

# Össur hf.

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Condensed Interim

Consolidated Financial Statements

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**September 30 2014**

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

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Consolidated Financial Statements

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# Statement by the Board of Directors, President and CEO

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The Condensed Interim Consolidated Financial Statements of Össur hf. for the period from 1 January to 30 September 2014 consist of the Financial Statements of Össur hf. and its subsidiaries. The Condensed Interim Consolidated 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 neither audited nor reviewed by the Company's auditors.

The total sales of the Össur Consolidation amounted to USD 380.1 million and the net profit amounted to USD 44.6 million. According to the Balance Sheets the total assets of the Össur Consolidation amounted to USD 686.8 million at the end of period, liabilities were 219.0 million, and equity was 467.8 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 2014 and operating performance of the period ended 30 September 2014.

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 2014 and confirm them by means of their signatures.

Reykjavík, 23 October 2014

## Board of Directors

Niels Jacobsen  
Chairman of the Board

Arne Boye Nielsen

Kristján T. Ragnarsson

Guðbjörg Edda Eggertsdóttir

Svafa Grönfeldt

## President and CEO

Jón Sigurðsson

# Financial Highlights and Key Ratios

## Consolidated statements

		Q3 2014	Q3 2013	2013	2012	2011	2010
<b>Income Statement</b>							
Net sales	USD '000	126,510	104,738	436,274	399,437	398,325	358,538
Gross profit	USD '000	80,993	65,389	269,938	247,952	246,070	222,622
Operating expenses (excl. other income)	USD '000	56,612	46,927	210,094	191,278	188,773	163,964
Profit from operations	USD '000	24,418	18,558	60,207	56,776	59,400	60,245
Net profit	USD '000	16,014	12,681	40,954	37,763	34,608	35,362
EBITDA	USD '000	28,970	22,295	75,471	69,956	72,606	74,358
<b>Sales growth</b>							
Sales growth USD	%	21	6	9	0	11	9
Growth breakdown:							
Organic growth in LCY	%	6	3	2	3	5	6
Currency effect	%	0	1	1	(3)	3	(1)
Acquired/divested business	%	15	2	6	1	4	4
<b>Balance Sheet</b>							
Total assets	USD '000	686,776	685,291	706,248	591,163	579,968	607,078
Equity	USD '000	467,802	433,091	448,037	407,734	364,733	343,558
Net interest-bearing debt (NIBD)	USD '000	82,927	77,968	107,785	82,218	111,413	132,816
<b>Cash Flow</b>							
Cash generated by operations	USD '000	32,769	24,227	72,629	70,553	68,377	64,331
Cash provided by operating activities	USD '000	29,136	25,138	66,154	57,568	48,447	39,995
Cash flows from investing activities	USD '000	(19,757)	(14,396)	(80,861)	(26,633)	(18,585)	(18,987)
Cash flows from financing activities	USD '000	(24,556)	49,878	32,783	(29,173)	(64,507)	(45,594)
Free cash flow	USD '000	25,868	21,295	49,205	43,310	32,493	33,389
<b>Key ratios</b>							
Operating margin	%	19.3	17.7	13.8	14.2	14.9	16.8
EBITDA margin	%	22.9	21.3	17.3	17.5	18.2	20.7
Equity ratio	%	68.1	63.2	63.4	69.0	62.9	56.6
Ratio of net debt to EBITDA <sup>1</sup>		0.8	1.2	1.4	1.2	1.5	1.8
Ratio of debt to EBITDA <sup>1</sup>		1.1	2.4	2.0	1.5	1.8	2.5
Current ratio		2.1	2.5	1.9	1.9	1.7	1.9
Return on equity <sup>1</sup>	%	12.9	8.6	9.5	10.0	9.6	10.2
<b>Market</b>							
Market value of equity	US M.	1,182	755	880	606	676	778
Number of shares	Millions	454	454	454	454	454	454
Price/earnings ratio, (P/E) <sup>1</sup>		20.3	21.3	21.7	15.8	20.0	22.3
Diluted EPS <sup>1</sup>	US cent	13.0	7.1	9.1	8.4	7.7	7.8
Diluted cash EPS <sup>1</sup>	US cent	17.0	10.2	12.5	11.3	10.6	10.9

1. Financial ratios for Q3 2014 and Q3 2013 are based on operations for the preceding 12 months.

# Consolidated Income Statement for the period 1.1. - 30.9.2014 and 1.1. - 30.9.2013

	Notes	2014 YTD	2013 YTD	2014 Q3	2013 Q3
Net sales .....	3	380,057	307,802	126,510	104,738
Cost of goods sold .....		<u>(138,408)</u>	<u>(117,753)</u>	<u>(45,517)</u>	<u>(39,349)</u>
<b>Gross profit</b>		241,649	190,049	80,993	65,389
Other income .....		120	339	37	96
Sales and marketing expenses .....		(125,048)	(96,579)	(39,747)	(30,967)
Research and development expenses .....		(14,845)	(16,044)	(4,682)	(4,813)
General and administrative expenses .....		<u>(37,051)</u>	<u>(37,235)</u>	<u>(12,183)</u>	<u>(11,147)</u>
<b>Profit from operations</b>		64,825	40,530	24,418	18,558
Net financial income / (expenses) .....	5	(5,150)	(3,128)	(3,151)	(251)
Share in net profit of associated companies .....		<u>5</u>	<u>(1,211)</u>	<u>(4)</u>	<u>(1,269)</u>
<b>Profit before tax</b>		59,680	36,191	21,263	17,038
Income tax .....	6	<u>(15,121)</u>	<u>(9,367)</u>	<u>(5,249)</u>	<u>(4,357)</u>
<b>Net profit</b>		<u>44,559</u>	<u>26,824</u>	<u>16,014</u>	<u>12,681</u>
		Attributable to:			
Owners of the Company .....		44,449	26,824	15,935	12,597
Non-controlling interests .....		<u>110</u>	<u>0</u>	<u>79</u>	<u>84</u>
		<u>44,559</u>	<u>26,824</u>	<u>16,014</u>	<u>12,681</u>
<b>Earnings per share</b>	7				
Basic earnings per share (US cent) .....		<u>9.9</u>	<u>6.0</u>	<u>3.5</u>	<u>2.8</u>
Diluted earnings per share (US cent) .....		<u>9.8</u>	<u>6.0</u>	<u>3.5</u>	<u>2.8</u>

# Consolidated Statement of Comprehensive Income for the period 1.1. - 30.9.2014 and 1.1. - 30.9.2013

	Notes	2014 YTD	2013 YTD	2014 Q3	2013 Q3
<b>Net profit</b>		44,559	26,824	16,014	12,681
<b>Other comprehensive income</b>					
Change in cash flow hedges .....		487	837	148	1,268
Transl. difference of shares in foreign operations.....		(15,731)	907	(13,263)	4,865
Income tax relating to components of other comprehensive income.....		(1,220)	244	(983)	45
Other comprehensive income (net of tax).....		(16,463)	1,988	(14,098)	6,178
<b>Total comprehensive income</b>		<u>28,096</u>	<u>28,812</u>	<u>1,916</u>	<u>18,859</u>
Attributable to:					
Owners of the Company .....		27,986	28,812	1,837	18,775
Non-controlling interests .....		110	0	79	84
		<u>28,096</u>	<u>28,812</u>	<u>1,916</u>	<u>18,859</u>

# Consolidated Balance Sheet

## Assets

	Notes	30.9.2014	31.12.2013
<b>Non-current assets</b>			
Property, plant and equipment .....	9	39,084	40,360
Goodwill .....	10	397,479	396,601
Other intangible assets .....	11	42,774	47,871
Other financial assets .....	12	10,263	5,486
Deferred tax assets .....	21	19,241	22,159
		<u>508,841</u>	<u>512,477</u>
<b>Current assets</b>			
Inventories .....	13	63,353	66,825
Accounts receivables .....	14	74,804	71,239
Other assets .....	15	13,533	13,938
Bank balances and cash .....	16	26,245	41,769
		<u>177,935</u>	<u>193,771</u>
<b>Total assets</b>		<u><u>686,776</u></u>	<u><u>706,248</u></u>

## 30 September 2014 and 31 December 2013

### Equity and liabilities

	Notes	30.9.2014	31.12.2013
<b>Equity</b>			
Issued capital .....	17	198,365	198,365
Reserves .....		(12,310)	4,083
Retained earnings .....		280,023	244,202
Equity attributable to owners of the Company		<u>466,078</u>	<u>446,650</u>
Non-controlling interest in equity .....		1,724	1,387
<b>Total equity</b>		<u>467,802</u>	<u>448,037</u>
<b>Non-current liabilities</b>			
Borrowings .....	19	108,642	129,556
Deferred tax liabilities .....	21	20,189	21,117
Provisions .....	22	6,522	4,751
Other financial liabilities .....	20	701	1,264
		<u>136,054</u>	<u>156,688</u>
<b>Current liabilities</b>			
Borrowings .....	19	530	19,998
Accounts payable .....		18,625	21,070
Taxes payable .....		12,573	6,342
Provisions .....	22	3,906	4,491
Accrued salaries and related expenses .....		26,243	25,951
Other liabilities .....	23	21,043	23,671
		<u>82,920</u>	<u>101,523</u>
<b>Total equity and liabilities</b>		<u>686,776</u>	<u>706,248</u>

# Consolidated Statement of Cash Flows

## for the period 1.1. - 30.9.2014 and 1.1. - 30.9.2013

	Notes	2014 YTD	2013 YTD	2014 Q3	2013 Q3
<b>Cash flows from operating activities</b>					
Profit from operations .....		64,825	40,530	24,418	18,558
Depreciation and amortization .....	9, 11	13,491	10,589	4,550	3,737
(Gain) / loss on disposal of assets .....		52	121	4	(198)
Change in provisions .....		(143)	(241)	(140)	(580)
Changes in operating assets and liabilities .....		(9,622)	(7,076)	3,937	2,710
<b>Cash generated by operations</b>		<u>68,603</u>	<u>43,923</u>	<u>32,769</u>	<u>24,227</u>
Interest received .....		123	191	118	18
Interest paid .....		(2,535)	(2,517)	(803)	(685)
Taxes (paid)/received .....		(6,475)	(1,420)	(2,948)	1,578
<b>Net cash provided by operating activities</b>		<u>59,716</u>	<u>40,177</u>	<u>29,136</u>	<u>25,138</u>
<b>Cash flows from investing activities</b>					
Purchase of fixed and intangible assets .....	9, 11	(11,030)	(12,777)	(3,269)	(3,850)
Proceeds from sale of fixed assets .....		13	81	1	7
Acquisition of subsidiaries .....		(16,903)	(10,984)	(11,412)	(10,984)
Changes in financial assets .....		(4,975)	414	(5,077)	431
		<u>(32,895)</u>	<u>(23,266)</u>	<u>(19,757)</u>	<u>(14,396)</u>
<b>Cash flows from financing activities</b>					
Proceeds from long-term borrowings .....		49,200	443	593	479
Repayments of long-term borrowings .....		(68,930)	(15,158)	(245)	(4,958)
Changes in revolving credit facility .....		(13,874)	64,109	(24,924)	54,479
Payment of dividends .....		(8,401)	(7,861)	0	0
Dividends from subsidiaries paid to non-controlling interests .....		0	(356)	20	(122)
		<u>(42,005)</u>	<u>41,177</u>	<u>(24,556)</u>	<u>49,878</u>
<b>Net change in cash</b> .....		<u>(15,184)</u>	<u>58,088</u>	<u>(15,177)</u>	<u>60,620</u>
Effects of exchange rate changes on:					
Balance of cash held in foreign currencies .....		2,494	(204)	2,306	90
Other items held in foreign currencies .....		(2,834)	1,056	(2,665)	1,191
<b>Cash at beginning of period</b> .....		<u>41,769</u>	<u>21,878</u>	<u>41,781</u>	<u>18,917</u>
<b>Cash at end of period</b> .....		<u>26,245</u>	<u>80,818</u>	<u>26,245</u>	<u>80,818</u>
Additional information regarding cash flow .....	8				

## Consolidated Statement of Changes in Equity for the period ended 30 September 2014

	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 2013.....	5,024	188,767	1,267	958	(1,587)	453	211,971	406,853	881	407,734
Net profit.....							26,824	26,824	0	26,824
Change in cash flow hedges net of tax.....					690			690		690
Translation difference of shares in foreign operations....						1,298		1,298		1,298
Total comprehensive income for the period.....	0	0	0	0	690	1,298	26,824	28,812	0	28,812
Payment of dividends.....							(7,861)	(7,861)	(356)	(8,217)
Share option charge for the period.....				683				683		683
Share options forfeited.....				(298)				(298)		(298)
Share option vested during the period.....				(186)				(186)		(186)
Arising on acquisition.....								0	144	144
Share capital increase.....								0	236	236
Movement of treasury shares.....	24	4,550					(391)	4,183		4,183
Balance at 30 September 2013.....	5,048	193,317	1,267	1,157	(897)	1,751	230,543	432,186	905	433,091
Balance at 1 January 2014.....	5,048	193,317	1,267	1,321	(735)	2,230	244,202	446,650	1,387	448,037
Net profit.....							44,449	44,449	110	44,559
Change in cash flow hedges net of tax.....					381			381		381
Translation difference of shares in foreign operations....						(16,844)		(16,844)		(16,844)
Total comprehensive income for the period.....	0	0	0	0	381	(16,844)	44,449	27,986	110	28,096
Payment of dividends.....							(8,401)	(8,401)	0	(8,401)
Share option charge for the period.....				543				543		543
Share option vested during the period.....				(473)				(473)		(473)
Arising on acquisition.....							(227)	(227)	227	0
Balance at 30 September 2014.....	5,048	193,317	1,267	1,391	(354)	(14,614)	280,023	466,078	1,724	467,802

# Notes to the Condensed Consolidated Financial Statements

## 1. Summary of Significant Accounting Policies

### 1.1 Statement of compliance

The Condensed Interim Consolidated 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 presented in accordance with the new and revised standards (IFRS / IAS) and new interpretations (IFRIC), applicable in the period. The implementation of new and revised standards did not have any impact on the Company's Financial Statements. The Company has not early applied new and revised IFRSs that have been issued but are not yet effective. The Financial Statements are presented in USD, which is the Company's functional currency. 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 2013. The Company's Annual Financial Statements can be found on Company's website [www.ossur.com](http://www.ossur.com).

### 1.2 Basis of preparation

The Consolidated Financial Statements have been prepared under the historical cost basis except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets. 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 2013.

## 2. Quarterly statements

	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Net sales .....	126,510	132,645	120,902	128,472	104,738
Cost of goods sold .....	(45,517)	(47,586)	(45,305)	(48,583)	(39,349)
<b>Gross profit</b> .....	80,993	85,059	75,597	79,889	65,389
Gross profit margin .....	64%	63%	63%	62%	62%
Other income .....	37	75	8	24	96
Sales and marketing expenses .....	(39,747)	(43,446)	(41,855)	(42,501)	(30,967)
Research and development expenses .....	(4,682)	(4,924)	(5,239)	(5,493)	(4,813)
General and administrative expenses .....	(12,183)	(12,195)	(12,673)	(12,242)	(11,147)
<b>Profit from operations</b> .....	24,418	24,569	15,838	19,677	18,558
Net financial income / (expenses) .....	(582)	(1,332)	(850)	(1,233)	(1,061)
Net exchange rate difference .....	(2,569)	(147)	330	640	810
Total financial income / (expenses) .....	(3,151)	(1,479)	(520)	(593)	(251)
Share in profit of associated companies .....	(4)	3	6	14	(1,269)
<b>Profit before tax</b> .....	21,263	23,093	15,324	19,098	17,038
Income tax .....	(5,249)	(5,846)	(4,026)	(4,968)	(4,357)
<b>Net profit</b> .....	16,014	17,247	11,298	14,130	12,681
EBITDA .....	28,970	29,085	20,261	24,352	22,295
EBITDA ratio .....	23%	22%	17%	19%	21%

## 3. Net sales

Specified according to geographical segments:

	YTD 2014	YTD 2013	Q3 2014	Q3 2013
Americas.....	156,339	153,793	54,803	54,409
EMEA.....	199,920	136,578	62,300	44,722
Asia.....	23,798	17,431	9,407	5,607
	380,057	307,802	126,510	104,738

Specified according to product lines:

Bracing and Supports.....	220,177	174,127	70,173	58,955
Prosthetics.....	158,917	133,025	55,912	45,551
Other products.....	963	650	425	232
	380,057	307,802	126,510	104,738

# Notes to the Condensed Consolidated Financial Statements

## 4. Segment information

2014	Americas	EMEA	Asia	Eliminations	Consolidated
<b>Sales</b>					
External sales.....	156,339	199,920	23,798	0	380,057
Inter-segment sales.....	37,804	130,463	1,112	(169,379)	0
Total sales.....	<u>194,143</u>	<u>330,383</u>	<u>24,910</u>	<u>(169,379)</u>	<u>380,057</u>
<b>Results</b>					
Segment results.....	<u>20,512</u>	<u>38,506</u>	<u>5,807</u>	<u>0</u>	64,825
Financial income/(expenses).....					(5,150)
Share in net profit of associated companies.....					5
Profit before tax.....					59,680
Income tax.....					(15,121)
Net profit.....					<u>44,559</u>
<b>Balance sheet 30.9.2014</b>					
<b>Assets</b>					
Segment assets.....	551,610	472,409	41,837	(379,080)	<u>686,776</u>
<b>Liabilities</b>					
Segment liabilities.....	217,439	364,176	25,854	(388,495)	<u>218,974</u>
<b>Other information YTD 2014</b>					
Capital additions.....	3,618	7,336	76	0	11,030
Depreciation and amortization.....	4,589	8,698	204	0	13,491
<b>2013</b>					
	Americas	EMEA	Asia	Eliminations	Consolidated
<b>Sales</b>					
External sales.....	153,793	136,578	17,431	0	307,802
Inter-segment sales.....	34,696	99,646	2,701	(137,043)	0
Total sales.....	<u>188,489</u>	<u>236,224</u>	<u>20,132</u>	<u>(137,043)</u>	<u>307,802</u>
<b>Results</b>					
Segment results.....	<u>11,176</u>	<u>25,682</u>	<u>3,672</u>	<u>0</u>	40,530
Financial income/(expenses).....					(3,128)
Share in net profit of associated companies.....					(1,211)
Profit before tax.....					36,191
Income tax.....					(9,367)
Net profit.....					<u>26,824</u>
<b>Balance sheet 30.9.2013</b>					
<b>Assets</b>					
Segment assets.....	516,565	468,045	16,799	(316,118)	<u>685,291</u>
<b>Liabilities</b>					
Segment liabilities.....	199,874	318,552	7,162	(273,388)	<u>252,200</u>
<b>Other information YTD 2013</b>					
Capital additions.....	7,157	5,565	55	0	12,777
Depreciation and amortization.....	3,780	6,549	260	0	10,589

## Notes to the Condensed Consolidated Financial Statements

### 5. Financial income / (expenses)

	YTD 2014	YTD 2013	Q3 2014	Q3 2013
<b>Financial income</b>				
Interests on bank deposits.....	84	48	58	23
Other financial income.....	78	142	52	16
	<u>162</u>	<u>190</u>	<u>110</u>	<u>39</u>
<b>Financial expenses</b>				
Interests on loans.....	(2,689)	(2,964)	(783)	(968)
Other financial expenses.....	(384)	(395)	(56)	(132)
	<u>(3,073)</u>	<u>(3,359)</u>	<u>(839)</u>	<u>(1,100)</u>
Net exchange rate differences.....	(2,239)	41	(2,422)	810
Net financial income / (expenses).....	<u>(5,150)</u>	<u>(3,128)</u>	<u>(3,151)</u>	<u>(251)</u>

### 6. Income tax

	YTD 2014	YTD 2013	Q3 2014	Q3 2013
Current tax expenses.....	(12,454)	(6,264)	(5,790)	(3,136)
Deferred tax expenses.....	(2,667)	(3,103)	541	(1,221)
	<u>(15,121)</u>	<u>(9,367)</u>	<u>(5,249)</u>	<u>(4,357)</u>

	YTD 2014		YTD 2013	
	Amount	%	Amount	%
Profit before taxes.....	<u>59,680</u>		<u>36,191</u>	
Income tax calculated at 20%.....	(11,936)	20%	(7,238)	20%
Effect of different tax rates of other jurisdictions.....	(2,683)	4%	(1,796)	5%
Effect of non-deductible expenses / nontaxable income.....	(153)	0%	(240)	1%
Other effects.....	(349)	1%	(93)	0%
	<u>(15,121)</u>	<u>25%</u>	<u>(9,367)</u>	<u>26%</u>

### 7. Earnings per share

	YTD 2014	YTD 2013	Q3 2014	Q3 2013
Net profit.....	<u>44,559</u>	<u>26,824</u>	<u>16,014</u>	<u>12,681</u>
Total weighted average number of ordinary shares (in thousands).....	<u>451,507</u>	<u>448,939</u>	<u>451,507</u>	<u>449,553</u>
Total average number of shares including potential shares from options (in thousands).....	<u>453,668</u>	<u>449,054</u>	<u>454,148</u>	<u>449,693</u>
Basic earnings per share (US cent).....	9.9	6.0	3.5	2.8
Diluted earnings per share (US cent).....	9.8	6.0	3.5	2.8
Cash earnings per share.....	12.9	8.3	4.6	3.7
Diluted cash earnings per share.....	12.8	8.3	4.5	3.7

## Notes to the Condensed Consolidated Financial Statements

### 8. Additional information regarding cash flow

	YTD 2014	YTD 2013	Q3 2014	Q3 2013
Net profit.....	44,559	26,824	16,014	12,681
Items not affecting cash .....	16,147	15,669	4,151	5,884
Working capital provided by operating activities.....	60,706	42,493	20,165	18,565
(Increase) / decrease in inventories.....	1,747	2,276	1,048	303
(Increase) / decrease in receivables.....	(6,189)	(10,783)	922	1,717
Increase / (decrease) in payables.....	3,452	6,191	7,001	4,553
Net cash provided by operating activities.....	59,716	40,177	29,136	25,138

### 9. Property, plant and equipment

	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Total
<b>Cost</b>				
At 1 January 2014.....	15,184	58,023	33,300	106,507
Additions.....	55	5,793	1,929	7,777
Acquired on acquisition of subsidiary.....	0	590	309	899
Exchange rate differences.....	(1,642)	(2,223)	(1,106)	(4,971)
Eliminated on disposal.....	0	(343)	(49)	(392)
Fully depreciated assets.....	0	(6,885)	(5,905)	(12,790)
At 30 September 2014.....	13,597	54,955	28,478	97,030
<b>Depreciation</b>				
At 1 January 2014.....	9,452	38,457	18,238	66,147
Charge for the period.....	323	4,760	2,850	7,933
Acquired on acquisition of subsidiary.....	0	347	127	474
Exchange rate differences.....	(1,091)	(1,489)	(908)	(3,488)
Eliminated on disposal.....	0	(285)	(45)	(330)
Fully depreciated assets.....	0	(6,885)	(5,905)	(12,790)
At 30 September 2014.....	8,684	34,905	14,357	57,946
<b>Carrying Amount:</b>				
At 30 September 2014.....	4,913	20,050	14,121	39,084
At 31 December 2013.....	5,732	19,566	15,062	40,360

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

	YTD 2014	YTD 2013
Cost of goods sold .....	4,221	3,542
Sales and marketing expenses .....	1,204	680
Research and development expenses.....	326	337
General and administrative expenses .....	2,182	2,387
	7,933	6,946

# Notes to the Condensed Consolidated Financial Statements

## 10. Goodwill

	30.9.2014	31.12.2013
At 1 January.....	396,601	348,935
Arising on acquisition of subsidiaries.....	16,511	43,473
Exchange rate differences.....	(15,633)	4,193
At 30 September 2014.....	<u>397,479</u>	<u>396,601</u>

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

	30.9.2014	31.12.2013
Americas.....	225,837	225,717
EMEA.....	152,998	167,976
Asia.....	18,643	2,907
	<u>397,479</u>	<u>396,601</u>

## 11. Other intangible assets

	Cust./distrib. relationships	Patents	Trademarks	Software and other	Total
<b>Cost</b>					
At 1 January 2014.....	36,408	4,287	16,640	24,315	81,650
Additions.....	0	144	0	1,547	1,691
Additions - internally generated.....	0	0	0	1,562	1,562
Fully depreciated assets.....	0	(549)	0	(1,972)	(2,521)
Exchange rate differences.....	(2,560)	(122)	(1,410)	(186)	(4,278)
At 30 September 2014.....	<u>33,848</u>	<u>3,760</u>	<u>15,230</u>	<u>25,266</u>	<u>78,104</u>
<b>Amortization</b>					
At 1 January 2014.....	18,481	2,190	767	12,341	33,779
Charge for the period.....	3,212	95	16	2,235	5,558
Fully depreciated assets.....	0	(549)	0	(1,972)	(2,521)
Exchange rate differences.....	(1,252)	(90)	(89)	(55)	(1,486)
At 30 September 2014.....	<u>20,441</u>	<u>1,646</u>	<u>694</u>	<u>12,549</u>	<u>35,330</u>
<b>Carrying Amount:</b>					
At 30 September 2014.....	<u>13,407</u>	<u>2,114</u>	<u>14,536</u>	<u>12,717</u>	<u>42,774</u>
At 31 December 2013.....	<u>17,927</u>	<u>2,097</u>	<u>15,873</u>	<u>11,974</u>	<u>47,871</u>

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

	YTD 2014	YTD 2013
Cost of goods sold.....	547	394
Sales and marketing expenses.....	3,801	2,318
Research and development expenses.....	83	175
General and administrative expenses.....	1,127	756
	<u>5,558</u>	<u>3,643</u>

## Notes to the Condensed Consolidated Financial Statements

### 12. Other financial assets

	30.9.2014	31.12.2013
Investment in associates.....	7,493	2,493
Restricted cash.....	1,475	1,617
Loans and receivables.....	1,295	1,376
	<u>10,263</u>	<u>5,486</u>

#### Investments in associates

	30.9.2014	31.12.2013
At 1 January.....	2,493	4,145
Additions.....	5,000	0
Share in net profit (net of dividend received).....	0	(1,196)
Sold associates.....	0	(456)
At end of period.....	<u>7,493</u>	<u>2,493</u>

### 13. Inventories

	30.9.2014	31.12.2013
Raw material.....	13,089	14,787
Work in progress.....	6,208	5,347
Finished goods .....	44,056	46,691
	<u>63,353</u>	<u>66,825</u>

### 14. Accounts receivables

	30.9.2014	31.12.2013
Nominal value.....	77,683	74,113
Allowances for doubtful accounts.....	(1,915)	(1,934)
Allowances for sales return.....	(964)	(940)
	<u>74,804</u>	<u>71,239</u>

### 15. Other assets

	30.9.2014	31.12.2013
VAT refundable.....	4,191	3,603
Prepaid expenses.....	7,458	7,799
Taxes receivable.....	117	427
Other.....	1,767	2,109
	<u>13,533</u>	<u>13,938</u>

### 16. Bank balances and cash

	30.9.2014	31.12.2013
Bank accounts.....	24,576	38,853
Bankers draft received.....	1,591	2,856
Cash and other cash equivalents.....	78	60
	<u>26,245</u>	<u>41,769</u>

# Notes to the Condensed Consolidated Financial Statements

## 17. Issued capital

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

	<u>Shares</u>	<u>Nominal value</u>
Total share capital .....	453,750	5,068
Treasury shares.....	(2,243)	(20)
	<u>451,507</u>	<u>5,048</u>

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

	<u>Share capital</u>	<u>Share premium</u>	<u>Issued capital</u>
Balance at 30 September 2014.....	5,048	193,317	198,365

## 18. Share option contracts and obligations to increase share capital

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

	Number of shares	Grant/Issue year	Exercise year	Exercise price (in DKK)	Fair value at grant date (in DKK)
Issued to Executive Management.....	2,850,000	2012	2015	8.6 / 8.7	8.8
Issued to Executive Management.....	700,000	2013	2016	7.8 / 7.9	7.4 / 7.9
Issued to Management team.....	1,800,000	2012	2015	8.7	8.8
Issued to Management team.....	600,000	2013	2016	7.7 / 7.9	7.4 / 7.9
Total issued option contracts.....	<u>5,950,000</u>				

Movements in share options:

	<u>30.9.2014</u>		<u>31.12.2013</u>	
	Number of shares	Weighted average contract rate (in DKK)	Number of shares	Weighted average contract rate (in DKK)
Outstanding at beginning of period .....	6,350,000	8.3	6,750,000	8.3
Granted during period .....	0	0.0	1,400,000	7.8
Forfeited during period .....	0	0.0	(1,600,000)	8.4
Exercised during period.....	(400,000)	6.2	(200,000)	4.4
Outstanding at end of period.....	<u>5,950,000</u>	<u>8.4</u>	<u>6,350,000</u>	<u>8.3</u>

Estimated remaining cost due to the share option contracts is 0.5 million (2013: 1.2 million). An expense of 0.5 million (2013: 0.7 million) is recognized in the Income Statement for the period.

## Notes to the Condensed Consolidated Financial Statements

### 19. Borrowings

	30.9.2014		31.12.2013	
	Current	Non-current	Current	Non-current
Loans in USD.....	0	23,831	12,881	35,677
Loans in EUR.....	0	21,857	6,594	12,522
Revolver in USD.....	0	16,600	0	8,500
Revolver in EUR.....	0	45,216	0	71,926
Other borrowings.....	530	1,138	523	931
	<u>530</u>	<u>108,642</u>	<u>19,998</u>	<u>129,556</u>

The maturity of the revolving credit facility is April 2018. The Company has classified the revolving credit facility as non-current liability as the intention is to use it to finance further growth of the Company.

Aggregated maturities of borrowings are as follows:

	30.9.2014	31.12.2013
In 1.10.2014 - 30.9.2015 / 2014.....	530	19,998
In 1.10.2015 - 30.9.2016 / 2015.....	1,138	20,338
In 1.10.2016 - 30.9.2017 / 2016.....	23,227	109,218
In 1.10.2017 - 30.9.2018 / 2017.....	84,277	0
	<u>109,172</u>	<u>149,554</u>

In Q2 2014 Össur extended the Company's long term financing agreement by three years, maturing in Q2 2018. Össur's banking partners are ING, Nordea and SEB. Current average interest terms are 105 bps + LIBOR/EURIBOR, changing in line with financial leverage.

### 20. Other financial liabilities

At balance sheet date, two interest rate swap agreements are effective, with a negative value of 0.6 million (2013: negative 1.2 million).

## Notes to the Condensed Consolidated Financial Statements

### 21. Deferred tax asset / (liability)

	30.9.2014	31.12.2013
At beginning of period.....	1,042	8,878
Income tax payable for the period.....	12,454	9,370
Calculated tax for the period.....	(15,121)	(14,335)
Arising on acquisition of a subsidiary.....	94	(2,561)
Recognized directly through equity.....	(106)	(82)
Exchange rate differences.....	689	(228)
	<u>(948)</u>	<u>1,042</u>
Deferred tax in the balance sheet:		
Deferred tax asset.....	19,241	22,159
Deferred tax liabilities.....	<u>(20,189)</u>	<u>(21,117)</u>
	<u>(948)</u>	<u>1,042</u>

The following are the major deferred tax liabilities and assets recognized:

30.9.2014	Assets	Liabilities	Net
Goodwill.....	16,594	(14,388)	2,206
Intangible assets.....	1,020	(5,699)	(4,679)
Operating fixed assets.....	(36)	(2,440)	(2,476)
Tax loss carry forward.....	3,188	0	3,188
Inventories.....	1,796	(19)	1,777
Provisions.....	627	(395)	232
Current liabilities.....	3,694	(4,072)	(378)
Receivables.....	0	(850)	(850)
Other.....	781	(749)	32
Total tax assets / (liabilities).....	<u>27,664</u>	<u>(28,612)</u>	<u>(948)</u>
Tax asset and liabilities offsetting.....	<u>(8,423)</u>	<u>8,423</u>	<u>0</u>
	<u>19,241</u>	<u>(20,189)</u>	<u>(948)</u>

## Notes to the Condensed Consolidated Financial Statements

### 22. Provisions

	30.9.2014		31.12.2013	
	Current	Non-current	Current	Non-current
Warranty <sup>(i)</sup> .....	2,438	4,963	2,511	4,503
Other.....	1,468	1,559	1,980	248
	<u>3,906</u>	<u>6,522</u>	<u>4,491</u>	<u>4,751</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 2013.....	7,180	2,420	9,600
Additional provision recognized.....	2,971	3,008	5,979
Utilization of provision.....	(3,137)	(3,239)	(6,376)
Exchange rate differences.....	0	39	39
At 31 December 2013.....	7,014	2,228	9,242
Additional provision recognized.....	1,800	1,620	3,420
Utilization of provision.....	(1,413)	(639)	(2,052)
Exchange rate differences.....	0	(182)	(182)
Balance at 30 September 2014.....	<u>7,401</u>	<u>3,027</u>	<u>10,428</u>
Non-current.....	4,963	1,559	6,522
Current.....	<u>2,438</u>	<u>1,468</u>	<u>3,906</u>
Balance at 30 September 2014.....	<u>7,401</u>	<u>3,027</u>	<u>10,428</u>

### 23. Other liabilities

	30.9.2014	31.12.2013
Accrued expenses.....	9,153	11,101
Accrued royalties.....	895	967
Sales tax and VAT.....	4,647	6,120
Payable due to previous acquisition.....	2,324	2,324
Other.....	4,024	3,159
	<u>21,043</u>	<u>23,671</u>

### 24. Approval of the Consolidated Financial Statements

The Condensed Interim Consolidated Financial Statements were approved by the board of directors, president and CEO and authorized for issue on 23 October 2014.