

# Össur hf.

---

Consolidated Financial Statements

---

**December 31st 2012**

---

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

# Össur hf.

---

Consolidated Financial Statements

---

December 31st 2012

## Table of Contents

Statement by the Board of Directors and President and CEO	2
Financial Highlights and Key Ratios	4
Independent Auditor's Report	5
Consolidated Income Statements	6
Consolidated Statements of Comprehensive Income	7
Consolidated Balance Sheets	8
Consolidated Statements of Cash Flows	10
Consolidated Statements of Changes in Equity	11
Notes to the Consolidated Financial Statements	12
Appendix I - Unaudited information	44

---

# Statement by the Board of Directors and President and CEO

---

It is the opinion of the Board of Directors and the President and CEO of Össur hf. (the Company), that these Consolidated Financial Statements present the necessary information to evaluate the financial position of the Company at year end, the operating results for the year and financial developments during the year 2012. Össur Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional Danish disclosure requirements for listed companies.

Össur hf. designs, manufactures and sells orthopaedic products specializing in prosthetics, bracing and supports and compression therapy solutions. The Company is headquartered in Iceland and the Company owns and operates subsidiaries in the United States, Canada, Mexico, France, the Netherlands, Germany, United Kingdom, Sweden, Norway, Spain, S-Africa, China, Hong Kong, Korea and Australia. The Company sells its products world wide, but the principal market areas are North America and Europe.

The total sales of the Össur Consolidation amounted to USD 399.4 million, compared to USD 398.3 million in the preceding year. This represents an increase in sales of approximately 0.3%. Net profit amounted to USD 37.8 million compared to USD 34.6 million in 2011. Diluted Earnings per Share amounted to US cents 8.4 compared to US cents 7.7 in 2011. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to USD 70.0 million compared to USD 72.6 million in the preceding year.

At beginning of 2012, the Company published a guidance of 4-6% organic sales growth and 20-21% EBITDA margin. Due to negative sentiment in the Americas prosthetic market and slowdown in prosthetics sales in the region, management announced a revised guidance in the third quarter report 2012 of 2-3% organic sales growth and 18-19% EBITDA margin. This revised guidance has materialized as organic growth for the year was 3% and EBITDA margin was 18%.

The total assets of the Össur Consolidation amounted to USD 591.2 million at year end, liabilities were 183.5 million and equity was 407.7 million. The equity ratio at year end was 69%, compared to 63% the preceding year.

In the course of the year the Company employed on average 1860 employees.

Össur is listed on the NASDAQ OMX Copenhagen. The market value of the Company at year end was USD 606 million. During the year the share price in DKK decreased by 12%. At year end, shareholders in Össur hf. numbered 2,781 compared to 2,855 at the beginning of the year. One shareholder owned more than 10% of the shares in the Company at year end: William Demant Invest A/S, with 41.2%.

A new share option scheme was approved by the Annual General Meeting on 16 March 2012 in accordance with the Company's Remuneration Policy. The CEO, Executive Management and next level of management can be granted up to 6.750.000 share options at each time, vesting three years after grant date and can be exercised for a period of one year during open trading windows. At this time 6,750,000 share options have been granted in total. The exercise price is determined as the Company's average share price on NASDAQ OMX Copenhagen 20 trading days prior to the grant date. The exercise price shall be adjusted for any dividend payments made by the Company after the grant date.

In its procedures, the Board of Directors complies with the Articles of Association of the Company, the Board of Directors' Rules of Procedure and follows the Danish Recommendations for Corporate Governance issued by the Danish Committee on Corporate Governance. The Rules of Procedure address issues such as allocation of responsibilities and power of decision within the Board, independency issues, confidentiality etc. An Audit Committee is present within the Board. No Össur employees are sitting on the Board of Directors.

The Board of Directors recommends payment of dividends to shareholders in 2013 amounting to DKK 0.10 per share, this approximates USD 8 million and 22% of 2012 net profit. As regards to changes in the equity of the Company, the Board refers to the Notes attached to the Consolidated Financial Statements.

# Statement by the Board of Directors and President and CEO

---

The Board of Directors and President and CEO of Össur hf. hereby confirm the Consolidated Financial Statements of Össur for the year 2012 with their signatures.

Reykjavík, 6 February 2013

## 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

		2012	2011	2010	2009	2008
<b>Income Statements</b>						
Net sales	USD '000	399,437	398,325	358,538	330,580	346,835
Gross profit	USD '000	247,952	246,070	222,622	201,815	214,203
Operating expenses (excl. other income)	USD '000	191,278	188,773	163,964	154,071	167,678
Profit from operations	USD '000	56,776	59,400	60,245	48,240	55,958
Net profit	USD '000	37,763	34,608	35,362	22,762	28,488
EBITDA	USD '000	69,956	72,606	74,358	66,988	79,440
<b>Sales growth</b>						
Sales growth USD	%	0	11	9	(5)	4
Growth breakdown:						
Organic growth in LCY	%	3	5	6	(1)	2
Currency effect	%	(3)	3	(1)	(4)	2
Acquired/divested business	%	1	4	4	0	0
<b>Balance Sheets</b>						
Total assets	USD '000	591,163	579,968	607,078	628,217	603,778
Equity	USD '000	407,734	364,733	343,558	312,223	249,648
Net interest-bearing debt (NIBD)	USD '000	82,218	111,413	132,816	157,633	234,281
<b>Cash Flows</b>						
Cash generated by operations	USD '000	70,553	68,377	64,331	85,770	71,460
Cash provided by operating activities	USD '000	57,568	48,447	39,995	69,155	52,835
Cash flows from investing activities	USD '000	(26,633)	(18,585)	(18,987)	(16,423)	(6,648)
Cash flows from financing activities	USD '000	(29,173)	(64,507)	(45,594)	(4,284)	(30,610)
Free Cash flow	USD '000	43,310	32,493	33,389	60,238	46,040
<b>Key figures</b>						
Operating margin	%	14.2	14.9	16.8	14.6	16.0
EBITDA margin	%	17.5	18.2	20.7	20.3	22.9
Equity ratio	%	69.0	62.9	56.6	49.7	41.3
Ratio of net debt to EBITDA		1.2	1.5	1.8	2.4	2.9
Ratio of debt to EBITDA		1.5	1.8	2.5	3.5	3.3
Current ratio		1.9	1.7	1.9	2.3	1.1
Return on equity	%	10.0	9.6	10.2	8.1	11.0
Employees		1,860	1,864	1,627	1,532	1,587
<b>Market</b>						
Market value of equity	USD '000	605,649	675,533	777,593	529,151	349,263
Number of shares	Millions	454	454	454	454	423
Price/earnings ratio, (P/E)		15.8	20.0	22.3	23.2	12.3
Diluted EPS	US Cent	8.4	7.7	7.8	5.3	6.7
Diluted Cash EPS	US Cent	11.3	10.6	10.9	9.7	12.3

Financial ratios for 2011 are based on restated figures, see note 5.

# Independent Auditor's Report

---

## To the Board of Directors and Shareholders of Össur hf.

We have audited the accompanying Consolidated Financial Statements of Össur hf., which comprise the Statement of the Board of Directors and President and CEO, the balance sheet as of 31 December 2012, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's and the Board of directors Responsibility for the Financial Statements

Management and the board of directors are responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union and additional Danish disclosure requirements for listed companies and for such internal control as management and the board of directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the Consolidated Financial Statements gives a true and fair view, of the financial position of Össur hf. as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and additional Danish disclosure requirements for listed companies.

Kópavogur, 6 February 2013

## Deloitte ehf.

Sigurður Páll Hauksson  
State Authorized Public Accountant

Signý Magnúsdóttir  
State Authorized Public Accountant

# Consolidated Income Statements 2012 and 2011

	Notes	2012	2011	Unaudited	
				Q4 2012	Q4 2011
Net sales .....	6	399,437	398,325	98,395	97,241
Cost of goods sold .....		<u>(151,485)</u>	<u>(152,255)</u>	<u>(38,068)</u>	<u>(37,473)</u>
<b>Gross profit</b>		247,952	246,070	60,327	59,768
Other income .....	8	102	2,103	275	1,203
Sales and marketing expenses .....		(120,924)	(119,313)	(31,254)	(30,375)
Research and development expenses .....		(22,131)	(19,654)	(5,897)	(5,157)
General and administrative expenses .....		<u>(48,223)</u>	<u>(49,806)</u>	<u>(12,683)</u>	<u>(13,442)</u>
<b>Profit from operations</b>		56,776	59,400	10,768	11,997
Financial income .....		153	224	42	50
Financial expenses .....		(6,788)	(10,845)	(1,274)	(2,193)
Net exchange rate difference .....		281	(2,052)	747	(391)
Net financial income / (expenses)	11	<u>(6,354)</u>	<u>(12,673)</u>	<u>(485)</u>	<u>(2,534)</u>
Share in net profit of associated companies .....		<u>456</u>	<u>104</u>	<u>274</u>	<u>27</u>
<b>Profit before tax</b>		50,878	46,831	10,557	9,490
Income tax .....	12	<u>(13,115)</u>	<u>(12,223)</u>	<u>(2,486)</u>	<u>(2,341)</u>
<b>Net profit</b>		<u>37,763</u>	<u>34,608</u>	<u>8,071</u>	<u>7,149</u>
Attributable to:					
Owners of the Company .....		38,451	33,810	8,572	6,932
Non-controlling interests .....		<u>(688)</u>	<u>798</u>	<u>(501)</u>	<u>217</u>
		<u>37,763</u>	<u>34,608</u>	<u>8,071</u>	<u>7,149</u>
<b>Earnings per Share</b>	13				
Basic Earnings per Share (US Cent) .....		<u>8.4</u>	<u>7.7</u>	<u>1.8</u>	<u>1.6</u>
Diluted Earnings per Share (US Cent) .....		<u>8.4</u>	<u>7.7</u>	<u>1.8</u>	<u>1.6</u>

2011 figures are restated, see note 5.

# Consolidated Statements of Comprehensive Income 2012 and 2011

	Notes	2012	2011	Unaudited	
				Q4 2012	Q4 2011
<b>Net profit</b>		37,763	34,608	8,071	7,149
<b>Other comprehensive income</b>					
Gain / (loss) on hedge of a net investment in foreign operations.....		0	(1,175)	0	0
Change on cash flow hedges .....		1,334	1,100	279	623
Transl. difference of shares in foreign operations.....		3,894	(4,639)	1,704	(5,839)
Income tax relating to components of other comprehensive income.....		199	(56)	331	480
Other comprehensive income (net of tax).....		5,427	(4,770)	2,314	(4,736)
<b>Total comprehensive income</b>		<u>43,190</u>	<u>29,838</u>	<u>10,385</u>	<u>2,413</u>
	Attributable to:				
Owners of the Company .....		43,878	29,040	10,886	2,196
Non-controlling interests .....		(688)	798	(501)	217
		<u>43,190</u>	<u>29,838</u>	<u>10,385</u>	<u>2,413</u>

2011 figures are restated, see note 5.



# Consolidated Balance Sheets

## Assets

	Notes	31.12.2012	31.12.2011
<b>Non-current assets</b>			
Property, plant and equipment .....	15	35,489	36,239
Goodwill .....	16	348,935	333,484
Other intangible assets .....	17	33,136	29,921
Other financial assets .....	19	6,824	6,809
Deferred tax assets .....	28	26,565	31,951
		<u>450,949</u>	<u>438,404</u>
<b>Current assets</b>			
Inventories .....	20	56,757	52,171
Accounts receivables .....	21	52,666	52,549
Other assets .....	22	8,913	17,188
Bank balances and cash .....	23	21,878	19,656
		<u>140,214</u>	<u>141,564</u>
<b>Total assets</b>		<u><u>591,163</u></u>	<u><u>579,968</u></u>

2011 figures are restated, see note 5.

# 31 December 2012 and 31 December 2011

## Equity and liabilities

	Notes	31.12.2012	31.12.2011
<b>Equity</b>			
Issued capital .....	24	193,791	193,791
Reserves .....		1,091	(3,841)
Retained earnings .....		211,971	173,120
Equity attributable to owners of the Company		<u>406,853</u>	<u>363,070</u>
Non-controlling interest in equity .....		881	1,663
<b>Total equity</b>		<u>407,734</u>	<u>364,733</u>
<b>Non-current liabilities</b>			
Borrowings .....	26	83,742	110,113
Deferred tax liabilities .....	28	17,687	16,010
Provisions .....	29	4,838	4,493
Other financial liabilities .....	27	2,151	2,216
		<u>108,418</u>	<u>132,832</u>
<b>Current liabilities</b>			
Borrowings .....	26	20,354	20,956
Accounts payable .....		17,120	20,305
Taxes payable .....		767	3,915
Provisions .....	29	4,762	3,634
Accrued salaries and related expenses .....		16,894	18,192
Other liabilities .....	31	15,114	15,401
		<u>75,011</u>	<u>82,403</u>
<b>Total equity and liabilities</b>		<u>591,163</u>	<u>579,968</u>

2011 figures are restated, see note 5.

# Consolidated Statements of Cash Flows 2012 and 2011

	Notes	2012	2011	Unaudited	
				Q4 2012	Q4 2011
<b>Cash flows from operating activities</b>					
Profit from operations .....		56,776	59,400	10,768	11,997
Depreciation and amortization .....	15, 17	13,180	13,206	3,616	3,606
(Gain) / loss on disposal of assets .....		127	(1,355)	(12)	(1,259)
Change in provisions .....		1,394	862	1,143	(93)
Changes in operating assets and liabilities .....		(924)	(3,736)	9,608	5,981
<b>Cash generated by operations</b>		<u>70,553</u>	<u>68,377</u>	<u>25,123</u>	<u>20,232</u>
Interest received .....		127	176	15	33
Interest paid .....		(4,637)	(12,442)	(1,194)	(1,498)
Taxes paid .....		<u>(8,475)</u>	<u>(7,664)</u>	<u>(5,325)</u>	<u>(2,840)</u>
<b>Net cash provided by operating activities</b>		<u>57,568</u>	<u>48,447</u>	<u>18,619</u>	<u>15,927</u>
<b>Cash flows from investing activities</b>					
Purchase of fixed and intangible assets .....	15, 17	(14,319)	(16,143)	(3,856)	(3,992)
Proceeds from sale of fixed assets .....		61	189	29	0
Acquisition of subsidiaries .....	33	(11,443)	0	17	0
Changes in financial assets .....		(932)	(2,631)	(538)	(1,137)
		<u>(26,633)</u>	<u>(18,585)</u>	<u>(4,348)</u>	<u>(5,129)</u>
<b>Cash flows from financing activities</b>					
Proceeds from long-term borrowings .....		0	116,147	0	28
Repayments of long-term borrowings .....		(21,718)	(195,427)	(5,609)	(6,720)
Changes in revolving credit facility .....		(6,840)	23,742	(5,688)	182
Dividends from subsidiaries paid to non-controlling interests .....		(615)	(763)	(477)	(219)
Purchased treasury shares .....		0	(8,206)	0	0
		<u>(29,173)</u>	<u>(64,507)</u>	<u>(11,774)</u>	<u>(6,729)</u>
<b>Net change in cash</b> .....		1,762	(34,645)	2,497	4,069
Effects of exchange rate changes on:					
Balance of cash held in foreign currencies .....		(240)	522	(147)	260
Other items held in foreign currencies .....		700	(620)	352	(779)
<b>Cash at beginning of period</b> .....		<u>19,656</u>	<u>54,399</u>	<u>19,176</u>	<u>16,106</u>
<b>Cash at end of period</b> .....		<u>21,878</u>	<u>19,656</u>	<u>21,878</u>	<u>19,656</u>

Additional information regarding cash flow ..... 14

2011 figures are restated, see note 5.

## Consolidated Statements of Changes in Equity for the period ended 31 December 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.....							33,810	33,810	798	34,608
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.....					1,044			1,044		1,044
Translation difference of shares in foreign operations....						(4,639)		(4,639)		(4,639)
Total comprehensive income for the period.....	0	0	0	0	1,044	(5,814)	33,810	29,040	798	29,838
Payment of dividends.....								0	(763)	(763)
Share option charge for the period.....				517				517		517
Share option reserve release.....				(797)			797	0		0
Share option vested during the period.....				(211)				(211)		(211)
Purchased treasury shares.....	(44)	(8,162)						(8,206)		(8,206)
Balance at 31 December 2011.....	5,024	188,767	1,267	1,453	(2,979)	(3,582)	173,120	363,070	1,663	364,733
Net profit.....							38,451	38,451	(688)	37,763
Change in cash flow hedges net of tax.....					1,392			1,392		1,392
Translation difference of shares in foreign operations....						4,035		4,035		4,035
Total comprehensive income for the period.....	0	0	0	0	1,392	4,035	38,451	43,878	(688)	43,190
Payment of dividends.....								0	(307)	(307)
Share option charge for the period.....				892				892		892
Share option reserve release.....				(400)			400	0		0
Arising on acquisition.....								0	213	213
Share option vested during the period.....				(987)				(987)		(987)
Balance at 31 December 2012.....	5,024	188,767	1,267	958	(1,587)	453	211,971	406,853	881	407,734

# Notes to the Consolidated Financial Statements

---

## 1. General information

Össur hf. is a global orthopaedics company, specializing in the design, development, manufacturing and sales of prosthetics, bracing and supports and compression therapy products. The principal market areas of the Company are the Americas, Europe, Middle East and Africa (EMEA) and Asia.

According to the Company's organizational structure, the consolidation is divided into five main functions; Corporate Finance, responsible for overall financial management; Manufacturing & Operations, responsible for quality control and all production, inventory management and distribution; Research & Development, responsible for product development, Global product management, responsible for aligning practices within marketing and across divisions in: product management, marketing communication and clinical education; Sales & Marketing responsible for sales and marketing through the subsidiaries.

## 2. Adoption of new and revised Standards

### 2.1 Standards and interpretations effective in the current and prior periods

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 IFRS standards do not have material effect on amounts reported in the Consolidated Financial Statements.

### 2.2 Standards not yet effective

The Company has not early adopted new and revised IFRS's that have been issued but are not yet effective. Management believes that implementation of those standards and interpretations do not have a material effect on the Consolidated Financial Statements of the Company.

## 3. Summary of Significant Accounting Policies

### 3.1 Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for Consolidated Financial Statements for listed companies. The Financial Statements are presented in USD, which is the Company's functional currency.

### 3.2 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, as explained in the accounting policies below. 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 2011.

### 3.3 Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year are included in the Consolidated Income Statement from the effective date of acquisition as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies into line with those used by other members of the Company.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

# Notes to the Consolidated Financial Statements

---

## 3.4 Business Combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition (purchase) method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date;
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the purchase price of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities, contingent liabilities, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) recognized. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' about facts and circumstances that existed at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

# Notes to the Consolidated Financial Statements

---

## 3.5 Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in the Consolidated Financial Statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the balance sheet and adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Company's interest in that associate are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Company, profits and losses are eliminated to the extent of the Company's interest in the relevant associate.

## 3.6 Goodwill

Goodwill arising in a business combination represents the excess of the purchase price over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the Consolidated Income Statement. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Company's policy for goodwill arising on the acquisition of an associate is described at 3.5 above.

## 3.7 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

### Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied; the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### Royalties

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognized on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognized by reference to the underlying arrangement (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably).

# Notes to the Consolidated Financial Statements

---

## Interest revenue and dividend

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

## 3.8 Leasing

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

## 3.9 Foreign currencies

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Company's foreign operations are expressed in USD using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for each month, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Company's translation reserve (attributed to non-controlling interests as appropriate).

Exchange differences are recognized in the Income Statement in the period they occur, except for exchange difference related to hedging instruments that are designed as hedges of net investment in foreign operations. These exchange differences are included in the foreign currency translation reserve in Other Comprehensive Income. Such exchange differences are recognized in the income statement in the period which the foreign operations are disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising, if any, are recognized in equity.

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation or a disposal involving loss of significant influence over an associate that includes a foreign operation) all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Company losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

## 3.10 Borrowing costs

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

## 3.11 Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 25.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.



# Notes to the Consolidated Financial Statements

---

## 3.12 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

### Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the Consolidated Income Statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The consolidated Company's current tax liability is calculated using tax rates that apply for 2012 in each country.

### Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions are eliminated. This has an effect on the income tax expenses of the consolidated companies, and an adjustment is included in the deferred tax asset. Income tax expense is calculated in accordance with tax rates in the countries where the inventories are purchased.

### Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 3.13 Property, plant and equipment

Property, plant and equipment are recognized as an asset when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured in a reliable manner.

Property, plant and equipment which qualify for recognition as an asset are initially measured at cost.

The cost of a property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use.

The depreciable amount of the asset is allocated on a straight-line basis over its useful life. The depreciation charge for each period is recognized as an expense. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the Consolidated Income Statement.

# Notes to the Consolidated Financial Statements

---

## 3.14 Intangible assets

### Intangible assets acquired separately

Intangible assets with finite useful life are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is allocated on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each balance sheet date, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

### Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Company's development is recognized only if all of the following conditions are met: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the intention to complete the intangible asset and use or sell it; the ability to use or sell the intangible asset; the intangible asset will generate probable future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognized separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

### Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

## 3.15 Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

# Notes to the Consolidated Financial Statements

---

## 3.16 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a standard cost basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

## 3.17 Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### Warranties

Provisions for expected warranty costs are recognized at the date of sale of the relevant products, at the management best estimate of the expenditure required to settle the Company's obligation.

## 3.18 Risk management

Financial risk management is governed by the Company's Financial Risk Management Policy, approved by the Board of Directors. The policy sets limits to the extent of financial risks and guidelines for financial transactions in general. The general policy is to apply natural currency hedging to the extent possible and prohibit any speculative trading of financial instruments.

Long term financing is managed from the Company's Corporate Finance function and individual subsidiaries do not engage in substantial external financing contracts with banks and/or credit institutions.

The Company is outset for normal business risk in collecting accounts receivable. Adequate allowance is made for bad debt expenses.

## 3.19 Financial assets

Financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL)- and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

# Notes to the Consolidated Financial Statements

---

## **Effective interest method**

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

## **Financial assets at fair value through profit or loss**

Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

## **Loans and receivables**

Account receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

## **Impairment of financial assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial assets, such as account receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the Company's average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivables, where the carrying amount is reduced through the use of an allowance account. When an accounts receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

## **Derecognition of financial assets**

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in Other Comprehensive Income and accumulated in equity is recognized in profit or loss.

# Notes to the Consolidated Financial Statements

---

## 3.20 Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are classified as either financial liabilities at 'fair value through profit and loss' or 'other financial liabilities'.

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

### Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the Income Statement.

### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period to the net carrying amount on initial recognition.

### Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

## 3.21 Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in note 32.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of cash flow of recognized liabilities or hedges of net investments in foreign operations.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

### Hedge accounting

The Company designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk and interest rate risk, as either cash flow hedges or hedges of net investment in foreign operations.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

# Notes to the Consolidated Financial Statements

---

The hedging reserve within equity represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is reclassified to profit or loss only when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

Note 27 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the equity overview.

## **Hedges of net investments in foreign operations**

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity in the foreign currency translation reserve.

Gains and losses deferred in the foreign currency translation reserve are recognized in profit or loss on disposal of the foreign operation.

## **Cash flow hedges**

The effective portion of changes in the fair value of derivatives, that are designated and qualify as cash flow hedges, is recognized in other comprehensive income and accumulated under the heading of hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other financial expense / income' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the income statement as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires, is sold, terminated, exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in the income statement.

## **4. Critical accounting judgments and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Details of impairment calculations are set out in note 16.

As described at 3.13, the Company reviews the estimated useful lives of property, plant and equipment at the end of each balance sheet date.

# Notes to the Consolidated Financial Statements

## 5. 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 discovered in 2012. Össur invested in the company in Q4 2010 and the company has been managed as an independent business unit operated by a 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. Össur has taken measures to address these control deficiencies.

Össur is also addressing certain payor-related insurance and compliance issues regarding the subsidiary that could have a financial impact on Össur. Management is assessing the likelihood and scope of 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)
<b>Gross profit.....</b>	<b>249,070</b>	<b>(3,000)</b>	<b>246,070</b>
Other income.....	2,103		2,103
OPEX.....	(188,773)		(188,773)
<b>Profit from operations.....</b>	<b>62,400</b>	<b>(3,000)</b>	<b>59,400</b>
Total financial income/(expenses).....	(12,569)		(12,569)
<b>Profit before tax.....</b>	<b>49,831</b>	<b>(3,000)</b>	<b>46,831</b>
Income tax.....	(13,200)	977	(12,223)
<b>Net profit.....</b>	<b>36,631</b>	<b>(2,023)</b>	<b>34,608</b>
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%

#### Balance sheet

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

The reclass does not affect cash or cashflow results.

# Notes to the Consolidated Financial Statements

## 6. Net sales

Specified according to product lines:

	2012	2011	Unaudited	
			Q4 2012	Q4 2011
Bracing and support.....	208,255	208,142	50,167	51,289
Prosthetics.....	171,895	170,425	42,916	40,216
Compression therapy (Phlebology).....	18,440	18,652	5,092	5,288
Other products.....	847	1,106	220	448
	<u>399,437</u>	<u>398,325</u>	<u>98,395</u>	<u>97,241</u>

## 7. Segment information

2012	Americas	EMEA	Asia	Eliminations	Consolidated
<b>Sales</b>					
External sales.....	207,999	169,932	21,506	0	399,437
Inter-segment sales.....	39,846	121,104	0	(160,950)	0
Total sales.....	<u>247,845</u>	<u>291,037</u>	<u>21,506</u>	<u>(160,950)</u>	<u>399,437</u>

The results from global functions including R&D, Headquarters, Global manufacturing and Global marketing have been divided between the segments based on management assumptions.

### Result

Segment result.....	<u>20,379</u>	<u>31,260</u>	<u>5,137</u>	<u>0</u>	56,776
Financial income/(expenses).....					(6,354)
Share in net profit of associated companies.....					456
Profit before tax.....					50,878
Income tax.....					<u>(13,115)</u>
Net profit.....					<u>37,763</u>

### Balance sheet 31.12.2012

#### Assets

Segment assets.....	511,778	384,283	15,455	(320,353)	<u>591,163</u>
---------------------	---------	---------	--------	-----------	----------------

#### Liabilities

Segment liabilities.....	187,483	217,119	6,522	(227,695)	<u>183,429</u>
--------------------------	---------	---------	-------	-----------	----------------

### Other information 2012

Capital additions.....	4,583	9,105	631	0	14,319
Depreciation and amortization.....	4,817	8,033	330	0	13,180

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of financial income, financial expenses and income tax expense. This is the measure reported to the President and CEO for the purposes of resource allocation and assessment of segment performance.

Sales of approximately 25 million USD (2011: 24 million USD) arose from sales to the Company's largest customer.



# Notes to the Consolidated Financial Statements

2011	Americas	EMEA	Asia	Eliminations	Consolidated
<b>Sales</b>					
External sales.....	206,729	173,341	18,255	0	398,325
Inter-segment sales.....	29,569	68,509	0	(98,078)	0
Total sales.....	<u>236,298</u>	<u>241,850</u>	<u>18,255</u>	<u>(98,078)</u>	<u>398,325</u>

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

## Result

Segment result.....	<u>21,897</u>	<u>32,737</u>	<u>4,766</u>	<u>0</u>	59,400
Financial income/(expenses).....					(12,673)
Share in net profit of associated companies.....					104
Profit before tax.....					46,831
Income tax.....					<u>(12,223)</u>
Net profit.....					<u>34,608</u>

## Balance sheet 31.12.2011

### Assets

Segment assets.....	465,631	372,084	11,185	(268,932)	<u>579,968</u>
---------------------	---------	---------	--------	-----------	----------------

### Liabilities

Segment liabilities.....	166,702	244,778	5,113	(201,358)	<u>215,235</u>
--------------------------	---------	---------	-------	-----------	----------------

## Other information 2011

Capital additions.....	5,326	10,677	140	0	16,143
Depreciation and amortization.....	3,890	9,031	285	0	13,206

## 8. Other income

Included in other income 2012 are royalty income. Included in other income 2011 is gain from sale of an office building in Alisio Viejo, California, amounting to 1.2 million and 0.6 million received when settling a patent infringement.

## 9. Salaries

Salaries and salary-related expenses, paid by the Company, are specified as follows:

	2012	2011
Salaries .....	111,435	114,374
Salary-related expenses .....	26,520	28,156
	<u>137,955</u>	<u>142,530</u>

Included in salary-related expense are pension related expenses amounting to 5.1 million (2011: 5.1 million).

Average number of positions .....	1,860	1,864
-----------------------------------	-------	-------

# Notes to the Consolidated Financial Statements

Salaries and salary-related expenses, classified by operational category, are specified as follows:

	2012	2011
Cost of goods sold .....	37,184	40,356
Sales and marketing .....	63,565	66,283
Research and development.....	12,006	10,138
General and administrative.....	25,200	25,753
	<u>137,955</u>	<u>142,530</u>

## Management salaries and benefits

	Salaries and related exp	Stock options	Shares owned
<b>Board of Directors:</b>			
Niels Jacobsen - Chairman of the Board <sup>(i)</sup> .....	90	0	179,791,616
Pórður Magnússon - Vice Chairman.....	54	0	1,456
Arne Boye Nielsen.....	36	0	0
Kristján Tómas Ragnarsson.....	36	0	623,789
Svafa Grönfeldt.....	36	0	0

(i) Shares owned by William Demant Invest A/S which Niels Jacobsen represents on the Board. Niels and financially related parties own personally 193,405 shares.

2012	Fixed base salary	Cash based incentive	Pension	Other benefits	Share based incentive	Total remuneration
<b>Executive Management:</b>						
Jón Sigurðsson President and CEO <sup>(i)</sup> .....	927	224	0	175	115	1,441
Hjörleifur Pálsson CFO <sup>(ii)</sup> .....	470	64	43	0	50	627
Egill Jónsson EVP of M&O <sup>(iii)</sup> .....	296	51	36	0	50	433
Hilmar Bragi Janusson EVP of R&D.....	298	44	28	0	0	370
Þorvaldur Ingvarsson EVP of R&D.....	135	0	11	0	44	190
Mahesh Mansukhani Presid. of S&M America..	449	35	7	10	65	566
Ólafur Gylfason Man. Director S&M EMEA...	435	85	44	0	46	610
	<u>3,010</u>	<u>503</u>	<u>169</u>	<u>185</u>	<u>370</u>	<u>4,237</u>

2011	Fixed base salary	Cash based incentive	Pension	Other benefits	Share based incentive	Total remuneration
<b>Executive Management:</b>						
Jón Sigurðsson President and CEO <sup>(i)</sup> .....	900	398	0	147	46	1,491
Hjörleifur Pálsson CFO <sup>(ii)</sup> .....	457	113	46	0	11	627
Egill Jónsson EVP of M&O <sup>(iii)</sup> .....	288	98	39	0	11	436
Hilmar Bragi Janusson EVP of R&D.....	319	94	33	0	11	457
Mahesh Mansukhani Presid. of S&M America..	427	90	7	9	38	571
Ólafur Gylfason Man. Director S&M EMEA...	436	106	43	0	10	595
	<u>2,827</u>	<u>899</u>	<u>168</u>	<u>156</u>	<u>127</u>	<u>4,177</u>

(i) Shares owned by Jón Sigurðsson 341.168 (2011: 265.258), (ii) shares owned by Hjörleifur Pálsson 20.000 (2011: 0), (iii) shares owned by Egill Jónsson 822.749 (2011: 822.749).

## Notes to the Consolidated Financial Statements

### 10. Fees to Auditors

	2012	2011
Audit of Financial Statements.....	748	832
Review of Interim Financial Statements.....	245	178
Other services.....	50	395
	<u>1,043</u>	<u>1,405</u>

### 11. Financial income / (expenses)

Financial income and (expenses) are specified as follows:

	2012	2011	Unaudited	
	2012	2011	Q4 2012	Q4 2011
<b>Financial income</b>				
Interests on bank deposits.....	71	78	18	31
Other financial income.....	82	146	24	19
	<u>153</u>	<u>224</u>	<u>42</u>	<u>50</u>
<b>Financial expenses</b>				
Interests on loans.....	(6,219)	(10,172)	(1,161)	(2,032)
Other financial expenses.....	(569)	(673)	(113)	(161)
	<u>(6,788)</u>	<u>(10,845)</u>	<u>(1,274)</u>	<u>(2,193)</u>
Net exchange rate differences.....	281	(2,052)	747	(391)
Net financial income / (expenses).....	<u>(6,354)</u>	<u>(12,673)</u>	<u>(485)</u>	<u>(2,534)</u>

### 12. Income tax

	2012	2011	Unaudited	
	2012	2011	Q4 2012	Q4 2011
Current tax expenses.....	(6,120)	(6,525)	1,247	5,723
Deferred tax expenses.....	(6,995)	(5,698)	(3,733)	(8,064)
	<u>(13,115)</u>	<u>(12,223)</u>	<u>(2,486)</u>	<u>(2,341)</u>
	2012		2011	
	Amount	%	Amount	%
Profit before taxes.....	<u>50,878</u>		<u>46,831</u>	
Income tax calculated at 20%.....	(10,176)	20%	(9,366)	20%
Effect of different tax rates of other jurisdictions.....	(1,970)	4%	(1,307)	3%
Effect of non-deductible expenses / nontaxable income.....	(1,061)	2%	(1,204)	3%
Other changes.....	92	(0%)	(346)	1%
	<u>(13,115)</u>	<u>26%</u>	<u>(12,223)</u>	<u>26%</u>

# Notes to the Consolidated Financial Statements

Deferred tax:

	2012	2011
Origination and reversal of temporary differences.....	(6,991)	(5,269)
Write-downs (reversals of previous write-downs) of deferred tax assets.....	(104)	(421)
Effect of changes in tax rate.....	100	(8)
	<u>(6,995)</u>	<u>(5,698)</u>

Deferred tax balances:

<b>2012</b>	1.1.2012	Recognized in Income statement	Recognized directly in equity	Acquisitions / disposals	Exc. rate difference	31.12.2012
Goodwill.....	15,038	(4,774)			4	10,268
Intangible assets.....	(4,996)	341			(32)	(4,687)
Operating fixed assets.....	(787)	(107)			5	(889)
Tax loss carry forward.....	859	(175)			4	688
Inventories.....	1,624	137			(18)	1,743
Provisions.....	(235)	(365)			2	(598)
Current liabilities.....	3,310	(1,190)			3	2,123
Receivables.....	(941)	198			(1)	(744)
Other.....	2,069	(1,060)	(44)		9	974
Total.....	<u>15,941</u>	<u>(6,995)</u>	<u>(44)</u>	<u>0</u>	<u>(24)</u>	<u>8,878</u>

<b>2011</b>	1.1.2011	Recognized in Income statement	Recognized directly in equity	Acquisitions / disposals	Exc. rate difference	31.12.2011
Goodwill.....	18,941	(3,931)			28	15,038
Intangible assets.....	(4,796)	211		(582)	171	(4,996)
Operating fixed assets.....	231	(891)		(124)	(3)	(787)
Tax loss carry forward.....	730	121			8	859
Inventories.....	2,792	(991)		(174)	(3)	1,624
Provisions.....	1,341	(1,577)			1	(235)
Current liabilities.....	3,157	152			1	3,310
Receivables.....	(954)	13			0	(941)
Other.....	1,038	1,195	(56)		(108)	2,069
Total.....	<u>22,480</u>	<u>(5,698)</u>	<u>(56)</u>	<u>(880)</u>	<u>95</u>	<u>15,941</u>

2011 figures are restated, see note 5.

## Notes to the Consolidated Financial Statements

### 13. Earnings per share

	2012	2011	Unaudited	
			Q4 2012	Q4 2011
Net profit.....	37,763	34,608	8,071	7,149
Total weighted average number of ordinary shares (in thousands).....	448,732	450,877	448,732	448,732
Total average number of shares including potential shares from options (in thousands).....	448,965	451,678	448,965	449,395
Basic earnings per share (US cent).....	8.4	7.7	1.8	1.6
Diluted earnings per share (US cent).....	8.4	7.7	1.8	1.6
Cash earnings per share.....	11.4	10.6	2.6	2.4
Diluted cash earnings per share.....	11.3	10.6	2.6	2.4

2011 figures are restated, see note 5.

### 14. Additional information regarding cash flow

	2012	2011	Unaudited	
			Q4 2012	Q4 2011
Net profit.....	37,763	34,608	8,071	7,149
Items not affecting cash .....	22,143	21,154	7,376	12,008
Working capital provided by operating activities.....	59,906	55,762	15,447	19,157
(Increase) / decrease in inventories.....	(3,476)	(6,401)	(1,440)	(3,115)
(Increase) / decrease in receivables.....	9,974	(6,819)	13,407	(1,036)
Increase / (decrease) in payables.....	(8,836)	5,905	(8,795)	921
Net cash provided by operating activities.....	57,568	48,447	18,619	15,927

2011 figures are restated, see note 5.

## Notes to the Consolidated Financial Statements

### 15. Property, plant and equipment

	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Total
<b>2012</b>				
<b>Cost</b>				
At 1 January 2012.....	13,865	38,957	25,469	78,291
Additions.....	141	5,227	2,669	8,037
Acquired on acquisition of subsidiary.....	0	390	496	886
Exchange rate differences.....	274	176	339	789
Eliminated on disposal.....	(125)	(366)	(44)	(535)
Fully depreciated assets.....	0	(1,920)	(1,970)	(3,890)
At 31 December 2012.....	14,155	42,464	26,959	83,578
<b>Depreciation</b>				
At 1 January 2012.....	8,226	21,453	12,373	42,052
Charge for the period.....	384	5,556	3,625	9,565
Acquired on acquisition of subsidiary.....	0	120	103	223
Exchange rate differences.....	164	134	183	481
Eliminated on disposal.....	(40)	(296)	(6)	(342)
Fully depreciated assets.....	0	(1,920)	(1,970)	(3,890)
At 31 December 2012.....	8,734	25,047	14,308	48,089
Carrying amount at 31 December 2012.....	5,421	17,417	12,651	35,489
<b>2011</b>				
<b>Cost</b>				
At 1 January 2011.....	14,107	34,680	20,801	69,588
Additions.....	218	6,293	6,593	13,104
Additions relating to previous acquisitions.....	0	340	0	340
Exchange rate differences.....	(460)	(531)	(449)	(1,440)
Eliminated on disposal.....	0	(479)	(572)	(1,051)
Fully depreciated assets.....	0	(1,346)	(904)	(2,250)
At 31 December 2011.....	13,865	38,957	25,469	78,291
<b>Depreciation</b>				
At 1 January 2011.....	8,098	18,631	10,770	37,499
Charge for the period.....	414	4,812	3,288	8,514
Exchange rate differences.....	(286)	(307)	(197)	(790)
Eliminated on disposal.....	0	(337)	(584)	(921)
Fully depreciated assets.....	0	(1,346)	(904)	(2,250)
At 31 December 2011.....	8,226	21,453	12,373	42,052
Carrying amount at 31 December 2011.....	5,639	17,504	13,096	36,239

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

	2012	2011
Cost of goods sold .....	4,937	4,411
Sales and marketing expenses .....	705	621
Research and development expenses.....	662	584
General and administrative expenses .....	3,261	2,898
	9,565	8,514

## Notes to the Consolidated Financial Statements

The following useful lives are used in the calculation of depreciation:

Buildings	20 - 50 years
Fixtures and furniture	3 -10 years
Machinery and equipment	4 - 10 years

### Assets pledged as security

None of the Company's properties, plants and equipments are pledged. Any major divestments are subject to bank approval.

## 16. Goodwill

Cost	2012	2011
At 1 January.....	333,484	339,153
Reclass due to previous acquisitions (purchase price allocation, PPA).....	0	(1,939)
Arising on acquisition of subsidiaries.....	10,235	0
Addition due to previous acquisitions.....	2,060	0
Exchange rate differences.....	3,156	(3,730)
At 31 December.....	<u>348,935</u>	<u>333,484</u>

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

	Wacc %	31.12.2012	31.12.2011
Americas.....	7.4 / 7.2	209,874	198,720
Americas recently acquired companies.....	7.2 / 7.0	15,750	14,325
EMEA.....	7.6 / 7.8	120,162	117,323
Asia.....	7.8 / 7.8	3,149	3,116
		<u>348,935</u>	<u>333,484</u>

The recoverable amount of the cash-generating units is determined based on a value in use calculation which uses cash flow projections based on the financial forecast for 2013 approved by management and the Board of Directors. The discount rate of 7.2 - 7.8% (2011: 7.0 - 7.8%) per annum was used.

Cash flow projections in the forecast are based on the same expected gross margins and raw materials prices throughout the period. Cash flows beyond 2017 have been extrapolated using a steady 3% per annum growth rate. This growth rate does not exceed the long-term average growth rate for the market in each market area. Management believes that any reasonably further change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

At balance sheet date an intangible asset with indefinite useful life is allocated to the EMEA cash-generating unit amounting to 14.7 million (2011: 14.4 million). Purchase price allocations of newly acquired companies have not been completed and will take place in 2013, this might result in a reclass from goodwill to other items in the Balance Sheet.

## Notes to the Consolidated Financial Statements

### 17. Other intangible assets

	Cust./distrib. relationships	Patents	Trademarks	Software and other	Total
<b>2012</b>					
<b>Cost</b>					
At 1 January 2012.....	23,403	10,892	15,438	13,739	63,472
Additions.....	324	72	0	2,072	2,468
Additions - internally generated.....	0	0	0	3,814	3,814
Acquired on acquisition of subsidiary.....	0	165	0	0	165
Fully depreciated assets.....	0	(6,360)	0	(1,749)	(8,109)
Exchange rate differences.....	338	37	388	75	838
At 31 December 2012.....	24,065	4,806	15,826	17,951	62,648
<b>Amortization</b>					
At 1 January 2012.....	12,394	10,172	593	10,392	33,551
Charge for the period.....	2,387	256	0	972	3,615
Fully depreciated assets.....	0	(6,360)	0	(1,749)	(8,109)
Exchange rate differences.....	230	72	115	38	455
At 31 December 2012.....	15,011	4,140	708	9,653	29,512
Carrying amount at 31 December 2012.....	9,054	666	15,118	8,298	33,136
<b>2011</b>					
<b>Cost</b>					
At 1 January 2011.....	22,299	12,071	15,598	10,653	60,621
Reclassification from goodwill.....	1,595	0	407	0	2,002
Additions.....	0	262	0	1,927	2,189
Additions - internally generated.....	0	0	0	850	850
Fully depreciated assets.....	0	(1,400)	0	(54)	(1,454)
Exchange rate differences.....	(491)	(41)	(567)	363	(736)
At 31 December 2011.....	23,403	10,892	15,438	13,739	63,472
<b>Amortization</b>					
At 1 January 2011.....	10,247	10,247	583	9,569	30,646
Charge for the period.....	2,502	1,359	35	796	4,692
Fully depreciated assets.....	0	(1,400)	0	(54)	(1,454)
Exchange rate differences.....	(355)	(34)	(25)	81	(333)
At 31 December 2011.....	12,394	10,172	593	10,392	33,551
Carrying amount at 31 December 2011.....	11,009	720	14,845	3,347	29,921

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

	2012	2011
Cost of goods sold.....	47	25
Sales and marketing expenses.....	2,498	2,719
Research and development expenses.....	336	1,409
General and administrative expenses.....	734	539
	3,615	4,692



## Notes to the Consolidated Financial Statements

Part of the intangible assets included above have finite useful lives, over which the assets are amortized. These intangible assets will be amortized on a straight line basis over their useful lives.

The following useful lives are used in the calculation of amortization:

Customer and distribution relationships	4 - 10 years
Patents	5 - 50 years
Trademarks	3 - infinitive
Software and other	3 - 10 years

The Gibaud trademarks amounting to USD 14.7 million (2011: 14.4 million) are estimated to have infinitive life. The trademark has been well established within the French market since the foundation of the company in 1890.

### 18. 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
<b>Americas</b>			
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
<b>EMEA</b>			
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 Deutschland GmbH.....	Germany	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
<b>Asia</b>			
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.

### 19. Other financial assets

	31.12.2012	31.12.2011
Investment in associates.....	4,144	2,986
Restricted cash.....	1,180	1,273
Loans and receivables.....	1,500	2,550
	<u>6,824</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 2012.....	2,986	20
Additions due to acquisitions.....	1,050	2,830
Share in net profit (net of dividend received).....	108	61
Exchange differences.....	0	75
At 31 December 2012.....	<u>4,144</u>	<u>2,986</u>

## Notes to the Consolidated Financial Statements

### 20. Inventories

	31.12.2012	31.12.2011
Raw material.....	14,275	12,840
Work in progress.....	2,632	2,762
Finished goods .....	39,850	36,569
	<u>56,757</u>	<u>52,171</u>

Inventories of 2.8 million (2011: 1.7 million) are expected to be sold or used in production after more than twelve months.

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to 10.7 million (2011: 10.1 million) were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of 3.2 million (2011: 3.2 million) is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

The cost of inventories recognized as an expense includes 2.1 million (2011: 2.5 million) in respect of write-downs of inventory to net realizable value. Reserve for obsolete inventories at year end is 4.9 million compared to 4.6 million in 2011.

### 21. Accounts receivables

	31.12.2012	31.12.2011
Nominal value.....	55,612	55,049
Allowances for doubtful accounts.....	(1,886)	(1,419)
Allowances for sales return.....	(1,060)	(1,081)
	<u>52,666</u>	<u>52,549</u>

The average credit period on sales of goods is 40 days (2011: 40 days). Allowance has been made for doubtful accounts and sales returns, this allowance has been determined by management in reference to past default experience. Management considers that the carrying amount of receivables approximates their fair value.

#### Aging of accounts receivables

	31.12.2012	31.12.2011
Less than three months.....	49,963	50,704
Three to six months.....	3,300	2,222
Six to nine months.....	589	202
Older than nine months.....	1,760	1,921
	<u>55,612</u>	<u>55,049</u>

#### Movement in the allowance for doubtful accounts

	2012	2011
At 1 January.....	(1,419)	(1,619)
Impairment (losses)/gains recognized on receivables.....	(712)	(52)
Amounts written off as uncollectible.....	266	237
Exchange rate difference.....	(21)	15
At 31 December.....	<u>(1,886)</u>	<u>(1,419)</u>

In determining the recoverability of an accounts receivable, the Company considers any change in the credit quality of the accounts receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believe that there is no further credit provision required in excess of the allowance for doubtful debts. Within accounts receivables are 4.6 million (2011: 3.6) with more than 30 days past due of which 2.6 million (2011: 2.1) is considered recoverable.

2011 figures are restated, see note 5.

## Notes to the Consolidated Financial Statements

### 22. Other assets

	31.12.2012	31.12.2011
VAT refundable.....	2,398	2,349
Prepaid expenses.....	4,583	4,285
Taxes receivable.....	319	4,490
Receivable from sale of fixed assets.....	0	2,412
Other.....	1,613	3,652
	<u>8,913</u>	<u>17,188</u>

### 23. Bank balances and cash

	31.12.2012	31.12.2011
Bank accounts.....	19,123	16,817
Bankers draft received.....	2,738	2,778
Cash and other cash equivalents.....	17	61
	<u>21,878</u>	<u>19,656</u>

### 24. 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 December 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 are 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 and 31 December 2012.....	<u>5,024</u>	<u>188,767</u>	<u>193,791</u>

# Notes to the Consolidated Financial Statements

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

### 25.1 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:					
Jón Sigurðsson President and CEO.....	1,250,000	2012	2015	8.6	8.8
Hjörleifur Pálsson CFO.....	500,000	2012	2015	8.6	8.8
Egill Jónsson EVP of M&O.....	500,000	2012	2015	8.6	8.8
Þorvaldur Ingvarsson EVP of R&D.....	500,000	2012	2015	8.6	8.8
Mahesh Mansukhani President of S&M America....	500,000	2012	2015	8.6	8.8
Ólafur Gylfason Man. Director S&M EMEA.....	500,000	2012	2015	8.6	8.8
	<u>3,750,000</u>				
Issued to Management team:					
Five managers .....	500,000	2009	2013	4.4 -5.3	5.3 - 5.5
One manager .....	100,000	2010	2014	5.7	5.7
Three managers .....	300,000	2011	2014 / 2015	7.9 - 9.5	7.9 - 9.5
Twenty one managers .....	2,100,000	2012	2015	8.7	8.8
	<u>3,000,000</u>				
Total issued option contracts.....	<u>6,750,000</u>				

The exercise price of each share option is determined by the average closing price on shares traded in the OMX Copenhagen stock exchange over the 20 trading days prior to the issue date. The employee must remain continuously employed with the Company until expiring date, either as an employee or in any other way, deemed satisfactory by the Company.

### 25.2 Movements in share options during the period

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

	2012		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	6.6	6,290,000	7.1
Granted during period .....	5,850,000	8.6	300,000	8.7
Forfeited during period .....	(100,000)	10.7	(500,000)	7.5
Exercised during period.....	<u>(2,300,000)</u>	<u>6.5</u>	<u>(2,790,000)</u>	<u>7.8</u>
Outstanding at end of period.....	<u>6,750,000</u>	<u>8.3</u>	<u>3,300,000</u>	<u>6.6</u>

### 25.3 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	15.8.2012	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 equaling the difference of exercise price and market price. The total payment amounted to USD 1.0 million. Management aims to settle outstanding options with shares.

## Notes to the Consolidated Financial Statements

### 25.4 Costs due to share options

Estimated remaining cost due to the share option contracts are 1.8 million (2011: 0.4 million). An expense of 0.9 million (2011: 0.5 million) is recognized in the Income Statement for the period.

### 26. Borrowings

	31.12.2012		31.12.2011	
	Current	Non-current	Current	Non-current
Loans in USD.....	12,866	44,791	12,670	57,548
Loans in EUR.....	6,527	21,850	6,458	27,832
Revolver in USD.....	0	11,500	0	16,500
Revolver in EUR.....	0	4,616	0	6,472
Other borrowings.....	961	985	1,828	1,761
	<u>20,354</u>	<u>83,742</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:

	31.12.2012	31.12.2011
In 2013 / 2012.....	20,354	20,956
In 2014 / 2013.....	20,498	19,913
In 2015 / 2014.....	19,544	20,425
In 2016 / 2015.....	43,700	42,655
In 2017 / 2016.....	0	27,120
	<u>104,096</u>	<u>131,069</u>

### 27. Other financial liabilities

At balance sheet date, two interest rate swap agreements are effective, with a negative value of 2.2 million (2011 2.2 million).

## Notes to the Consolidated Financial Statements

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

	31.12.2012	31.12.2011
At beginning of period.....	15,941	22,480
Income tax payable for the period.....	6,120	6,525
Calculated tax for the period.....	(13,115)	(12,223)
Arising on acquisition of a subsidiary.....	0	(880)
Recognized directly through equity.....	(44)	(56)
Exchange rate differences.....	(24)	95
	<u>8,878</u>	<u>15,941</u>
Deferred tax in the balance sheet:		
Deferred tax asset.....	26,565	31,951
Deferred tax liabilities.....	(17,687)	(16,010)
	<u>8,878</u>	<u>15,941</u>

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

<b>31.12.2012</b>	Assets	Liabilities	Net
Goodwill.....	22,400	(12,132)	10,268
Intangible assets.....	784	(5,471)	(4,687)
Operating fixed assets.....	217	(1,106)	(889)
Tax loss carry forward.....	688	0	688
Inventories.....	1,743	0	1,743
Provisions.....	0	(598)	(598)
Current liabilities.....	2,473	(350)	2,123
Receivables.....	329	(1,073)	(744)
Other.....	1,070	(96)	974
Total tax assets / (liabilities).....	<u>29,704</u>	<u>(20,826)</u>	<u>8,878</u>
Tax asset and liabilities offsetting.....	(3,139)	3,139	0
	<u>26,565</u>	<u>(17,687)</u>	<u>8,878</u>
<b>31.12.2011</b>	Assets	Liabilities	Net
Goodwill.....	25,131	(10,093)	15,038
Intangible assets.....	835	(5,831)	(4,996)
Operating fixed assets.....	164	(951)	(787)
Tax loss carry forward.....	859	0	859
Inventories.....	1,711	(87)	1,624
Provisions.....	0	(235)	(235)
Current liabilities.....	3,310	0	3,310
Receivables.....	330	(1,271)	(941)
Other.....	2,103	(34)	2,069
Total tax assets / (liabilities).....	<u>34,443</u>	<u>(18,502)</u>	<u>15,941</u>
Tax asset and liabilities offsetting.....	(2,492)	2,492	0
	<u>31,951</u>	<u>(16,010)</u>	<u>15,941</u>

2011 figures are restated, see note 5.

## Notes to the Consolidated Financial Statements

### 29. Provisions

	31.12.2012		31.12.2011	
	Current	Non-current	Current	Non-current
Warranty <sup>(i)</sup> .....	2,589	4,591	2,686	4,339
Other.....	2,173	247	948	154
	<u>4,762</u>	<u>4,838</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 recognized.....	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 recognized.....	3,091	1,859	4,950
Utilization of provision.....	(2,936)	(556)	(3,492)
Exchange differences.....	0	15	15
Balance at 31 December 2012.....	<u>7,180</u>	<u>2,420</u>	<u>9,600</u>
Non-current.....	4,591	247	4,838
Current.....	<u>2,589</u>	<u>2,173</u>	<u>4,762</u>
Balance at 31 December 2012.....	<u>7,180</u>	<u>2,420</u>	<u>9,600</u>

### 30. Related party transactions

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

### 31. Other liabilities

	31.12.2012	31.12.2011
Accrued expenses.....	7,327	7,452
Accrued royalties.....	1,052	1,536
Sales tax and VAT.....	2,110	1,816
Payable due to previous acquisition.....	2,324	2,324
Other.....	2,301	2,273
	<u>15,114</u>	<u>15,401</u>

# Notes to the Consolidated Financial Statements

## 32. Financial instruments

### 32.1 Capital risk management

The Company manages its capital to ensure that entities in the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged from 2011.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 26, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the equity overview.

#### Net debt to EBITDA ratio

The Company's management continuously reviews the capital structure. As a part of this review, the management considers, amongst other, the cost of capital and net debt to EBITDA.

The net debt to EBITDA at period end was as follows:

	31.12.2012	31.12.2011
Net debt .....	82,218	111,413
EBITDA .....	69,956	72,606
Net debt/EBITDA.....	1.2	1.5

### 32.2 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the Consolidated Financial Statements.

### 32.3 Financial risk management objectives

The Company's Corporate Finance function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include liquidity risk, interest rate risk, foreign exchange risk and counterparty credit risk.

The general policy is to apply natural hedging to the extent possible and prohibit any speculative trading of financial instruments. The use of financial derivatives is governed by the Company's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

### 32.4 Foreign currency risk management

The Company operates on a global market, hence exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters. The general policy is to apply natural exchange rate hedging to the extent possible.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
USD .....	96,981	123,672	45,588	49,893
EUR .....	49,091	59,025	29,972	31,019
GBP .....	1,861	1,483	3,921	3,935
SEK .....	2,448	2,612	2,510	2,612
CAD .....	489	477	1,550	1,759
Other .....	5,271	3,829	6,740	6,984
	<u>156,142</u>	<u>191,098</u>	<u>90,281</u>	<u>96,202</u>



# Notes to the Consolidated Financial Statements

## Foreign currency sensitivity analysis

The Company is mainly exposed to the currency of Iceland (ISK) and the Eurozone (EUR).

The following table details the Company's sensitivity to a 10% decrease in USD against the relevant foreign currencies with all other variables fixed. The sensitivity analysis includes all foreign currency denominated items and adjusts their translation at the period end for a 10% change in foreign currency rates. The table below indicates the effect on profit or loss and other equity where USD weakens 10% against the relevant currency. For a 10% strengthening of USD against the relevant currency, there would be an equal and opposite impact on the profit or loss and other equity.

	EUR <sup>(i)</sup>		ISK <sup>(ii)</sup>	
	2012	2011	2012	2011
Profit or loss .....	2,163	2,487	(2,446)	(2,264)
Other equity .....	12,734	11,283	(146)	(10)

(i) 25% (2011: 25%) of the Company's operating cost is in EUR against 29% (2011: 31%) of its income causing an increase in profit if the USD decreases against the EUR.

(ii) 10% (2011: 9%) of the Company's operating cost is in ISK against 0.4% (2011: 0.3%) of its income causing a decrease in profits if the USD decreases against the ISK.

## 32.5 Interest rate risk management

The Company is exposed to interest rate risk as funds are borrowed at floating interest rates. Interest rate risk is managed by the Corporate Finance function by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied.

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Contracts made to swap floating interest rates to fixed with an average weighted interest rate of 2.60% for periods up to March 2016 are outstanding at year end with nominal values of USD 61 million (2011: USD 58 million). At year end the fair value of the swaps amounted to negative USD 2.2 million (2011: negative USD 2.2 million). The fair value of the interest rate swaps at the reporting date is determined by the present value of the expected future cash flows. Changes in fair value are realized through equity. The interest swaps are the Company's sole derivative financial liability valued at fair value and belong to level 2 in the fair value hierarchy in accordance to IFRS's 7.27A.

## 32.6 Liquidity risk management

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At period end the Company had undrawn revolving credit facilities at its disposal amounting to USD 95.6 million (2011: USD 88.2 million) to further reduce liquidity risk.

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

## Notes to the Consolidated Financial Statements

	Weighted average effective interest	Less than 1 year	1-5 years	5+ years	Total
<b>2012</b>					
Borrowings .....	5.11%	26,396	93,698	0	120,094
Non-interest bearing liabilities .....	-	49,648	19,187	0	68,835
		76,044	112,885	0	188,929
<b>2011</b>					
Borrowings .....	6.65%	30,773	128,576	0	159,349
Non-interest bearing liabilities .....	-	53,962	19,377	0	73,339
		84,735	147,953	0	232,688

### 32.7 Credit risk management

The Company's counterparty credit risks arise mainly from short-term investment of liquid assets and the market-to-market effect of interest rate swaps.

The Company reviews the credit quality of counterparties. The Company's policy is that all counterparties have at least an A3 credit rating from Moody's or A minus from Standard & Poor's.

The Company does not undertake any trading activity in financial instruments.

Accounts receivables consist of a large number of customers spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

### 32.8 Fair value of financial instruments carried at amortized cost

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognized in the Consolidated Financial Statements approximate their fair values.

	31.12.2012		31.12.2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Accounts and other receivables .....	54,807	54,807	59,233	58,686
Financial liabilities:				
Borrowings .....	104,096	106,163	131,069	133,809

The fair values of financial instruments are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

## Notes to the Consolidated Financial Statements

### 33. Acquisitions

In 2012 the Company finalized two minor acquisitions. The main purpose of the acquisitions was to secure manufacturing knowledge both in prosthetics and bracing and supports. The transactions are accounted for by the purchase method of accounting.

Net assets acquired:

Operating fixed assets.....	674
Intangible assets.....	126
Current assets.....	1,109
Bank balances and cash.....	49
Current liabilities.....	(489)
	<u>1,469</u>
Noncontrolling interest.....	(212)
Goodwill.....	10,235
Total consideration.....	<u>11,492</u>

Net cash outflow arising on acquisition:

Cash consideration.....	11,492
Bank balances and cash acquired.....	(49)
	<u>11,443</u>

The figures above are based on a preliminary opening balance sheet prepared for purchase accounting purposes and are therefore subject to change in 2013. The acquired companies contributed 3.6 million of revenue for the period between the date of acquisition and the balance sheet date.

### 34. Operating lease arrangements

Payments recognized as an expense:

	<u>2012</u>	<u>2011</u>
Minimum lease payments.....	11,700	10,933
Non-cancellable operating lease commitments	<u>31.12.2012</u>	<u>31.12.2011</u>
No longer than 1 year.....	11,308	11,476
Longer than 1 year and no longer than 5 years.....	34,541	33,038
Longer than 5 years.....	2,286	2,430
	<u>48,135</u>	<u>46,944</u>

Operating lease payments represent rentals payable by the Company for certain of its office properties and cars. Forty one rental agreements are in place in multiple countries. The leases expire in the periods 2013-2019.

# Notes to the Consolidated Financial Statements

---

## 35. Litigation

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.

## 36. Insurance

	31.12.2012		31.12.2011	
	Insurance value	Book value	Insurance value	Book value
Fixed assets and inventories .....	213,000	97,131	191,000	93,010

The Company has purchased a business interruption insurance intended to compensate for temporary breakdown of operations. The insurance amount is 413 million (2011: 430 million). In addition the Company has a product and professional liability insurance with a USD 30 million limit and a product recall insurance with a USD 2 million limit. The deductible amount on the product and professional liability and product recall insurances is USD 50 thousand.

## 37. Approval of the Consolidated Financial Statements

The Consolidated Financial Statements were approved by the board of directors and authorized for issue on 6 February 2013.

# Appendix I - Unaudited Information

## A Unaudited information

The following information is not audited as they relate to quarterly information and the Company only requires an audit for the full year.

### A1 Quarterly statements

The following quarterly split includes the reclass explained in Note A2:

	Q4	Q3	Q2	Q1	Total
	2012	2012	2012	2012	2012
Net sales .....	98,395	98,517	102,708	99,817	399,437
Cost of goods sold .....	(38,068)	(36,830)	(38,804)	(37,783)	(151,485)
<b>Gross profit</b> .....	<b>60,327</b>	<b>61,687</b>	<b>63,904</b>	<b>62,034</b>	<b>247,952</b>
Gross profit margin .....	61%	63%	62%	62%	62%
Other income .....	275	42	(106)	(109)	102
Sales and marketing expenses .....	(31,254)	(29,353)	(30,186)	(30,131)	(120,924)
Research and development expenses .....	(5,897)	(5,531)	(5,427)	(5,276)	(22,131)
General and administrative expenses .....	(12,683)	(11,818)	(11,855)	(11,867)	(48,223)
<b>Profit from operations</b> .....	<b>10,768</b>	<b>15,027</b>	<b>16,330</b>	<b>14,651</b>	<b>56,776</b>
Net financial income /expenses .....	(1,232)	(1,719)	(1,761)	(1,923)	(6,635)
Net exchange rate difference .....	747	206	(1,228)	556	281
Total financial income/(expenses) .....	(485)	(1,513)	(2,989)	(1,367)	(6,354)
Share in net profit in associated companies .....	274	131	(18)	69	456
<b>Profit before tax</b> .....	<b>10,557</b>	<b>13,645</b>	<b>13,323</b>	<b>13,353</b>	<b>50,878</b>
Income tax .....	(2,486)	(3,758)	(3,320)	(3,551)	(13,115)
<b>Net profit</b> .....	<b>8,071</b>	<b>9,887</b>	<b>10,003</b>	<b>9,802</b>	<b>37,763</b>
EBITDA .....	14,384	18,242	19,493	17,837	69,956
EBITDA ratio .....	15%	19%	19%	18%	18%