Össur – Full Year Report 2011

Announcement Össur hf. No. 4/2012
Reykjavik, 8 February 2012

STRONG SALES GROWTH

Sales – Sales growth was strong, 9% measured in local currency. Total sales amounted to USD 401 million compared to USD 359 million in 2010. All markets and product segments contribute to the growth. Bracing and supports showed excellent growth, closing the year with 15% growth, measured in local currency. Sales growth in prosthetics was moderate, 4% measured in local currency.

Profitability – EBITDA amounted to USD 76 million or 19% of sales and gross profit amounted to USD 249 million or 62% of sales. Net profit amounted to USD 37 million or 9% of sales.

Jón Sigurðsson, President & CEO, comments:

"2011 was yet another successful year for Össur with strong growth and good profits. Innovation continues to be a key element driving growth, with all segments and markets contributing. Among major milestones in 2011 was the opening of our new manufacturing facility in Mexico, strengthening our manufacturing capabilities and offering new opportunities. Another milestone was the introduction of our latest addition to the Company's comprehensive Bionic platform, the SYMBIONIC LEG, the first complete bionic leg on the market today.

Highlights of the year:

- **Investing in sales coverage –** Investment in increased sales coverage has been one of the main growth drivers in 2011. In Americas focus has been on continuous investments in sales channel access which has had a positive impact on sales in Americas. In EMEA the main focus has been on Germany and France. In France special focus has been on reaching out to prescribers for both the bracing and supports and compression therapy segments.
- **Mexico facility –** The Mexico facility in Tijuana was officially opened in September. Össur started to build up the Mexico facility in September 2010 and has since then transferred manufacturing of a number of product lines from the US to Mexico. The Mexico facility is already one of the largest and most important manufacturing units of the Company. Capacity in the facility can be increased in the coming years to support future growth. Impact from cost savings, amounting to USD 4 million, is expected to materialize in 2012.
- **Steady flow of new products –** During the year 25 new products were launched with a healthy mix between bracing and supports products and prosthetics. In the bracing and supports arena, some exciting new products were introduced during the year. A highlight in the prosthetics segment in 2011 was a introduction of the SYMBIONIC LEG, the latest addition to the Company's bionic product segment. SYMBIONIC LEG is the first complete bionic leg on the market.

Guidance 2012 – Management estimates LCY organic sales growth for 2012 to be in the range of 4-6%. Adjusted EBITDA margin is estimated to be in the range of 20-21% of sales for the year.

Conference call tomorrow 9 February at 12:00 CET/ 11:00 GMT/ 6:00 EST

Thursday 9 February Jón Sigurðsson, President and CEO, and Hjörleifur Pálsson, CFO, will host a conference call presenting and discussing the results of the fourth quarter and the full year of 2011. The conference call will be conducted in English and can be heard on Össur's website: www.ossur.com

To participate in the meeting please call one of the following telephone numbers:
Europe: **+44 (0)20 3043 2436 or +46 (0)8 505 598 53**
The United States: **+1 866 458 40 87**
Iceland: **800 8660**

Key Financial Figures (USD millions)

		2011	2010	2009	2008	2007
Income Statement						
Net sales		401	359	331	347	332
Gross profit		249	223	202	214	192
Operating expenses (exl. Other income)		189	164	154	168	164
Profit from operations		62	60	48	56	40
Net profit		37	35	23	28	8
EBITDA		76	74	67	79	64
Balance sheet						
Total assets		582	607	628	604	636
Equity		367	344	312	250	250
Net interest-bearing debt (NIBD)		111	133	158	234	283
Cash flow						
Cash generated by operations		68	64	86	71	62
Cash provided by operating activities		48	40	69	53	46
Cash flows from investing activities		(19)	(19)	(16)	(7)	(18)
Cash flows from financing activities		(65)	(46)	(4)	(31)	(25)
Free cash flow		32	33	60	46	39
Key figures						
Sales growth USD	%	11.9	8.5	(4.7)	4.5	33.5
Operating margin	%	15.5	16.8	14.6	16.0	12.0
EBITDA margin	%	18.8	20.7	20.3	22.9	19.4
Equity ratio	%	63.0	56.6	49.7	41.3	39.4
Ratio of net debt to EBITDA		1.5	1.8	2.4	2.9	4.4
Ratio of debt to EBITDA		1.7	2.5	3.5	3.3	4.6
Current ratio		1.8	1.9	2.3	1.1	0.9
Return on equity	%	10.0	10.2	8.1	11.0	4.0
Market						
Market value of equity		676	778	529	349	672
Number of shares		454	454	454	423	423
Price/earnings ratio, (P/E)		19.2	22.3	23.2	12.3	88.7
Diluted EPS	US Cent	8.11	7.77	5.30	6.73	1.94
Diluted Cash EPS	US Cent	11.03	10.87	9.66	12.29	8.24

KEY HIGHLIGHTS

Sales performance in 2011 was strong, with all regions and product segments growing. Overall sales growth was 9%, and organic growth was 5% both measured in local currency. Bracing and supports delivered excellent 15% growth and 6% organic growth, both measured in local currency. Sales growth in prosthetics was moderate, 4%, measured in local currency, all organic.

External environment

The external environment was volatile in 2011 affecting healthcare systems around the world. However, it is difficult to estimate the direct impact on the Company's performance. Europe is performing well and changes from the U.S. healthcare reform law had a limited impact on the Company's sales during the year. Apart from the reform law, increased governmental auditing of prosthetic claims in Q4 2011 affected customer behavior, most notably in sales of higher-end products.

Increased sales coverage

Increased investment in sales coverage in Americas has been one of the main focus areas in 2010 and 2011 by strengthening the Company's presence in various states and with certain customer groups. The strengthening of the bracing and supports sales platform in Americas has been progressing well for the past two years and resulting in a positive impact on sales.

In EMEA main focus has been on Germany and France. In Germany the focus has been on further strengthen the sales coverage to better serve the increasing number of bracing and supports customers. In France, resources have been focused on reaching out to prescribers for both the bracing and supports segment and the compression therapy segment. The impact of those initiatives will further materialize in 2012.

Mexico facility – one of the most important manufacturing units

The Mexico facility officially opened in September. The focus in Mexico is primarily on manufacturing of bracing and supports products. In the first half of 2011 manufacturing of spinal products was transferred to Mexico and in the second half, manufacturing of knee braces such as Unloader One and CTi were transferred to Mexico. At year-end, transfer of all bracing and supports products from US to Mexico were completed. The facility is already one of the largest and most important manufacturing units of the Company. Capacity in the facility can be increased in the coming years to support future growth. Impact from cost savings, amounting to USD 4 million, are expected to materialize in 2012 as already communicated.

Steady flow of new products

During the year 25 new products were launched with a healthy mix between bracing and supports products and prosthetics. In the bracing and supports arena, numbers of exciting new products were introduced during the year, including a range of Form fit and Rebound products. The highlight in the prosthetics segment was the commercial introduction of the SYMBIONIC LEG, the latest addition to the Company's comprehensive bionic platform, that took place at the AOPA tradeshow in September. Gibaud launched four new products during the year.

In 2011, Össur and Nike partnered to design the ideal prosthetic running foot, coupling Össur's unmatched expertise in running prosthetics with Nike's world renowned traction and sole technologies. The Nike Sole offers excellent traction to help enhance performance for the user, while improving efficiency and results.

SYMBIONIC™ LEG

- *World's first bionic leg*
- *Unites the proven capabilities of RHEO KNEE® and PROPRIO FOOT®*
- *Introduced at AOPA trade show, September 2011*

NIKE SOLE

- *Collaboration with Nike*
- *Running sole for Flex-run*
- *Inspired by Sarah Reinertsen*

INCOME STATEMENT

Income Statements (USD '000)	2011	% of sales	2010	% of sales	Change
Net sales	401,325	100.0%	358,538	100.0%	11.9%
Cost of goods sold	(152,255)	-37.9%	(135,916)	-37.9%	12.0%
Gross profit	**249,070**	**62.1%**	**222,622**	**62.1%**	**11.9%**
Other income	2,103	0.5%	1,587	0.4%	32.5%
Sales & marketing expenses	(119,313)	-29.7%	(105,635)	-29.5%	12.9%
Research & development expenses	(19,654)	-4.9%	(19,731)	-5.5%	-0.4%
General & administrative expenses	(49,806)	-12.4%	(38,598)	-10.8%	29.0%
Profit from operations	**62,400**	**15.5%**	**60,245**	**16.8%**	**3.6%**
Financial income	224	0.1%	320	0.1%	-30.0%
Financial expenses	(10,741)	-2.7%	(15,959)	-4.5%	-32.7%
Net exchange rate difference	(2,052)	-0.5%	3,096	0.9%	-166.3%
Profit before tax	**49,831**	**12.4%**	**47,702**	**13.3%**	**4.5%**
Income tax	(13,200)	-3.3%	(12,340)	-3.4%	7.0%
Net profit for the period	**36,631**	**9.1%**	**35,362**	**9.9%**	**3.6%**
EBITDA	**75,606**	**18.8%**	**74,358**	**20.7%**	**1.7%**
EBITDA adjusted*	**79,154**	**19.7%**	**74,929**	**20.9%**	**5.6%**

*Adjusted for one-time items

Sales
Total sales amounted to USD 401.3 million compared to USD 358.5 million in 2010. Sales performance in 2011 was strong and all product segments and markets are contributing to the growth. Total sales growth was 9%, and organic growth was 5%, both measured in local currency. Companies acquired in the past couple of years are progressing well. However, external growth has less effect on total sales in 2011 compared to 2010 due to slower M&A activity.

Americas showed good sales performance, 13% growth and 3% organic growth, both measured in local currency. Slow sales in the fourth quarter and mixed performance between segments affect the overall performance in Americas for the year. Increased governmental auditing of prosthetic claims towards the end of the year affected customer behavior, most notably in sales of higher-end products. The bracing and supports segment continues to show strong performance, supported by new products and investments in sales channel access.

EMEA delivered good results in 2011, 5% sales growth, both measured in local currency and organic. As in the Americas performance is mixed between segments. Overall the prosthetics segment in EMEA is showing outstanding performance. Targeted marketing programs and successful product launches have been fueling the growth of this segment in 2011. Sales growth in bracing and supports was moderate. Initiatives in France supporting the bracing and supports sales are expected to materialize in 2012. The compression therapy segment delivered moderate 3% growth, supported by new products.

Asia delivered 7% organic growth in local currency. Individual markets such as Australia and China grew double digit but the overall growth was impacted by economic strains in Japan due to the earthquake in early 2011 and reduced healthcare budgets in Japan, which is the single largest market within Össur Asia.

Sales of PROPRIO FOOT and POWER KNEE are good while sales of the RHEO KNEE are affected by increased competition. The first units of the SYMBIONIC LEG were sold in the fourth quarter of 2011. The SYMBIONIC LEG is expected to be commercially launched in the first quarter of 2012.

Sales by region

USD '000	2011	% of sales	Growth USD	Growth LCY	Organic growth LCY
Americas	209,729	52%	13%	13%	3%
EMEA	173,341	43%	11%	5%	5%
Asia	18,255	5%	11%	7%	7%
Total	**401,325**	**100%**	**12%**	**9%**	**5%**

Sales by segments

USD '000	2011	% of sales	Growth USD	Growth LCY	Organic growth LCY
Bracing & supports	211,142	53%	18%	15%	6%
Prosthetics	170,425	42%	7%	4%	4%
Compression therapy	18,652	5%	7%	3%	3%
Other	1,106	0%			
Total	**401,325**	**100%**	**12%**	**9%**	**5%**

Gross profit

Gross profit amounted to USD 249 million or 62% of sales compared to USD 223 and 62% of sales in 2010. Despite the fact, that in 2011 manufacturing of bracing and supports has been double during the transfer to Mexico, the gross profit margin remains at the same level as in 2010.

One-time expenses relating to the Mexico facility amounted to USD 2.5 million. Impact from cost savings, amounting to USD 4 million, is expected to materialize in 2012.

Operating expenses

Other income amounted to 2.1 million, including USD 0.6 million due to a legal settlement related to patent infringement and USD 1.2 million due to sale of the Company's building in California. The building sold in the fourth quarter of 2011 is the last building in the Company's old office complex in California to be sold. Other income in 2010 amounted to USD. 1.6 million, including USD 1.2 million for a sale of one of the Company's office buildings in California. The divestment of these buildings is part of the consolidation of two of the Company's locations in California into one main office for Americas.

Increased sales and marketing activities in France, Germany and Americas are the main drivers for increased sales and marketing expenses. Investment in research and development, excluding amortization remains at the same level as in 2010.

General and administrative expenses increase between years, mostly due to different cost structure in acquired companies.

In 2011 Össur filed a civil action in the US against a competitor in the prosthetic market and alleges that it infringes certain of the Company's patents. The competitor has denied the allegations and claims the patents are invalid. The outcome remains uncertain.

Historically, expenses relating to the management of sales and marketing functions have been classified as general and administrative expenses. For better comparison to other companies and for internal management reasons, management has decided to reclassify these costs as sales and marketing expenses. This reclass does not affect total operating expenses nor the result in the Consolidated Income Statement. The total amount classified as S&M instead of G&A in 2011 amounted to USD 8.6 million and in 2010 USD 8.4 million.

Profit from operations amounted to USD 62 million or 16% of sales compared to USD 60 million or 17% of sales in 2010.

Financial items, tax and net profit

Net financial expenses amounted to USD 12.6 million compared to USD 12.5 million in 2010. In 2010 exchange rate movements had positive impact on financial expenses amounting to USD 3.1 million compared to USD 2 million negative in 2011.

In the first quarter Össur signed a financing agreement with three international banks on long-term financing. As a result of the new financing structure, exchange rate effects flowing through the financial items in the income statement are expected to be lower than with the previous financing structure.

Income tax was USD 13 million, corresponding to a 26% effective tax rate, compared to USD 12.3 million and 26% effective tax rate in 2010.

Net profit amounted to USD 36.6 million compared to USD 35.4 million in 2010. Net profit is affected by increased operational cost, due to unusual expenses in 2011.

EBITDA

The Adjusted EBITDA margin is in line with the management's guidance of 20-21% for the full year. Adjusted EBITDA amounted to USD 79.2 million and 20% of sales compared to USD 74.9 million and 21% of sales in 2010. Adjustments to the EBITDA include severance payments due to the relocation of the manufacturing in Americas to Mexico and legal expenses.

BALANCE SHEETS

USD '000	31 Dec . 2011	31 Dec. 2010	Change
Non-current assets	437,427	441,548	-1%
Current assets	144,564	165,530	-13%
Total assets	581,991	607,078	-4%
Stockholders' equity	366,756	343,558	7%
Non-current liabilities	132,832	178,145	-25%
Current liabilities	82,403	85,375	-3%
Total equity and liabilities	581,991	607,078	-4%
Current ratio	1.8	1.9	
Equity ratio	63%	57%	
Net interest bearing debt / EBITDA LTM	1.5	1.8	
Debt/EBITDA	1.7	2.5	

Össur's balance sheets is strong with an equity ratio of 63% compared to 57% at year-end 2010. Good cash flow from operations has resulted in further deleveraging and net debt to EBITDA is now 1.5x. Leverage has decreased rapidly following the financing in March 2011.

CASH FLOW

USD '000	2011	% of sales	2010	% of sales
Cash generated by operations	68,377	17%	64,331	18%
Net cash provided by operating activities	48,447	12%	39,995	11%

Capital investments amounted to USD 16.1 million or 4.0% of sales, compared to USD 9.3 million and 3.0% of sales in 2010. The increase in investments in 2011 is due to investments in Mexico as well as investments in the manufacturing in Iceland. Capital investments in the quarter are slightly above the Company's guidance of 2.5-3.5%. Capital investments for 2012 are expected to be towards the higher end of the guided range of 2.5-3.5%.

Dividend Policy

Over the past years Össur has been one of the fastest cash generating healthcare companies in Europe and leverage has decreased rapidly. The Company´s strategy is to retain earnings to finance future growth and strategic acquisitions. Should attractive investment opportunities not materialize in the next 12 months and the Company starts to become overcapitalized compared to its Nordic peer group, Össur will return capital to shareholders.

Annual General Meeting 2012

Össur's Annual General Meeting will be held at the Company's headquarters in Reykjavík, on 16 March 2012. Agenda and proposals for the Annual General Meeting will be disclosed 3 weeks prior to the meeting, or on 24 February 2012.

Exercise of share options

Share options issued to the President and CEO and Executive Management on 5 February 2007 vested on 1 December 2011, could not be exercised due to restrictions in the Icelandic Foreign Exchange Act. The Board decided to settle contracts with the respective parties by cash payment equaling the difference of exercise price and market price. The total payment amounted to USD 0.2 million.

INCOME STATEMENTS Q4 2011

USD '000	Q4 2011	% of sales	Q4 2010	% of sales	Change
Net sales	97,991	100.0%	94,612	100.0%	3.6%
Cost of goods sold	(37,473)	-38.2%	(36,078)	-38.1%	3.9%
Gross profit	**60,518**	**61.8%**	**58,534**	**61.9%**	3.4%
Other income	1,203	1.2%	(25)	0.0%	-4912.0%
Sales & marketing expenses	(30,375)	-31.0%	(27,999)	-29.6%	8.5%
Research & development expenses	(5,157)	-5.3%	(5,148)	-5.4%	0.2%
General & administrative expenses	(13,442)	-13.7%	(11,002)	-11.6%	22.2%
Profit from operations	**12,747**	**13.0%**	**14,360**	**15.2%**	-11.2%
Financial income	50	0.1%	40	0.0%	25.0%
Financial expenses	(2,166)	-2.2%	(4,226)	-4.5%	-48.7%
Net exchange rate difference	(391)	-0.4%	1,155	1.2%	-133.9%
Profit before tax	**10,240**	**10.4%**	**11,329**	**12.0%**	-9.6%
Income tax	(2,585)	-2.6%	(3,268)	-3.5%	-20.9%
Net profit for the period	**7,655**	**7.8%**	**8,061**	**8.5%**	-5.0%
EBITDA	**16,353**	**16.7%**	**17,876**	**18.9%**	-8.5%
EBITDA adjusted*	**17,546**	**17.9%**	**18,605**	**19.7%**	-5.7%

*Adjusted for one-time items

Q4 2011 highlights

Sales in the fourth quarter of 2011 were moderate and in line with management's communication on guidance for the fourth quarter. Sales growth was 4% and organic growth 3%, both measured in local currency. Bracing and supports products continue to show strong performance, delivering 8% growth and 5% organic, both measured in local currency. Sales of prosthetics were flat in the quarter.

One-time expenses in the quarter were unusually high. One-time expenses include legal cost, sales and marketing expenses due to initiatives in Americas and Europe and efficiency measures in Americas. In addition to unusual cost items the sales were slow resulting in adjusted EBITDA margin of 18% that is below the Company's benchmark.

Further information:

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Upcoming events	Date
2012 Annual General Meeting	**16 March 2012**
Q1 2012 Results	24 April 2012
Q2 2012 Results	25 July 2012
Q3 2012 Results	23 October 2012
Capital Markets Day	28 November 2012
Q4 2012 Results	6 February 2013
2013 Annual General Meeting	**15 March 2013**

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About Össur
Össur (NASDAQ OMX: OSSR) is a global leader in non-invasive orthopaedics that help people live a life without limitations. Its business is focused on improving people's mobility through the delivery of innovative technologies within the fields of braces, supports, prosthetic limbs and compression therapies. A recognized "Technology Pioneer", Össur invests significantly in research and product development; its award-winning designs ensuring a consistently strong position in the market. Successful patient and clinical outcomes are further empowered via Össur's educational programs and business solutions. Headquartered in Iceland, Össur has major operations in the Americas, Europe and Asia, with additional distributors worldwide.

Forward-Looking Statements
This press release includes "forward-looking statements" which involve risks and uncertainties that could cause actual results to differ materially from results expressed or implied by these statements. Össur hf. undertakes no obligation and does not intend to update these forward-looking statements to reflect events or circumstances occurring after this press release. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. All forward-looking statements are qualified in their entirety by this cautionary statement.