

Össur hf.

Condensed Consolidated
Financial Statements

March 31 2012

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

Össur hf.

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Table of Contents

Statement by the Board of Directors and President and CEO	2
Financial 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 31 March 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 99.8 million and the net profit amounted to USD 9.8 million. According to the Balance Sheets the total assets of the Össur Consolidation amounted to USD 601.1 million at the end of period, liabilities were 219.8 million, and equity was 381.3 million.

It is our opinion that these Condensed Interim Consolidated Financial Statements present all the information necessary to give a true and fair view of the Company's assets and liabilities, financial position at 31 March 2012 and operating performance of the period ended 31 March 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 31 March 2012 and confirm them by means of their signatures.

Reykjavik, 24 April 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	2011	2010	2009
Income Statements						
Net sales	USD '000	99,817	96,995	401,325	358,538	330,580
Gross profit	USD '000	62,034	61,437	249,070	222,622	201,815
Operating expenses (excl. other income)	USD '000	47,274	46,335	188,773	163,964	154,071
Profit from operations	USD '000	14,651	15,158	62,400	60,245	48,240
Net profit	USD '000	9,802	8,022	36,631	35,362	22,762
EBITDA	USD '000	17,837	18,270	75,606	74,358	66,988
Sales Growth						
Sales Growth USD	%	3	12	12	9	(5)
Growth brake down:						
Organic growth in LCY	%	5	5	5	6	(1)
Currency effect	%	(2)	1	3	(1)	(4)
Acquired/divested business	%	0	6	5	4	0
Balance Sheets						
Total assets	USD '000	601,076	594,014	581,991	607,078	628,217
Equity	USD '000	381,299	360,488	366,756	343,558	312,223
Net interest-bearing debt (NIBD)	USD '000	118,054	138,369	111,413	132,816	157,633
Cash Flows						
Cash generated by operations	USD '000	9,309	12,483	68,377	64,331	85,770
Cash provided by operating activities	USD '000	7,132	1,448	48,447	39,995	69,155
Cash flows from investing activities	USD '000	(12,638)	(3,370)	(18,585)	(18,987)	(16,423)
Cash flows from financing activities	USD '000	3,115	(32,251)	(64,507)	(45,594)	(4,284)
Free Cash flow	USD '000	3,744	(1,874)	32,493	33,389	60,238
Key figures						
Operating margin	%	14.7	15.6	15.5	16.8	14.6
EBITDA margin	%	17.9	18.8	18.8	20.7	20.3
Equity ratio	%	63.4	60.7	63.0	56.6	49.7
Ratio of net debt to EBITDA ¹		1.6	1.8	1.5	1.8	2.4
Ratio of debt to EBITDA ¹		1.8	2.1	1.7	2.5	3.5
Current ratio		1.8	2.0	1.8	1.9	2.3
Return on equity ¹	%	10.1	9.8	10.0	10.2	8.1
Market						
Market value of equity	USD '000	687,616	726,247	675,533	777,593	529,151
Number of shares	Millions	454	454	454	454	454
Price/earnings ratio, (P/E) ¹		18.4	22.1	19.2	22.3	23.2
Diluted EPS ¹	US Cent	8.60	7.40	8.11	7.77	5.30
Diluted Cash EPS ¹	US Cent	11.55	10.37	11.03	10.87	9.66

Notes

1. 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 - 31.03.2012 and 1.1 - 31.03.2011

	Notes	2012 YTD	2011 YTD
Net sales	3	99,817	96,995
Cost of goods sold		(37,783)	(35,558)
Gross profit		<u>62,034</u>	<u>61,437</u>
Other income		(109)	56
Sales and marketing expenses		(30,131)	(29,421)
Research and development expenses		(5,276)	(4,621)
General and administrative expenses		(11,867)	(12,293)
Profit from operations		<u>14,651</u>	<u>15,158</u>
Financial income		51	36
Financial expenses		(1,905)	(3,467)
Net exchange rate difference		556	(862)
Net financial income / (expenses)	5	<u>(1,298)</u>	<u>(4,293)</u>
Profit before tax		<u>13,353</u>	<u>10,865</u>
Income tax	6	<u>(3,551)</u>	<u>(2,843)</u>
Net profit		<u>9,802</u>	<u>8,022</u>
Attributable to:			
Owners of the Company		9,561	7,555
Non-controlling interests		241	467
		<u>9,802</u>	<u>8,022</u>
Earnings per Share			
Basic Earnings per Share		<u>2.23</u>	<u>1.77</u>
Diluted Earnings per Share		<u>2.23</u>	<u>1.76</u>

Consolidated Statements of Comprehensive Income for the period 1.1 - 31.03.2012 and 1.1 - 31.03.2011

	Notes	2012 YTD	2011 YTD
Net profit		9,802	8,022
Other comprehensive income			
Gain / (loss) on hedge of a net investment in foreign operations.....		0	(1,175)
Change on cash flow hedges		360	874
Transl. difference of shares in foreign operations.....		4,597	9,874
Income tax relating to components of other comprehensive income.....		120	(721)
Other comprehensive income (net of tax).....		5,077	8,852
Total comprehensive income		14,879	16,874

	Attributable to:		
Owners of the Company		14,638	16,407
Non-controlling interests		241	467
		14,879	16,874

Consolidated Balance Sheets

Assets

	Notes	31.03.2012	31.12.2011
Non-current assets			
Property, plant and equipment	9	36,770	36,239
Goodwill	10	346,918	333,484
Other intangible assets	11	31,364	29,921
Other financial assets	13	6,944	6,809
Deferred tax assets	24	30,248	30,974
		<u>452,244</u>	<u>437,427</u>
Current assets			
Inventories	14	54,799	52,171
Accounts receivables	15	63,145	55,549
Other assets	16	13,219	17,188
Bank balances and cash	17	17,669	19,656
		<u>148,832</u>	<u>144,564</u>
Total assets		<u>601,076</u>	<u>581,991</u>

31 March 2012 and 31 December 2011

Equity and liabilities

	Notes	31.03.2012	31.12.2011
Equity			
Issued capital	18	193,791	193,791
Reserves	19	826	(3,841)
Retained earnings	20	<u>184,137</u>	<u>174,576</u>
Equity attributable to owners of the Company		<u>378,754</u>	<u>364,526</u>
Non-controlling interest in equity		<u>2,545</u>	<u>2,230</u>
Total equity		<u>381,299</u>	<u>366,756</u>
Non-current liabilities			
Borrowings	22	115,069	110,113
Deferred tax liabilities	24	16,611	16,010
Provisions	25	4,731	4,493
Other financial liabilities	23	<u>2,313</u>	<u>2,216</u>
		<u>138,724</u>	<u>132,832</u>
Current liabilities			
Borrowings	22	20,654	20,956
Accounts payable		19,173	20,305
Taxes payable		4,718	3,915
Provisions	25	3,817	3,634
Accrued salaries and related expenses		17,798	18,192
Other liabilities	26	<u>14,893</u>	<u>15,401</u>
		<u>81,053</u>	<u>82,403</u>
Total equity and liabilities		<u>601,076</u>	<u>581,991</u>

Consolidated Statements of Cash Flows

for the period 1.1 - 31.03.2012 and 1.1 - 31.03.2011

	Notes	2012 YTD	2011 YTD
Cash flows from operating activities			
Profit from operations		14,651	15,158
Depreciation and amortization	9, 11	3,186	3,112
(Gain) / loss on disposal of assets		(1)	7
Change in provisions		399	204
Changes in operating assets and liabilities		(8,926)	(5,998)
Cash generated by operations		<u>9,309</u>	<u>12,483</u>
Interest received		34	206
Interest paid	5	(1,140)	(8,609)
Taxes paid		(1,071)	(2,632)
Net cash provided by operating activities		<u>7,132</u>	<u>1,448</u>
Cash flows from investing activities			
Purchase of fixed and intangible assets	9, 11	(3,388)	(3,386)
Proceeds from sale of fixed assets		1	64
Acquisition of subsidiaries		(9,176)	0
Changes in financial assets		(75)	(48)
		<u>(12,638)</u>	<u>(3,370)</u>
Cash flows from financing activities			
Proceeds from long-term borrowings		0	117,630
Repayments of long-term borrowings		(5,000)	(184,782)
Changes in revolving credit facility		8,434	34,976
Dividends from subsidiaries paid to non-controlling interests		(319)	(75)
		<u>3,115</u>	<u>(32,251)</u>
Net change in cash		(2,391)	(34,173)
Effects of exchange rate changes on:			
Balance of cash held in foreign currencies		(400)	(1,124)
Other items held in foreign currencies		804	2,480
Cash at beginning of period		19,656	54,399
Cash at end of period		<u>17,669</u>	<u>21,582</u>
Additional information regarding cash flow		8	

Consolidated Statements of Changes in Equity for the period ended 31 March 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.....							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)
Share 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
Balance at 1 January 2012.....	5,024	188,767	1,267	1,453	(2,979)	(3,582)	174,576	364,526	2,230	366,756
Net profit.....							9,561	9,561	241	9,802
Change in cash flow hedges.....					367			367		367
Translation difference of shares in foreign operations.....						4,710		4,710		4,710
Total comprehensive income for the period.....	0	0	0	0	367	4,710	9,561	14,638	241	14,879
Payment of dividends.....								0	(138)	(138)
Share option charge for the period.....				55				55		55
Arising on acquisition.....								0	212	212
Share option vested during the period.....				(465)				(465)		(465)
Balance at 31 March 2012.....	5,024	188,767	1,267	1,043	(2,612)	1,128	184,137	378,754	2,545	381,299

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.

2. Quarterly statements

	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Net sales	99,817	97,991	101,315	105,024	96,995
Cost of goods sold	(37,783)	(37,473)	(37,596)	(41,628)	(35,558)
Gross profit	62,034	60,518	63,719	63,396	61,437
Gross profit margin	62%	62%	63%	60%	63%
Other income	(109)	1,203	190	654	56
Sales and marketing expenses	(30,131)	(30,375)	(29,442)	(30,075)	(29,421)
Research and development expenses	(5,276)	(5,157)	(4,811)	(5,065)	(4,621)
General and administrative expenses	(11,867)	(13,442)	(12,057)	(12,014)	(12,293)
Profit from operations	14,651	12,747	17,599	16,896	15,158
Net financial income /expenses	(1,854)	(2,116)	(2,526)	(2,444)	(3,431)
Net exchange rate difference	556	(391)	(417)	(382)	(862)
Total financial income/(expenses)	(1,298)	(2,507)	(2,943)	(2,826)	(4,293)
Profit before tax	13,353	10,240	14,656	14,070	10,865
Income tax	(3,551)	(2,585)	(4,010)	(3,762)	(2,843)
Net profit	9,802	7,655	10,646	10,308	8,022
EBITDA	17,837	16,353	21,061	19,922	18,270
EBITDA ratio	18%	17%	21%	19%	19%

Notes to the Condensed Consolidated Financial Statements

3. Net sales

Specified according to geographical segments:

	YTD 2012	YTD 2011
Americas.....	51,264	49,873
EMEA.....	44,218	42,994
Asia.....	4,335	4,128
	<u>99,817</u>	<u>96,995</u>

Specified according to product lines:

Bracing and Supports.....	52,288	52,317
Prosthetics.....	42,258	39,970
Compression Therapy (Phlebology).....	5,071	4,456
Other products.....	200	252
	<u>99,817</u>	<u>96,995</u>

Specified according to currency:

US Dollar, USD.....	50,811	48,874
Euro, EUR.....	31,583	30,639
British Pound, GBP.....	4,666	4,659
Canadian Dollar, CAD.....	4,115	4,311
Swedish Krona, SEK.....	2,255	2,561
Norwegian Krona, NOK.....	2,209	2,100
Australian Dollar, AUD.....	1,196	1,102
Icelandic Krona, ISK.....	485	250
Other.....	2,497	2,499
	<u>99,817</u>	<u>96,995</u>

Notes to the Condensed Consolidated Financial Statements

4. Segment information

2012	Americas	EMEA	Asia	Eliminations	Consolidated
	YTD 2012	YTD 2012	YTD 2012	YTD 2012	YTD 2012
Sales					
External sales.....	51,264	44,218	4,335	0	99,817
Inter-segment sales.....	9,366	21,620	0	(30,986)	0
Total sales.....	<u>60,630</u>	<u>65,839</u>	<u>4,335</u>	<u>(30,986)</u>	<u>99,817</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>5,716</u>	<u>7,961</u>	<u>974</u>	<u>0</u>	<u>14,651</u>
Financial income/(expenses).....					<u>(1,298)</u>
Profit before tax.....					<u>13,353</u>
Income tax.....					<u>(3,551)</u>
Net profit.....					<u>9,802</u>

Balance sheet 31.3.2012

Assets

Segment assets.....	480,261	379,109	12,692	(270,986)	<u>601,076</u>
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Liabilities

Segment liabilities.....	186,632	225,693	5,132	(197,680)	<u>219,777</u>
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Other information

Capital additions.....	1,075	2,212	101	0	3,388
Depreciation and amortization.....	1,108	2,010	68	0	3,186

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.....	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>

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>5,975</u>	<u>8,212</u>	<u>971</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.....	396,774	392,230	11,860	(206,850)	<u>594,014</u>
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Liabilities

Segment liabilities.....	163,073	223,799	4,377	(157,723)	<u>233,526</u>
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Other information YTD

Capital additions.....	1,421	1,907	58	0	3,386
Depreciation and amortization.....	948	2,093	71	0	3,112

Notes to the Condensed Consolidated Financial Statements

5. Financial income / (expenses)

Financial income and (expenses) are specified as follows:

	YTD 2012	YTD 2011
Financial income		
Interests on bank deposits.....	33	23
Other financial income.....	18	13
	<u>51</u>	<u>36</u>
Financial expenses		
Interest on loans.....	(1,780)	(3,319)
Other financial expenses.....	(125)	(148)
	<u>(1,905)</u>	<u>(3,467)</u>
Net exchange rate differences.....	556	(862)
Net financial income / (expenses).....	<u>(1,298)</u>	<u>(4,293)</u>

6. Income tax

Income tax is specified as follows:

	YTD 2012	YTD 2011
Current tax expenses.....	(2,310)	(3,094)
Deferred tax expenses.....	(1,241)	286
Deferred tax reclassified from equity to income.....	0	(35)
	<u>(3,551)</u>	<u>(2,843)</u>

	YTD 2012	YTD 2011		
	Amount	%	Amount	%
Profit before taxes.....	<u>13,353</u>		<u>10,865</u>	
Income tax calculated at 20%.....	(2,671)	20%	(2,173)	20%
Effect of different tax rates of other jurisdictions.....	(732)	5%	(396)	4%
Effect of non-deductible expenses / non taxable income.....	(134)	1%	(157)	1%
Other changes.....	(14)	0%	(117)	1%
	<u>(3,551)</u>	<u>27%</u>	<u>(2,843)</u>	<u>26%</u>

Deferred tax expense:

	YTD 2012	YTD 2011
Origination and reversal of temporary differences.....	(1,238)	(397)
Losses (recognised) and utilised.....	0	693
Effect of changes in tax rate and laws.....	(3)	(10)
	<u>(1,241)</u>	<u>286</u>

Notes to the Condensed Consolidated Financial Statements

7. Earnings per share

	YTD 2012	YTD 2011
Net profit.....	9,802	8,022
Total weighted average number of ordinary shares (in thousands).....	448,732	453,732
Total average number of shares including potential shares from options (in thousands).....	449,189	455,107
Basic Earnings per Share (US cent).....	2.23	1.77
Diluted Earnings per Share (US cent).....	2.23	1.76
Cash Earnings per Share.....	2.94	2.45
Diluted Cash Earnings per Share.....	2.94	2.45

8. Additional information regarding cash flow

	YTD 2012	YTD 2011
Net profit.....	9,802	8,022
Items not affecting cash	4,287	795
Working capital provided by operating activities.....	14,089	8,817
(Increase) / decrease in inventories.....	(1,688)	(1,674)
(Increase) / decrease in receivables.....	(3,334)	(5,345)
Increase / (decrease) in payables.....	(1,935)	(350)
Net cash provided by operating activities.....	7,132	1,448

9. 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	(32)	(18)	(50)
Additions.....	0	871	852	1,723
Acquired on acquisition of subsidiary.....	0	0	496	496
Additions relating to previous acquisitions.....	0	390	0	390
Exchange rate differences.....	425	423	325	1,173
Eliminated on disposal.....	0	(22)	(2)	(24)
Fully depreciated assets.....	0	(1,599)	(933)	(2,532)
At 31 March 2012.....	14,290	38,989	26,188	79,467
Depreciation				
At 1 January 2012.....	8,226	21,453	12,373	42,052
Reclassification.....	0	(25)	(14)	(39)
Charge for the period.....	99	1,302	912	2,313
Acquired on acquisition of subsidiary.....	0	131	85	216
Exchange rate differences.....	254	291	165	710
Eliminated on disposal.....	0	(21)	(2)	(23)
Fully depreciated assets.....	0	(1,599)	(933)	(2,532)
At 31 March 2012.....	8,579	21,533	12,585	42,697
Carrying Amount:				
At 31 March 2012.....	5,711	17,457	13,602	36,770
At 31 December 2011.....	5,639	17,504	13,096	36,239

Notes to the Condensed Consolidated Financial Statements

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

	YTD 2012	YTD 2011
Cost of goods sold	1,278	1,031
Sales and marketing expenses	183	160
Research and development expenses.....	173	128
General and administrative expenses	679	675
	<hr/>	<hr/>
	2,313	1,994

10. Goodwill

Cost

At 1 January 2011.....	339,153
Reclass due to previous acquisitions (purchase price allocation, PPA).....	(1,939)
Exchange rate differences.....	(3,730)
At 31 December 2011.....	333,484
Reclass due to previous acquisitions (purchase price allocation, PPA).....	176
Arising on acquisition of subsidiaries.....	9,175
Exchange rate differences.....	4,083
At 31 March 2012.....	<hr/> 346,918

Carrying amount

At 31 March 2012.....	346,918
At 31 December 2011.....	<hr/> 333,484

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

	31.03.2012	31.12.2011
Americas.....	222,620	213,046
EMEA.....	121,145	117,323
Asia.....	3,153	3,115
	<hr/>	<hr/>
	346,918	333,484

Notes to the Condensed Consolidated Financial Statements

11. 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.....	317	15	0	1,333	1,665
Fully depreciated assets.....	0	0	0	(1,749)	(1,749)
Exchange rate differences.....	482	47	539	12	1,080
At 31 March 2012.....	<u>24,202</u>	<u>10,954</u>	<u>15,977</u>	<u>13,385</u>	<u>64,518</u>
Amortization					
At 1 January 2012.....	12,394	10,172	593	10,392	33,551
Reclassification.....	0	0	0	39	39
Charge for the period.....	595	99	0	179	873
Fully depreciated assets.....	0	0	0	(1,749)	(1,749)
Exchange rate differences.....	283	51	97	9	440
At 31 March 2012.....	<u>13,272</u>	<u>10,322</u>	<u>690</u>	<u>8,870</u>	<u>33,154</u>
Carrying Amount:					
At 31 March 2012.....	<u>10,930</u>	<u>632</u>	<u>15,287</u>	<u>4,515</u>	<u>31,364</u>
At 31 December 2011.....	<u>11,009</u>	<u>720</u>	<u>14,845</u>	<u>3,347</u>	<u>29,921</u>

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

	YTD 2012	YTD 2011
Cost of goods sold.....	8	5
Sales and marketing expenses.....	627	629
Research and development expenses.....	113	347
General and administrative expenses.....	125	137
	<u>873</u>	<u>1,118</u>

Notes to the Condensed Consolidated Financial Statements

12. 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, 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.

13. Other financial assets

	31.03.2012	31.12.2011
Investment in associates.....	3,057	2,986
Restricted cash.....	1,307	1,273
Loans and receivables.....	2,580	2,550
	6,944	6,809

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.....	0	2,830
Share in net profit.....	68	61
Exchange differences.....	2	75
	3,057	2,986

Notes to the Condensed Consolidated Financial Statements

14. Inventories

	31.03.2012	31.12.2011
Raw material.....	13,661	12,840
Work in progress.....	2,959	2,762
Finished goods	38,179	36,569
	<u>54,799</u>	<u>52,171</u>

15. Accounts receivables

	31.03.2012	31.12.2011
Nominal value.....	65,647	58,049
Allowances for doubtful accounts.....	(1,535)	(1,419)
Allowances for sales return.....	(967)	(1,081)
	<u>63,145</u>	<u>55,549</u>

16. Other assets

	31.03.2012	31.12.2011
VAT refundable.....	2,956	2,349
Prepaid expenses.....	5,676	4,285
Taxes receivable.....	2,000	4,490
Receivable from sale of fixed assets.....	0	2,412
Other.....	2,587	3,652
	<u>13,219</u>	<u>17,188</u>

17. Bank balances and cash

	31.03.2012	31.12.2011
Bank accounts.....	14,947	16,817
Bankers draft received.....	2,694	2,778
Cash and other cash equivalents.....	28	61
	<u>17,669</u>	<u>19,656</u>

Notes to the Condensed Consolidated Financial Statements

18. Issued capital

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

	Shares	Nominal value
Total share capital at 31 March 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 31 March 2012.....	<u>5,024</u>	<u>188,767</u>	<u>193,791</u>

19. 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 charge for the period.....		306			306
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.....	1,267	1,453	(2,979)	(3,582)	(3,841)
Change on cash flow hedges.....			367		367
Share option vested during the period.....		(465)			(465)
Share option charge for the period.....		55			55
Transl. diff. of foreign operations.....				4,710	4,710
Balance at 31 March 2012.....	1,267	1,043	(2,612)	1,128	826

Notes to the Condensed Consolidated Financial Statements

20. Retained earnings

	<u>Retained earnings</u>
At 1 January 2011.....	138,513
Share option reserve release.....	797
Net profit.....	35,266
At 1 January 2012.....	174,576
Net profit.....	9,561
Balance at 31 March 2012.....	<u>184,137</u>

21. Share option contracts and obligations to increase share capital

21.1 Employee share option plan

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	500,000	2008	2012	5.4	5.5
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
Total issued option contracts.....	<u>1,500,000</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.

21.2 Movements in shares options during the period

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

	YTD 2012		YTD 2011	
	Number of shares	Weighted average contract rate (in DKK)	Number of shares	Weighted average contract rate (in DKK)
Outstanding at beginning of period	3,300,000	7.1	6,290,000	7.1
Granted during period	0		100,000	8.7
Exercised during period.....	<u>(1,800,000)</u>	6.9	0	
Outstanding at end of period.....	<u>1,500,000</u>	6.3	<u>6,390,000</u>	<u>7.1</u>

Notes to the Condensed Consolidated Financial Statements

21.3 Share options exercised during the year

The following share options were exercised during the year

	Number exercised	Exercise date	Share price at exercise date (in DKK)
Issued to Management team	1,800,000	23.2.2012	8.2

Share options issued to Management team on 23 February 2008 vested on 23 February 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 0.5 million.

21.4 Costs due to share options

Estimated remaining cost due to the share option contracts are 0.3 million (2011: 0.8 million). An expense of 0.1 million (2011: 0.1 million) is recognised in the Income Statement for the period.

22. Borrowings

	31.03.2012		31.12.2011	
	Current	Non-current	Current	Non-current
Loans in USD.....	12,702	53,280	12,670	57,548
Loans in EUR.....	6,467	28,390	6,458	27,832
Revolver in USD.....	0	24,960	0	16,500
Revolver in EUR.....	0	6,671	0	6,472
Other borrowings.....	1,485	1,768	1,828	1,761
	20,654	115,069	20,956	110,113

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:

	31.03.2012	31.12.2011
In 1.4.2012 - 31.3.2013 / 2012.....	20,654	20,956
In 1.4.2013 - 31.3.2014 / 2013.....	20,134	19,913
In 1.4.2014 - 31.3.2015 / 2014.....	20,400	20,425
In 1.4.2015 - 31.3.2016 / 2015.....	74,535	42,655
In 1.4.2016 - 31.3.2017 / 2016.....	0	27,120
	135,723	131,069

Notes to the Condensed Consolidated Financial Statements

23. Other financial liabilities

At balance sheet date three interest rate swap agreements are effective, with a negative value of 3.1 million (net of tax 2.3 million).

24. Deferred tax asset / (liability)

	31.03.2012	31.12.2011
At beginning of period.....	14,964	22,480
Income tax payable for the period.....	2,310	6,525
Calculated tax for the period.....	(3,551)	(13,200)
Arising on acquisition of a subsidiary.....	0	(880)
Recognised directly through equity.....	120	(56)
Exchange rate differences.....	(206)	95
	<u>13,637</u>	<u>14,964</u>
Deferred tax in the balance sheet:		
Deferred tax asset.....	30,248	30,974
Deferred tax liabilities.....	(16,611)	(16,010)
	<u>13,637</u>	<u>14,964</u>

25. Provisions

	31.03.2012		31.12.2011	
	Current	Non-current	Current	Non-current
Warranty (i).....	2,795	4,593	2,686	4,339
Other.....	1,022	138	948	154
	<u>3,817</u>	<u>4,731</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.....	7,025	1,102	8,127
Additional provision recognised.....	971	66	1,037
Utilization of provision.....	(608)	(29)	(637)
Exchange differences.....	0	21	21
Balance at 31 March 2012.....	<u>7,388</u>	<u>1,160</u>	<u>8,548</u>
Non-current.....	4,593	138	4,731
Current.....	2,795	1,022	3,817
Balance at 31 March 2012.....	<u>7,388</u>	<u>1,160</u>	<u>8,548</u>

Notes to the Condensed Consolidated Financial Statements

26. Other liabilities

	31.03.2012	31.12.2011
Accrued expenses.....	5,307	7,452
Accrued Royalties.....	1,062	1,536
Sales tax and VAT.....	2,408	1,816
Payable due to previous acquisition.....	2,324	2,324
Other.....	3,792	2,273
	<hr/>	<hr/>
	14,893	15,401

27. 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 Company 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 the last quarter of 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 of the Company's patents. The competitor has denied the allegations and claims the patents are invalid. The likely outcome remains uncertain.

28. Approval of the Consolidated Financial Statements

The Consolidated Financial Statements were approved by the board of directors and authorised for issue on 24 April 2012.