,010)</u>
	<u>12,703</u>	<u>15,941</u>

2011 figures are restated, see note 2.

27. Provisions

	30.09.2012		31.12.2011	
	Current	Non-current	Current	Non-current
Warranty (i).....	2,590	4,769	2,686	4,339
Other.....	998	85	948	154
	<u>3,588</u>	<u>4,854</u>	<u>3,634</u>	<u>4,493</u>

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

	Warranty provisions	Other provisions	Total
At 1 January 2011.....	5,763	1,537	7,300
Additional provision recognised.....	4,814	114	4,928
Utilization of provision.....	(3,552)	(527)	(4,079)
Exchange differences.....	0	(22)	(22)
At 31 December 2011.....	<u>7,025</u>	<u>1,102</u>	<u>8,127</u>
Additional provision recognised.....	2,589	107	2,696
Utilization of provision.....	(2,255)	(126)	(2,381)
Balance at 30 September 2012.....	<u>7,359</u>	<u>1,083</u>	<u>8,442</u>
Non-current.....	4,769	85	4,854
Current.....	2,590	998	3,588
Balance at 30 September 2012.....	<u>7,359</u>	<u>1,083</u>	<u>8,442</u>

Notes to the Condensed Consolidated Financial Statements

28. Other liabilities

	30.09.2012	31.12.2011
Accrued expenses.....	6,733	7,452
Accrued royalties.....	1,233	1,536
Sales tax and VAT.....	2,487	1,816
Payable due to previous acquisition.....	2,324	2,324
Other.....	2,915	2,273
	<u>15,692</u>	<u>15,401</u>

29. Litigation

On 5 December 2006, Össur hf., parent company of Össur North America Inc. and Royce Medical Inc., Össur America's predecessor companies, disclosed to the Office of Inspector General of the U.S. Department of Defence, that Össur North America Inc. and Royce Medical Inc. may have made some sales to the government that were not consistent with the requirements of the Buy American Act or Trade Agreements Act. A review was conducted by third party experts of the sales and the circumstances surrounding the sales. The review's conclusions were sent in a report to the Inspector General of the Department of Defence in 2007. The likely outcome of this matter remains uncertain.

Össur has filed a civil action in the US against a competitor in the prosthetic market and alleges that it infringes certain patents of the Company. The competitor has denied the allegations and claims the patents are invalid. The likely outcome remains uncertain.

30. Approval of the Consolidated Financial Statements

The Consolidated Financial Statements were approved by the board of directors and authorised for issue on 23 October 2012.