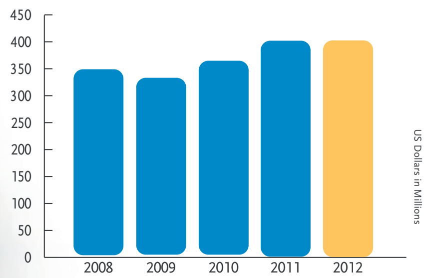
ÖSSUR ANNUAL REPORT 2012

ÖSSUR®

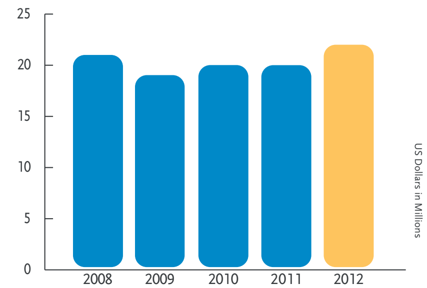
Life Without Limitations®

KEY FIGURES

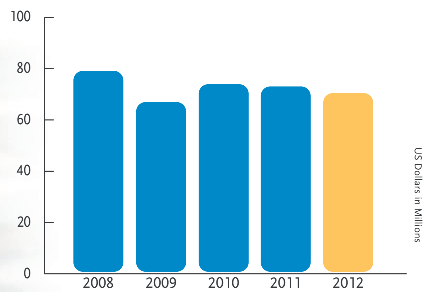
SALES



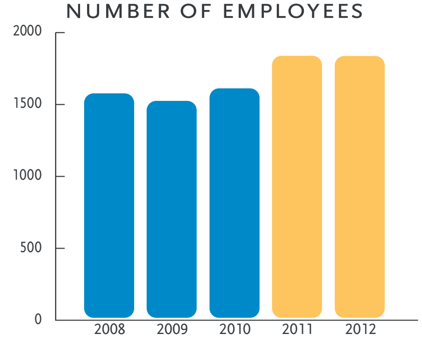
RESEARCH AND DEVELOPMENT



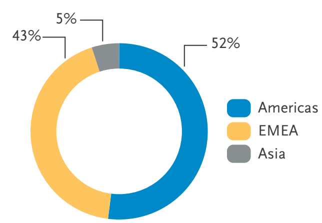
EBITDA



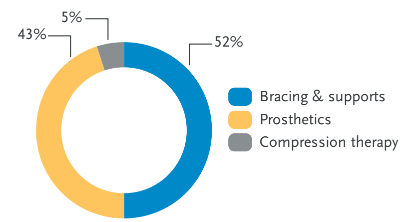
NUMBER OF EMPLOYEES



SALES BY GEOGRAPHY



SALES BY SEGMENT



FINANCIAL RATIOS
(USD MILLIONS)

		2012	2011	2010	2009	2008
INCOME STATEMENT						
Net sales		399	398	359	331	347
Gross profit		248	246	223	202	214
Operating expenses (exl. Other income)		191	189	164	154	168
Profit from operations		57	59	60	48	56
Net profit		38	34	35	23	28
EBITDA		70	73	74	67	79
BALANCE SHEET						
Total assets		591	580	607	628	604
Equity		408	365	344	312	250
Net interest-bearing debt (NIBD)		82	111	133	158	234
CASH FLOW						
Cash generated by operations		71	68	64	86	71
Cash provided by operating activities		58	48	40	69	53
Free cash flow		43	32	33	60	46
KEY FIGURES						
Sales growth USD	%	0	11	9	-5	4
Operating margin	%	14	15	17	15	16
EBITDA margin	%	18	18	21	20	23
Equity ratio	%	69	63	57	50	41
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	10	10	8	11
MARKET						
Market value of equity		606	676	778	529	349
Number of shares		454	454	454	454	423
Price/earnings ratio, (P/E)		15.8	20	22	23	12
Diluted EPS	US Cent	8.4	8	8	5	7
Diluted Cash EPS	US Cent	11.3	11	11	10	12

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CONSOLIDATED FINANCIAL STATEMENTS 2012

REDEFINING ABILITY

JÓN SIGURÐSSON
ÖSSUR PRESIDENT AND CEO

This has been an amazing year filled with people, events and technological breakthroughs that have lifted our hearts. We look back on 2012 with gratitude and look forward with excitement. Our business is well diversified across the US and Europe with a growing presence in Asia. The market conditions in the US have been challenging but the performance in EMEA and Asia has been good. Today, we have a strong market position and a healthy operation that will continue to generate value for our customers making Life Without Limitations a reality for more people than ever before.

FOLLOWING DREAMS

We were and still are inspired by the Paralympic Games, held in London this past September. The Games were an historic occasion that has helped to transform perceptions of the term disability in a way that goes far beyond sport. Flying past the cameras, the Össur running feet appeared on nearly two thirds of all of all Paralympic amputee finalists.

The athletes competing in the Paralympics games inspire us all to follow our dreams and do the things we are passionate about. For Össur, this entire year has been about our passion of "Redefining Ability,"

The experts at Nike have worked in co-operation with Össur and the amazing athelete, Sarah Reinertsen. This collaboration produced a unique sole for Össur's prosthetic running blades, offering specialized traction for sports people everywhere.

LONDON 2012 PARALYMPIC GAMES

This has been an amazing year filled with people, events and technological breakthroughs that have lifted our hearts.

MOVE NATURALLY

We are honored that Popular Science has recognized the significance of the SYMBIONIC LEG. It is the world's first complete Bionic leg and our most advanced product to date. More importantly, feedback from users has been very positive as the SYMBIONIC LEG enables them to move more naturally than ever before. It produces a motion so natural, safe and symmetrical that it's helping to unleash a new level of user confidence.

A clinical study performed in the U.S. by the Steadman Philippon Research Institute demonstrated the positive results for the function of Össur's osteoarthritis knee brace: Unloader One. The study revealed that users of the knee brace felt reduced pain and increased function. The results of the study, in addition to other studies performed on the knee brace, confirm Unloader One is a very viable alternative treatment option for patients with osteoarthritis.

PASSION FOR INNOVATION

We are lucky to meet and collaborate regularly with exceptional people from all walks of life. I'm truly humbled by the wonderful relationships we have with our users. We were delighted earlier in 2012 to be named among the world's "Most Innovative Companies" by Fast Company magazine. I would like to take this opportunity to thank everyone who helps fuel our passion for innovation – we couldn't do it without you and there is a lot more to come!

Jón Sigurðsson
Össur President and CEO

UNLOADER ONE® REDUCES PAIN, INCREASES FUNCTION AND LIFE QUALITY FOR KNEE OSTEOARTHRITIS PATIENTS

FAST COMPANY

NAMED AMONG THE WORLD'S "MOST INNOVATIVE COMPANIES" BY FAST COMPANY MAGAZINE

25th Annual POPULAR SCIENCE BEST OF whats new 2012

SYMBIONIC® LEG NAMED "BEST OF WHAT'S NEW" BY POPULAR SCIENCE MAGAZINE

CORPORATE STRATEGY

ÖSSUR'S VISION IS TO BE THE LEADER IN THE NON-INVASIVE ORTHOPAEDICS MARKET. ÖSSUR'S BUSINESS FOCUSES ON IMPROVING PEOPLE'S MOBILITY THROUGH THE DELIVERY OF INNOVATIVE TECHNOLOGIES WITHIN THE FIELDS OF BRACING AND SUPPORTS, PROSTHETICS AND COMPRESSION THERAPY. ÖSSUR WILL CONTINUE TO FOCUS ON SUCCESSFUL INNOVATIONS, SUSTAINABLE GROWTH AND EFFICIENCY TO GENERATE VALUE FOR CUSTOMERS, SHAREHOLDERS AND EMPLOYEES.

MAIN FOCUS AREAS

INNOVATION

We embrace innovation in all our actions. We will be at the forefront of indication-related innovation to ensure our consistently strong position in the market.

EFFICIENCY

We strive to increase efficiency and drive continuous improvements in our operations. We run efficient operations in optimal locations, hire passionate employees and deliver strong profit and cash flow.

GROWTH

We will achieve growth by successfully commercializing our innovation through our localized go-to-market strategy and commitment to our customers' needs.

VISION

LEADING COMPANY IN NON-INVASIVE ORTHOPAEDICS

MISSION

WE IMPROVE PEOPLE'S MOBILITY

VALUES

THE COMPANY'S CORE VALUES ENSURE SUCCESSFUL COOPERATION AND PARTNERSHIPS, AND ARE THE FOUNDATION FOR OUR STRATEGY AND SUCCESS.

HONESTY

We show respect by adhering to facts and reality, fulfilling promises and claims, and admitting failures. We nurture honest communication throughout the Company by sharing information and respecting each other's time and workload.

FRUGALITY

We use resources wisely. The Company aims to minimize costs across all areas of its business through effective communication, preparedness, planning and optimized processes.

COURAGE

We are open to change and constantly strive for improvement. We challenge unwritten rules, show initiative and take calculated risks, while at the same time, take responsibility for our ideas, decisions and actions.

ABOUT ÖSSUR

Össur is a global leader in the non-invasive orthopaedics market. The Company focuses on improving people's mobility. Össur delivers advanced and innovative solutions within the fields of bracing and supports, prosthetics and compression therapy.

Össur is known as a technical leader in the field of prosthetics and is one of the leading companies in bracing and supports. The compression therapy products are only sold in France.

The Company was founded in 1971 as a prosthetic clinic and has since then grown through innovation and acquisitions in both prosthetics and bracing and supports.

Today Össur has a strong position in the industry and in key markets and is in a good position to leverage on future growth opportunities.

Össur has been a listed company since 1999 and on NASDAQ OMX Copenhagen in since 2009. The Company has operations in 13 countries and 1850 employees.

Össur is headquartered in Reykjavik, Iceland. The Company's sales are well diversified by segments and geography. Sales in 2012 amounted to USD 399 million and were split as follows:

52% Americas	52% Bracing and supports
43% EMEA	43% Prosthetics
5% Asia	5% Compression therapy

ÖSSUR'S THREE BUSINESS SEGMENTS

BRACING AND SUPPORTS

Bracing and supports products are used primarily to support joints and other body parts, both for therapeutic and preventive purposes.

PROSTHETICS

Prosthetic products include artificial limbs and related products for individuals who were born without limbs or have had limbs amputated.

COMPRESSION THERAPY

Compression therapy is a preferred treatment for venous ulcers and edema.

COMPANY MILESTONES

- **1971** Össur was founded by Össur Kristinsson
- **1986** Received its first patent for the silicone liner
- **1999** Listed on NASDAQ OMX in Iceland
- **2000** Becomes the second largest prosthetics manufacturer through series of strategic acquisitions
- **2004** RHEO KNEE® The first Bionic product launched
- **2005/6** Entrance into the bracing and supports segment through series of strategic acquisitions
- **2009** Listed on NASDAQ OMX in Copenhagen
- **2012** SYMBIONIC® LEG The world's first complete Bionic leg

Össur is a global leader in non-invasive orthopaedics, focusing on improving people's mobility.

PEOPLE

CULTURE

Össur values are the foundation of the human resources strategy. The three core values, honesty, frugality and courage, set the stage on how our employees work, interact, behave and make decisions. The performance of each employee is evaluated based on these values. In addition employees are asked for feedback in a bi-annual workplace audit on whether they feel that the Company is living by the values.

The biggest challenge human resources management faces in any global company is to maintain the culture of initiative, ambition, drive and cooperation while growing and being more spread around the world. Össur managers are well aware of that challenge and nurture such culture in their teams' daily activities.

WORK ENVIRONMENT

For a company that is in the forefront of its business it is important to create and maintain a work environment which not only retains the employees but also motivates them to achieve the Company's objectives.

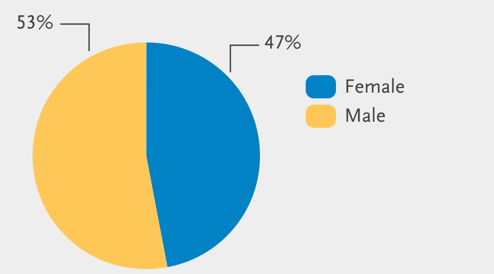
In today's society people are looking for opportunities to grow within their workplace, autonomy is of high importance, people want to believe they are trusted to find the right way to achieve the goals. Offering flexible hours for people to be able to take care of family matters within usual working hours is highly appreciated by our employees.

Össur understands the importance of having a diverse workforce and is committed to create an environment where both genders can become successful in their jobs. Focus in 2013 is on gender equality. To do that an Equality Policy is being developed as well as a Women and Leadership program. In addition, audit on equal pay will be conducted annually.

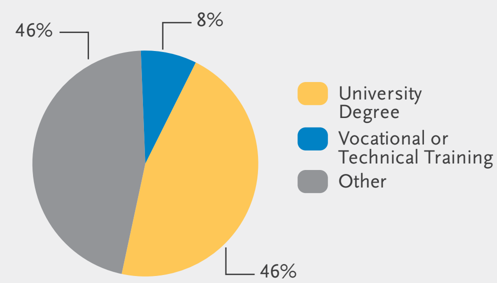
WORKPLACE AUDIT

Össur's workplace audit continues to be positive and confirms that employees are motivated and excited to work for Össur. Össur scored 4.2 out of 5 in employee satisfaction.

GENDER RATIO



EDUCATION



LOCATIONS

TOTAL SALES WERE
USD 399 MILLION
IN 2012

Össur has offices and extensive operations in the Americas, Europe and Asia. In the past decade, the Company has transformed itself into a global leader in non-invasive orthopaedics, with operations in 13 countries and sales that are well diversified in terms of segments and geographical spread.

ÖSSUR HEAD OFFICE

Össur's headquarters are located in Reykjavik, Iceland. Operations in Iceland encompass manufacturing, global research and development, corporate finance, global marketing, and sales and marketing for the domestic market.

ÖSSUR AMERICAS

Össur Americas is responsible for sales and marketing in the US, Latin America and Canada. Since 2000, the main sales office in the US has been located in Orange County, California. Distribution centers are located in Paulsboro, New Jersey and Camarillo, California. The Canadian sales office is in Richmond, Canada. Manufacturing facilities are in Albion, Michigan and Tijuana, Mexico.

ÖSSUR EUROPE (EMEA)

Össur Europe (EMEA) provides sales, marketing and other services in Europe, the Middle East and Africa. Since 2000, Össur's main European office is in Eindhoven, the Netherlands. Other European offices are located in Blackburn and Manchester, England; Uppsala, Sweden; St. Etienne and Trévoux, France; Frechen, Germany; Budrio, Italy and Madrid, Spain. In addition to the European offices, the Company has an office in Cape Town, South Africa.

ÖSSUR ASIA

The Össur Asia division serves diverse countries from Pakistan to New Zealand with the key markets being Japan, Australia, China, Korea and India. The main office is located in Shanghai, China. Other offices are located in Hui Yang and Hong Kong, China; Seoul, Korea; Sydney, Australia and Tokyo, Japan. Sales in Asia are handled through direct sales and through a comprehensive network of distribution partners.

MARKETS

Össur operates within the global orthopaedic industry, delivering advanced and innovative solutions within the bracing and supports, prosthetics and compression therapy market.

INDUSTRY DYNAMICS

The aging population, changed lifestyle, technological developments and the regulatory environment are fundamental drivers of change in the orthopaedic industry.

AGING POPULATION

The increasing number of the total global population aged 65 and older will underpin market growth. An aging society brings an increase in the frequency of vascular diseases and diabetes. An aging population also means an increased amount of fractures, joint instability and joint afflictions such as osteoarthritis, which increases the demand for different forms of bracing and supports products.

LIFESTYLE

Obesity, which can result in diabetes and vascular diseases, is reaching epidemic proportions. Since diabetes and vascular diseases are the main causes of amputation, as the number of people afflicted by these diseases increases so should the demand for prosthetics. Obesity and an aging population are also the main market drivers for osteoarthritis. As participation in sports increases, the demand for different types of support products should continue to grow, due to the increased number of sports-related injuries and an increased demand for preventive products.

TECHNOLOGICAL DEVELOPMENT

New technologies and technological combinations, as well as new materials, continuously yield improved products. Such technological advances lead to total market growth as demand is created for more technically advanced and expensive solutions.

REGULATORY ENVIRONMENT

Healthcare providers are constrained by budgets and accordingly the regulatory environment demands cost effective solutions without compromising quality. This has led to substantial investments in systems demonstrating and providing health economical outcomes for potential buyers. Two vital requirements for any market player in the orthopaedics industry are the ability to adapt to a changing regulatory environment and tailoring product offerings to meet the prevailing regulatory system.

STAKEHOLDERS

In the orthopaedic industry many stakeholders and decision makers are involved in the purchasing decision. The stakeholders can be categorized into five groups:

END-USERS
Individuals that use the products.

PRESCRIBERS
Healthcare professionals that prescribe products, based on the condition/clinical indication of the user.

PROVIDERS
Healthcare professionals that provide users with products, such as CPO's, doctors, podiatrists.

PAYERS
Public and private insurance companies. About 98% of Össur products are reimbursed by third party.

INFLUENCERS
Healthcare systems, insurance companies, medical associations, end-users and their families.

EXTERNAL ENVIRONMENT 2012

The US prosthetic market faced numerous challenges in 2012 due to audits from reimbursements authorities. Medicare, a national insurance program in US, made these audits into payments to O&P providers, focusing on documentation in relation to insurance billing for prosthetic products. As the main focus of the audits has been on both high-end and high activity products, demand for these types of products has slowed down. This has created uncertainty and operational challenges for O&P facilities and delayed service to the end users.

In addition, Medicare and its contractors have started to ask for a prepayment claims review. Hence, the service provider will need to seek approval from Medicare before the service is provided. This means that increasingly Medicare will audit claims after the product is delivered, but before the customer gets paid. This creates cash flow problems for smaller clinics. Reimbursement scrutiny continues to affect the US market in 2013.

While overall pressure on healthcare costs continues, key markets in EMEA and Asia have generally seen growth. Increased demand for high-end products in key markets in Europe and demand for high quality products and health economic outcomes continues.

REIMBURSEMENT

The vast majority of Össur's products are reimbursable through various public and private reimbursement schemes. Reimbursement systems vary substantially between countries and product markets. Payers for Össur's products usually include government reimbursement schemes or insurance companies. Össur applies its reimbursement know-how from the earliest stages of product development to the post-sale education of customers. The Company pursues several strategies to manage and influence the reimbursement of Össur products and focuses on proving and communicating the functional and clinical outcome of its products.

By mid-year, the POWER KNEE™ was accepted into the reimbursement system in the US, effective as of January 2013. The allocation of the reimbursement code is a very important milestone and confirms the acceptance of Bionic products as the next generation of prosthetics. The reimbursement price has not yet been determined.

BUSINESS SEGMENTS

BRACING AND SUPPORTS

Össur's bracing and supports products are used primarily to support joints and other body parts, both for therapeutic and preventative purposes. The bracing and supports offering includes: spinal, knee, hip, foot, ankle and upper extremities bracing devices. The Company offers a comprehensive line of custom made and off-the shelf products.

Össur's management estimates that the size of the bracing and supports market within the US, EMEA and Asia was in the range of USD 2,700 to 3,000 million in 2012. Össur is one of the leading companies in bracing and supports market, with the market share in the range of 5 - 10%.

BRACING AND SUPPORTS

MARKET DRIVERS

- Aging and more active population
- Diabetes, stroke, arthritis, osteoporosis and other pathologies are on the rise

MARKET CHALLENGES

- Efforts to hold back growth in healthcare expenditure
- Easily accessible pain medication
- Changes in reimbursement structure

PROSTHETICS

Prosthetics are artificial limbs and related products for individuals born without limbs or have had limbs amputated. Össur offers a full range of premium lower limb prosthetics, including interfaces, knees and feet.

Össur's management estimates that the size of the prosthetic market within the US, EMEA and Asia was in the range of USD 850 to 950 million in 2012. Össur is the second largest player in the prosthetics market with market share around 20%.

PROSTHETICS

MARKET DRIVERS

- Technological developments
- Aging population
- Increasing instances of obesity, diabetes and vascular diseases
- Demand for higher quality of life of amputees

MARKET CHALLENGES

- Efforts to hold back growth in healthcare expenditure
- Advances in vascular surgery
- Changes in reimbursement

COMPRESSION THERAPY

Compression therapy is a treatment for venous ulcers and edema. Össur's compression therapy products, such as compression socks, thighs and bandages are used to apply pressure to the vascular system to improve blood circulation and minimize swelling.

Össur currently sells compression therapy products in France. Össur's market share in the French EUR 260 million market is around 7%. The compression therapy market has enjoyed steady growth in recent years.

COMPRESSION THERAPY

MARKET DRIVERS

- Aging population
- Technically advanced products
- Minimal side-effects of non-invasive treatments
- Stronger emphasis on preventions

MARKET CHALLENGES

- Efforts to hold back growth in healthcare expenditure
- Advances in vascular surgery
- Compression standards differs between countries

INNOVATION

R&D vision is to make Össur the industry leader that creates the future through clinically validated innovative solutions.

Innovation is the profitable implementation of ideas. It is a key pillar in Össur's strategy and the catalyst for the Company's organic growth. In 2012, the R&D expenses amounted to USD 22 million, corresponding to 5.5% of total sales. Investments in R&D activities enable Össur to continually introduce pioneering products and solutions that improve people's mobility and life quality for the benefit of users and healthcare systems. At the same time, continuous focus on product improvements and product rationalization improves Össur's profitability. All internal R&D investments are expensed as incurred.

Össur R&D operates departments in Reykjavík, Iceland; Foothill Ranch, CA USA and Saint-Etienne, France.

R&D department secured steady pipeline of products during 2012, with 29 product launches: 13 in prosthetics, 13 in bracing and supports and 3 in compression therapy.

In order to secure continuous organic growth and profitability, R&D focus is on providing strong and steady product pipeline, innovating within current product groups, by, among other, exploring the feasibility of breakthrough technologies, strategically growing IP portfolio and creating strategic technology alliances.

TECHNOLOGY

Over the years, Össur has developed core competencies that have brought the Company to the forefront of innovation in non-invasive orthopaedics. These competencies are organized around seven technical platforms: biomechanics, composites, injection molding, mechanics, mechatronics, silicone and textile. Expertise acquired in product development in one platform may be easily applied to various product lines. Inevitably, technical platforms are at a different life-cycle stage, ranging from proprietary to generic. Most of Össur's technical platforms are at proprietary stage. The focus of long-term strategy is to manage the platforms' lifecycles and maintain their proprietary value. At the same time, Össur is always on the outlook for emerging technologies, evaluating their fit into overall strategies.

INTELLECTUAL PROPERTY

Össur IP strategy is to actively protect its intellectual property rights generated through in-house innovation, acquisitions and licenses. In intellectual property management, the main objective is to align the Company's intellectual property portfolio with Össur's overall business objectives. Össur's IP portfolio is diversified and representative of the areas of expertise in which the Company focuses its R&D efforts.

Össur filed its first patent application in 1986. Since then, the portfolio has grown steadily. The average life of issued patents in Össur's IP portfolio is ten years, and new patent applications are consistently filed in order to maintain the Company's competitive advantage.

At the end of 2012, Össur's worldwide IP portfolio consisted of 869 granted patents and designs, and 375 patent and design applications.

A substantial part of Össur's IPRs are trademarks, which are registered in selected markets, such as the US, the European Community, China and Japan. At the end of 2012, Össur's trademark portfolio consisted of 486 registered trademarks and 38 pending registrations.

R&D KEY FACTS 2012	
PRODUCT LAUNCHES	29
PATENTS GRANTED WORLDWIDE	115
CLINICAL STUDIES INITIATED	13
SCIENTIFIC PAPERS SUBMITTED	15

EXAMPLE OF CLINICAL PATHWAY FOR LOWER EXTREMITY INDICATIONS

LIMITED SUPPORT NEEDED	SUPPORT FOR LONGER PERIODS	PERMANENT NEED OF SUPPORT
COMPRESSION THERAPY, SOFT GOODS, SIMPLE BRACES	WALKERS, KNEE SUPPORTS	PROSTHETICS, OA BRACES

INDICATION BASED INNOVATION APPROACH

Össur's indication based innovation approach refers to the Company's increased efforts to medically and clinically indicated and validated product development. In its research and development efforts, the Company relies on medical and biomechanical evidence, as well as health economical data in order to develop valuable concepts for individuals and healthcare systems. Clinical outcome of products is effectively proven whenever applicable and communicated to the stakeholders. In accordance with this effort, Össur initiates and promotes clinical studies in cooperation with recognized scientists and healthcare professionals.

In addition to disease or indication specific solutions, Össur aims at mapping clinical pathways for increasing and improving on its product and service range. Mapping clinical pathways involves defining all stages of progression and treatments of diseases for identification of all possibilities of interventions by product offering.

CORPORATE SOCIAL RESPONSIBILITY

Össur began working on its Corporate Social Responsibility (CSR) initiative in 2008. Since then, the Company has gradually built awareness amongst employees, and started projects supporting the CSR initiative. In December 2011, Össur joined the UN Global Compact, committing to 10 principles with regards to human rights, labor practices, environmental concerns and anti-corruption. Joining the UN Global Compact was a natural step for Össur. It is equally important for a global company like Össur to focus on CSR matters in a structured way and report on the Company's progress in a recognized manner.

It is rewarding to be in a position to help change the lives of the Company's customers. The products are the single largest contribution the Company can make to assist people in need. Employees are reminded every day of the courageous and inspirational people that need the Copany's products. Driving the design and innovations is that the products help people overcome hurdles in their everyday lives.

Össur has strong core values: honesty, frugality and courage. These values serve as the foundation and driving force behind Össur's success and will continue to guide employees. Össur's values encourage employees to take social, ethical and environmental stands beyond the Company's legal obligations.

In addition, these values help the Company to adapt to the various cultures in which it conducts business. With operations in 16 countries.

Össur has monitored various aspects of CSR for four years. In 2011, it reached a milestone by formally committing to the Global Compact. Össur is committed to making the Global Compact and its principles part of the Company's strategy, culture and day-to-day operations. The first separate CSR report has now been published and is available on Össur's website: www.ossur.com/CSR. When Össur first started in 2008, it focused mainly on two areas: environmental concerns and fair operating practices, but has now expanded these efforts within all aspects of the business.

Össur has used materials issued by the Global Compact to develop and structure strategies to work within the Company's CSR initiatives. In the report, Össur is using GRI indicators (Global Reporting Initiative) to measure status and performance. The areas Össur is currently focusing on are: vendors, consumer and quality, environment, community support and the workplace with a special emphasis on health and safety and equality.

Further information about Össur's CSR activities are in the Company's CSR progress report for 2012, available on the Company's website: www.ossur.com/CSR

CSR AREAS AND GOALS FOR 2015

Below are key measurements for Össur's current CSR areas and goals for 2015

ASPECT	MEASUREMENT	GRI INDICATOR	2012	GOAL 2015
LABOUR PRACTICES	Incident rate	Internal KPI	27	17
LABOUR PRACTICES	Incidents per 100 employees	LA7 (GRI)	3,4	2,1
INVESTMENT AND PROCUREMENT PRACTISES	Number of agreement with Asian suppliers that include clauseson human rights concerns	HR1 (GRI)	81%	95%
CHILD LABOUR	Number of suppliers audited regarding Child labor	HR6 (GRI)	91%	95%
QUALTIY	Number of Non-Conformity in external audits	Internal KPI	0	0
QUALITY	Locations certified with ISO90001	Internal KPI	All	All
ENVIRONMENT	Total weight of waste by type and disposal method • Recycled waste • Trash • Hazardous waste	EN22 (GRI)	36% 47% 16%	Increase portion of recyclable waste

TEAM ÖSSUR

For Össur, 2012 was about "Redefining Ability" and ensuring that the products Össur creates makes a positive and recognizable contribution to society. It is a philosophy epitomized by Team Össur, an amazing group of elite athletes and sporting role models Össur is both proud and privileged to work with. The talents and dedication of the Team have enthused a whole new generation to follow their dreams, on and off the track.

Team Össur is a group of athletes Össur works with to help enhance the Company's products. In return Össur is delighted to support them with the latest designs and technical assistance.

In September, Team Össur took center stage at the Paralympic Games held in London. Blazing a victorious trail through the track and field events, they captured 21 medals (six Gold, seven Silver and eight Bronze), and set six new world records.

These incredible athletes have done much more than win medals. They have helped to transform perceptions of what 'disability' is, in a way that goes far beyond sport. Hopefully, this transformation will create a ripple effect, motivating others whose own mobility has been challenged and encouraging them to play more active roles in society with even greater confidence.

FLEX-FOOT® CHEETAH®

When the Flex-Foot Cheetah running foot made its debut at the 1996 Paralympic Games, it was a groundbreaking development, nothing like it had ever existed in the prosthetic world before.

Today, the Cheetah design is recognized the world over and a prominent feature of any amputee sprinting event – more Paralympic medals for sprinting have been won on a Cheetah than on any other foot.

Congratulations Team Össur! Together, we are actively redefining ability.
...the journey continues

CHEETAH® XTREME
CHEETAH® XTEND
CHEETAH® STANDARD

RICHARD WHITEHEAD
GOLD MEDAL FOR 200M
WORLD RECORD
2012 PARALYMPIC GAMES

BLAKE LEEPER
SILVER MEDAL FOR 400M
BRONZE MEDAL FOR 200M
2012 PARALYMPIC GAMES

MARIE-AMÉLIE LE FUR
GOLD MEDAL FOR 100M
SILVER MEDAL FOR 200M
WORLD RECORD FOR 200M
2012 PARALYMPIC GAMES

BOARD OF DIRECTORS

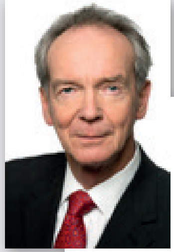
Össur's Board of Directors is composed of five members who are elected at the Company's Annual General Meeting for a term of one year. The Board of Directors works in accordance with the Company's Articles of Association and its own formal rules of procedure. Seven Board meetings were held in 2012.

NIELS JACOBSEN

Chairman of the Board of Directors, born in 1957, resides in Denmark. Member of the Board since 2005 and Chairman since 2006. Mr. Jacobsen is President and CEO of William Demant Holding A/S, a Danish industrial group in the hearing healthcare field. Previous positions include President of Orion A/S and Vice President in corporate affairs for both Atlas Danmark A/S and Thrige-Titan A/S. Mr. Jacobsen is also a board member of a number of Danish companies and organizations, including LEGO A/S (chairman), KIRKBI A/S (deputy chairman), A.P. Møller-Mærsk A/S (deputy chairman) and he holds directorships in a number of wholly and partly owned companies in the William Demant Group, including Oticon A/S (chairman), William Demant Invest A/S (general manager), Sennheiser Communications A/S (board member), HIMPP A/S (chairman), HIMSA A/S (chairman) and HIMSA II A/S (board member). Furthermore, he holds a seat on the central board of the Confederation of Danish Industries. Mr. Jacobsen holds an M.Sc. (Business Administration) from the University of Aarhus in Denmark (1983). He and his related parties hold 193,405 shares in the Company, but he holds no share options in the Company. Mr. Jacobsen is the general manager of William Demant Invest A/S, the Company's largest shareholder, which holds 187,085,828 shares in the Company. He has no interest links with the Company's main clients or competitors. Mr. Jacobsen is a dependent member of the Board.

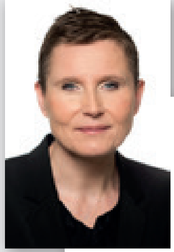
ARNE BOYE NIELSEN

Member of the Board of Directors since 2009, born in 1968, resides in Denmark. Mr. Nielsen has spent his entire career with William Demant Holding A/S in various and expanding roles throughout the world. After working as a management assistant to Mr. Niels Jacobsen and as an interim general manager of Oticon Australia Pty Ltd., Mr. Nielsen assumed in 1996 his current position as President of Diagnostic Instruments which has operations worldwide. In 2003 he became a member of the management group in William Demant Holding A/S. Mr. Nielsen is a member of the board of Sennheiser Communications A/S and Phonic Ear A/S as well as president of Interacoustics A/S and director of Maico Diagnostic in Berlin, Germany. Mr. Nielsen has a B.Sc. degree and a M.Sc. degree in Business Administration from the Copenhagen Business School in Denmark. He neither has shares nor share options in the Company. Mr. Nielsen was nominated to the Board by William Demant Invest A/S, the Company's largest shareholder. He has no interest links with the Company's main clients or competitors. Mr. Nielsen is a dependent member of the Board.



KRISTJÁN T. RAGNARSSON

Vice Chairman of the Board of Directors, born in 1943, resides in the United States. Member of the Board since 1999 and Vice Chairman since 2012. Since 1986 Dr. Ragnarsson has served as a Professor and Chairman of the Department of Rehabilitation Medicine, the Mount Sinai Medical Center in New York City. He has also served as the Chairman of the Faculty Practice Associates Board of Governors at Mount Sinai School of Medicine and President of the Medical Board of the Mount Sinai Hospital. Dr. Ragnarsson graduated from the University of Iceland's School of Medicine in 1969 and was certified by the American Board of Physical Medicine and Rehabilitation in 1976. He and his related parties hold 623,789 shares in the Company, but he holds no share options. Dr. Ragnarsson has no interest links with the Company's main clients, competitors or major shareholders. Dr. Ragnarsson is a dependent member of the Board.



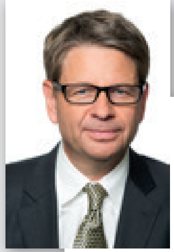
SVAFA GRÖNFELDT

Member of the Board of Directors since 2008, born in 1965, resides in Iceland. Dr. Grönfeldt is the Chief Organizational Development Officer of Alvogen, an American generic pharmaceutical company. Previous positions include president of Reykjavik University, deputy to the CEO of Actavis Group hf., assistant professor in the Faculty of Economics and Business Administration at the University of Iceland and managing director and managing partner of IMG Gallup/Deloitte. Dr. Grönfeldt holds a doctorate in industrial relations from the London School of Economics. She neither holds shares nor share options in the Company. Dr. Grönfeldt has no interest links with the Company's main clients, competitors or major shareholders. Dr. Grönfeldt is an independent Board member.

ÞÓRÐUR MAGNÚSSON

Member of the Board of Directors since 2005, born in 1949, resides in Iceland. Mr. Magnússon is the chairman and principal shareholder of the investment company Eyrir Invest ehf. He is on the board of a number of Icelandic companies, including the retail companies Byko ehf., Kaupás hf. and Norvik hf., and is the chairman of Marorka ehf., Handpoint ehf., Remake Electric ehf. and Saga Medica ehf. Mr. Magnússon is also on the board of the Iceland Chamber of Commerce and University of Reykjavík. Mr. Magnússon was CFO at Eimskip for over 20 years. He graduated with a Business degree from the University of Iceland in 1974 and holds an MBA from the University of Minnesota. Mr. Magnússon and his related parties hold 1,456 shares in the Company, but he holds no share options. He has no interest links with the Company's main clients or competitors. Mr. Magnússon is an independent Board member.

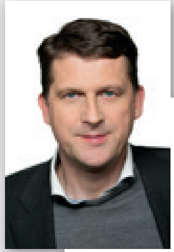
EXECUTIVE MANAGEMENT



JÓN SIGURÐSSON

Össur President and Chief Executive Officer since 1996, born 1956, resides in the United States. He is a board member of Rio Tinto Alcan in Iceland and chairman of the Icelandic America Chamber of Commerce. Mr. Sigurðsson was the Commercial Counselor for the Icelandic Trade Council in New York (1992-1996), Chief Financial Officer at Álafoss (1989-1991), Head of the International Division of Eimskip (1986-1989) and an Engineer for Bang and Olufsen Denmark (1982-1984). He holds a B.Sc. degree in Industrial Engineering from Odense Technical College in Denmark and a Master's degree in Business Administration (MBA) from the United States International University in San Diego. Mr. Sigurðsson and his related parties hold 341,168 shares in the Company. He has no interest links with the Company's main clients, competitors or major shareholders.Mr. Sigurðsson's experience as a member of the Board of Directors in other companies/organizations includes:

- Rio Tinto Alcan Iceland since 2003
- Icelandic Chamber of Commerce 2002-2012
- Reykjavik University from 2002-2009
- Samherji hf. from 2002-2006
- The Icelandic Trade Council from 1997-2003
- Research Liaison Office of the University of Iceland from 1996-2001



HJÖRLEIFUR PÁLSSON

Chief Financial Officer, born 1963. Has been with Össur since 2001. He is a former partner at Deloitte hf. Mr. Pálsson graduated in 1988 with a Business Degree from the University of Iceland, and qualified as a Certified Public Accountant in 1989. Mr. Pálsson holds 20,000 shares in the Company. Mr. Pálsson's experience as a member of the Board of Directors in other companies/organizations includes:

- The Enterprise Investment Fund since 2011
- SA – Confederation of Icelandic Employers since 2010
- Board of Trustees at Reykjavik University since 2010
- Substitute board member of IS Funds hf. since 2010

EGILL JÓNSSON

EVP of Manufacturing and Operations, born 1957. Has been with Össur since 1996, and led the division from that period. He was formerly a Project Manager at VGK hf, an Engineering firm in Reykjavik (1985-1996). Mr. Jónsson has a Masters degree in Mechanical Engineering from the Technical University in Copenhagen, DTU (1984).He and his related parties hold 822,749 shares in the Company.

ÓLAFUR GYLFASON

President of Össur Europe (EMEA), born 1969. Has been with Össur since 1997, formerly working in international sales and as Marketing and Sales Director for Europe. Mr. Gylfason holds a degree in Business Administration from Bifrost School of Business. He continued his studies at Alborg University in Denmark, graduating with a Masters degree in International Business Economics in 1997. Ólafur is a substitute member of the board of the Icelandic Chamber of Commerce since 2012.

ÞORVALDUR INGVARSSON

EVP of R&D, born 1960, joined Össur in 2009 as Medical Officer. Dr. Þorvaldur Ingvarsson is a MD from University of Iceland and holds a PhD degree from the University of Lund in Sweden, with emphasis on osteoarthritis and health economic outcomes. Þorvaldur has 19 years of experience as an orthopaedic surgeon. Þorvaldur has been an associative professor at the University of Iceland since 2005. Prior to joining Össur he held a medical director position as well as a CEO position within the hospital setting. Þorvaldur has published more than 40 scientific papers and is currently involved in international research projects related to osteoarthritis, ligament healing, health economics outcomes and biomechanics of prostheses. Þorvaldur's experience as a member of the Board of Directors in other companies / organizations includes:

- University Hospital Akureyri 1998-2009
- Medor since 2011

MAHESH MANSUKHANI

President of Össur Americas, born 1971. Joined Össur in 2008. Prior to joining the Company, he was a Director at AlixPartners, a turn-around consulting firm. From 2005-2007, he was the Global Business Director for DuPont Tyvek®, and DuPont's Global Director of Marketing and Sales Effectiveness, from 2002-2005. Prior to these activities, Mahesh held management roles in Management Consulting and Finance. Mr. Mansukhani has an M.A. Degree in Multinational Accounting and Financial Management from Reading University in England. He holds a Finance post-graduate degree from Warwick Business School in England, and an MBA from Yale University in the United States. Mr. Mansukhani also currently holds a Director position on the board of the AC (Amputee Coalition of America).

ÖSSUR SHARES

We serve investors by communicating in an informative and honest manner and we ambitiously reach out to our stakeholders.

Össur communicates with shareholders and other stakeholders about the Company's financial and business developments in an open and honest manner.

Össur has been a listed company since 1999 and on NASDAQ OMX in Copenhagen in since 2009.

The total number of investors at yearend 2012 was 2,781 compared to 2,855 at yearend 2011. The share price at yearend 2012 was DKK 7.55 compared to 8.55 at yearend 2011, decreasing by 12%.

MAJOR SHAREHOLDERS

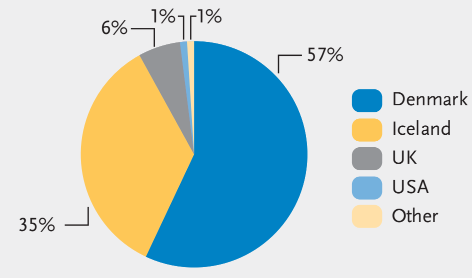
Since October 2005, William Demant has been a leading shareholder in Össur. Niels Jacobsen, President and CEO of William Demant Holding A/S, has been Össur's Chairman of the Board of Directors since 2006.

In May 2012, the largest and controlling shareholder William Demant Invest made a voluntary public offer for shares in Össur. The offer was made for technical reasons to ensure William Demant Invest's flexibility as a controlling shareholder and stated it had no intentions to take over the Company or delist from NASDAQ OMX Copenhagen. Thus, shareholders were not encouraged or forced to sell their shares. The offer has not had any impact on Össur's operations or activities. Shareholders holding 7,254,034 shares accepted the offer and after settlement of the offer William Demant held 186,852,245 shares in Össur, corresponding to 41.2% of Össur's share capital.

TREASURY SHARES

The Company holds 5,017,992 treasury shares. No treasury shares were acquired in 2012.

SHARE HOLDING BY COUNTRY



MAJOR SHAREHOLDERS

Shareholders that have announced holdings above 5% to the Company are:

INVESTOR	TYPE OF FUND	COUNTRY	HOLDING
WILLIAM DEMANT INVEST A/S	Investment Fund	Denmark	41.2%
ATP	Pension fund	Denmark	6.2%
LÍFEYRISSJÓÐUR VERSLUNARMANNA	Pension Fund	Iceland	6.0%
GILDI	Pension Fund	Iceland	5.5%

ÖSSUR HF.
Listed 1999

STOCK EXCHANGE
NASDAQ OMX Copenhagen

TICKER SYMBOL
OSSR

NUMBER OF SHARES
453,750,000

MARKET CAP
31.12.2012
DK 3,426 Million
USD 606 Million

INVESTOR RELATIONS

Placing an emphasis on providing investors, analysts and other stakeholders with timely and accurate information, Össur hosts investor meetings, teleconferences and web presentations following each quarterly report, and other momentous occasions if needed.

To service institutional and larger investors the CEO, CFO and IR manager frequently travel to Copenhagen and London to ensure that current shareholders, and other relevant investors and stakeholders, can meet with management on a regular basis. In addition, Össur managers travel at least once a year to Paris, Frankfurt, Geneva and Zurich. In the past, Össur has participated in various healthcare conferences such as the Goldman Sachs European Medtech and Healthcare Services Conference in London, as well as the Jefferies Healthcare conferences in London and New York.

To service private investors in Denmark, Össur has participated in the Dansk Aktiemesse, a conference for private shareholders in Copenhagen organized by the Danish shareholder association. To further reach out to this group of investors, Össur plans to increase efforts towards private investors during 2013.

For the past three years Össur has held its Capital Markets Day in Copenhagen.

IR POLICY

The Company's policy is to disclose financial and corporate information to provide investors, analysts and other stakeholders with comprehensive and accurate information in order to help them understand Össur's current and expected developments.

At all times, Össur complies with relevant laws and regulations, as well as the disclosure obligations of NASDAQ OMX. Össur adheres to the principle of equal treatment of all stakeholders.

All press releases and announcements are disseminated through a recognized distribution vehicle. These communications are recorded and available on Össur's website for at least two years. Furthermore, the Company meets interested investors and analysts on a regular basis.

QUIET PERIOD

The end of a quarter up until the day of release of the relevant quarterly materials is considered a "quiet period." For the full-year report, a period of four weeks prior to the release of the report is considered a quiet period. During the quiet period, Össur does not comment on matters related to financial results or expectations.

Further details about Össur's IR policy can be found on the Company's website: www.ossur.com/investors

DIVIDEND POLICY

The Company's current strategy is to retain earnings to finance future growth and strategic acquisitions. However, as communicated in the full year report for 2011, the Board of Directors of Össur stated that the Board might change the Company's dividend policy. The Board of Directors has therefore approved a new dividend policy.

Through consistent profitability, growth and strong cash flows, Össur has built up a strong balance sheet. After years of external growth, Össur has decreased debt levels significantly and the Company is now in a position to return capital to shareholders. The Board of Directors will thus propose a new dividend policy to the shareholders at the Annual General Meeting.

THE NEW DIVIDEND POLICY IS AS FOLLOWS:

Össur's policy is to distribute a relatively stable dividend. The dividends will be decided annually in DKK per share based on realized earnings, the operational outlook and capital considerations, starting at DKK 0.10 per share equivalent to 22% of net earnings in 2012.

In addition, the Company intends to purchase own shares with the aim to maintain a desired capital level of net interest bearing debt at USD 40 – 120 million. Össur will continue to evaluate annual dividends and the repurchase of shares against the objectives of maintaining a solid financial position and the need for strategic investments.

ANNUAL GENERAL MEETING

According to the Company's Articles of Association, the AGM should be held before the end of April. The meeting is convened with at least three weeks' notice, using the same procedures as other shareholders meetings. The AGM results are sent to the Stock Exchange immediately following the meeting, and are also made available on the Company's website.

Össur's Annual General Meeting will be held at the Company's headquarters in Iceland on March 15, 2013.

CONTACT INVESTOR RELATIONS:

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IR Manager
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SHAREHOLDER INFORMATION ON THE INTERNET

Össur's website hosts extensive information on the Company. Shareholders and other stakeholders can read and subscribe to press releases sent to the NASDAQ OMX Stock Exchange, monitor price trends of the shares, utilize interactive analyst tools, read the Company's annual reports and listen to teleconferences with Company management. A tool monitoring up-to-date recommendations by analysts is also available. The website contains extensive information about Company products and technology.
www.ossur.com/investors

PUBLICATION SCHEDULE FOR QUARTERLY REPORTS	
First quarter	24.04.2013
Second quarter	24.07.2013
Third quarter	23.10.2013
Fourth quarter/Full year	05.02.2014
AGM 2014	14.03.2014

ÖSSUR PRESS RELEASES IN 2012

01.02	Reporting Calendar 2012
01.02	Q4 and Full Year Report 2011 Conference Call
02.02	Cooperation with Nike
08.02	Q4 and Full Year Report 2011
22.02	Fidelity - Major Shareholder announcement
24.02	AGM Proposed Agenda
24.02	Annual report
27.02	Insider trading
28.02	Insider Trading
05.03	Össur named among world's "Most Innovative Companies" by Fast Company magazine
02.03	AGM final Agenda
14.02	Candidates to the BOD
16.03	Results of the AGM
16.03	Board's Allocation of Responsibilities
19.04	Q1 2012 Conference Call
24.04	Q1 2012 Results
24.04	Share option scheme
23.05	Management changes
23.05	Share option granted
18.07	Q2 Conference call
25.07	Q2 Press Release
25.07	Statement from Össur's Board of Directors on the Volunarey Offer from WDI
08.08	WDI Announcement
08.08	Insider Trading
08.08	Major Shareholder announcement
17.09	Comgratulations Team Össur
07.10	Study on Unloader One
16.19	Q3 Conference call
23.10	Q3 2012 Results
08.11	Insider Trading
14.11	Popular Science awards to Symbionic Leg
06.12	Medical Device Tax

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OVERVIEW 2012

HIGHLIGHTS 2012

Sales growth for 2012 was 3% measured in local currency, which is in line with guidance of 2-3%. Total sales amounted to USD 399 million compared to USD 398 million in 2011. Growth remains good across all segments and key markets in Europe, while the prosthetics market in the Americas has been affected by adverse market conditions. Sales growth in prosthetics across all markets was 4%, and sales growth for bracing and supports was 3%, both measured in local currency. The fourth quarter was a record quarter in Bionic sales, accounting for 17% of prosthetics sales.

Gross profit margin remains stable. The manufacturing facility in Mexico is contributing, as are other lean initiatives within manufacturing and operations. Slow growth in prosthetic sales in the Americas has negatively affected the gross profit margin. Gross profit amounted to USD 248 million or 62%, the same ratio as in 2011. EBITDA amounted to USD 70 million corresponding to a margin of 18%, which is in line with guidance of 18-19%.

Net profit increased by 9% in 2012, and amounted to USD 38 million, compared to USD 35 million in 2011.

Össur's cash flow continues to be strong and cash flow from operations was 18% of sales in 2012, up from 17% in 2011.

Through consistent profitability and strong cash flow, Össur has built a strong balance sheet. The Company is now in a position to return capital to shareholders. The Board of Directors will thus propose a new dividend policy to the shareholders at the Annual General Meeting.

Össur's products exempt from the US medical device tax. In December the US Department of Treasury issued a final ruling, clarifying the applicability of a medical device tax created by the Affordable Care Act, the legislation that reforms US health care. The Department of Treasury has confirmed that the 2.3% tax on medical devices does not apply to prosthetics or orthotic devices. While Össur does sell other products that may still be subject to the tax, the impact on Össur is not expected to be material as these products generate limited sales.

New products – During the year, 29 products were launched with a healthy mix between bracing and supports, prosthetics and compression therapy. Within bracing and supports, focus has been on further establishing and broadening successful product segments such as the Unloader One, which treats knee osteoarthritis, and spinal support products as well as the Rebound Walker. In prosthetics the highlight product of the year was the SYMBIONIC® LEG, the first complete bionic leg. The SYMBIONIC LEG has been successful and received positive feedback from users. Other major projects in prosthetics include the Balance product line, which is primarily for elderly users and people with low activity level.

Mexico – This year marks the first full year of operation at the Mexico facility, which opened in September 2011. The transfer of products previously manufactured at other Össur locations to the Mexico facility has been successful, resulting in material process improvement and cost savings. The facility is well equipped and will continue to strengthen Össur's manufacturing capabilities.

Amputees make history – Össur, like the rest of the world, celebrated when Oscar Pistorius achieved his goal to compete at the Olympics and making history by being the first amputee to participate in the Olympics. Again, at the Paralympics disabled athletes inspired people all around the world, changing the perception of what people with disabilities can accomplish.

ORGANIZATIONAL CHANGES

In 2012 a new global marketing division was established. This unit is expected to work across functions and geographical locations to increase Össur's competitive edge in a changing market. Increased focus will be on effectively communicating the outcomes of Össur's solutions and to further add value to Össur's customer experience.

Guidance 2013 – Management estimates LCY organic sales growth for 2013 to be in the range of 2-4%. EBITDA margin is estimated to be in the range of 18-19% of sales for the year

SALES BY GEOGRAPHY

USD '000	2010	% OF SALES	GROWTH USD	GROWTH LCY	ORGANIC GROWTH LCY
AMERICAS	207,999	52%	1%	1%	-1%
EMEA	169,932	43%	-2%	5%	5%
ASIA	21,506	5%	18%	18%	18%
TOTAL	399,437	100%	0%	3%	3%

SALES BY SEGMENT

USD '000	2012	% OF SALES	GROWTH USD	GROWTH LCY	ORGANIC GROWTH LCY
BRACING & SUPPORTS	208,255	52%	0%	3%	3%
PROSTHETICS	171,895	43%	1%	4%	2%
COMPRESSION THERAPY	18,440	5%	-1%	6%	6%
OTHER	847	0%			
TOTAL	399,437	100%	0%	3%	3%

SALES

The Company's total sales were USD 399 million, compared to USD 398 million in 2011. Sales growth was 3%, both organic and measured in local currency. Negative currency effects amounted to USD 11 million.

AMERICAS

Sales growth in the Americas was 1% and organic sales declined by 1%, both measured in local currency. Sales in the US have been weak during the year as the US prosthetics market has been impacted by turbulence in the reimbursement environment. Össur's distribution contract with Hanger expired at the end of the year and has not been renewed. Hanger is the largest operator of O&P facilities in the US and the largest customer of the Company accounting for approximately 6% of total sales in 2012. Sales to Hanger could decrease in 2013, however, agreements with new prosthetics distributors were signed in the second half of the year, and are already having a positive impact. Bracing and supports sales were moderate. Sales and profitability in bracing and supports were affected by contractual adjustments to sales in one of Össur's distribution companies.

EMEA

EMEA delivered another good year, growing 5% both organic and measured in local currency. The prosthetics segment in EMEA continues to be strong with good growth in key markets such as Germany and France. In addition, new markets such as Turkey and Russia are growing nicely. Sales of Bionic products have been excellent in 2012 and Q4'12 was a record quarter in Bionics sales. Sales of bracing and supports in

France were slow, while sales growth in other markets were impressive.

Growth in compression therapy was 6%, compared to 3% in 2011. The first two quarters of the year showed excellent growth while sales slowed down in the second half of the year.

ASIA

Sales growth in Asia was excellent with 18% organic growth, measured in local currency. Sales in Japan continue to be strong both in bracing and supports and prosthetics, as well as in other markets within Össur Asia. Japan is the single largest market within Össur Asia. At the beginning of the year, Össur Asia established a small subsidiary in South Korea, which has shown steady progress.

GROSS PROFIT

Gross profit amounted to USD 248 million or 62% of sales in 2012 compared to USD 246 million and 62% of sales in 2011. The stable gross profit margin is a result of the success of the manufacturing facility in Mexico in addition to other lean initiatives within manufacturing and operations. Slow prosthetic sales in the Americas have had negative effects on the gross profit margin.

Össur achieved USD 4 million in savings from the Mexico facility in 2012, which was in line with management's commitment for the full year.

OPERATING EXPENSES

Operating expenses as a ratio to sales are at a similar level as in 2011. Sales and marketing expenses and general and administrative expenses are growing in line with sales while R&D expenses have increased. During the year, capacity within the R&D function in the Americas has been strengthened.

Profit from operations amounted to USD 57 million or 14% of sales compared to USD 59 million and 15% of sales in 2011.

Amortization of intangible assets, relating to acquisitions made in previous years, amounted to USD 3.6 million, compared to USD 4.7 million in 2011. Amortization in 2013 will remain at a level similar to 2012.

FINANCIAL ITEMS, TAX AND NET PROFIT

Net financial expenses amounted to USD 6 million compared to USD 13 million in 2011. The substantial reduction is mainly attributable to reduced funding costs following refinancing in 2011, but also a result of rapidly reducing debt levels. Foreign exchange differences were likewise minimal in 2012 after having been negative by USD 2 million in 2011.

In 2011, Össur signed a financing agreement with three international banks on long-term financing. As a result of this financing structure, exchange rate effects flowing through the financial items in the income statement are materially lower than with the previous financing structure.

Income tax amounted to USD 13 million, corresponding to a 26% effective tax rate, compared to USD 12 million and a 26% effective tax rate in 2011.

The consolidated company as a whole is not jointly taxed. Individual companies are either independent taxable entities or part of a tax sub-consolidation in the country where located. The income tax rate of the parent company in Iceland was 20% in 2011.

Net profits increased by 9% in 2012, amounting to USD 38 million compared to USD 35 million in 2011. The increase was mainly driven by a decrease in financial expenses.

EBITDA

The EBITDA ratio is 18%, the same as in 2011. Affecting the EBITDA is slow prosthetics sales, contractual adjustments to sales in one of Össur's distribution companies, as well as increased investment in R&D. Negative currency impact on EBITDA amounted to USD 1.9 million. However, Mexico is contributing positively. In 2012, Össur did not make adjustments to the EBITDA due to one-time items.

EARNINGS PER SHARE

EARNINGS PER SHARE	2012	2011	CHANGE
EPS DILUTED (US CENTS)	8.4	7.7	9%
CASH EPS DILUTED (US CENTS)	11.3	10.6	7%

BALANCE SHEETS

Össur's balance sheets are strong with an equity ratio of 69% compared to 63% at yearend 2011. Strong cash flow from operations has resulted in further deleveraging, and net debt to EBITDA is now 1.2x. Leverage has decreased rapidly following the financing in March 2011.

CASH FLOW

USD '000	2012	% OF SALES	2011	% OF SALES
CASH GENERATED BY OPERATIONS	70,553	18%	68,377	17%
NET CASH PROVIDED BY OPERATING ACTIVITIES	57,568	14%	48,447	12%

CAPITAL EXPENDITURE AND INVESTMENTS

Capital investments amounted to USD 14.3 million or 3.6% of sales, compared to USD 16.1 million and 4.1% of sales in 2011. Capital investments in 2013 are expected to be towards the higher end of the guided range of 2.5-3.5%.

SPLIT BETWEEN CURRENCIES 2012

CURRENCY SPLIT	INCOME	COST
USD	52.8%	53.9%
EUR	29.2%	25.0%
ISK	0.4%	10.0%
OTHER	17.6%	11.1%
TOTAL	100%	100%

RISK FACTORS

Investment in Össur's shares involves a high degree of risk. Össur's business, financial condition and results of operation going forward rest upon certain assumptions and could be seriously harmed if any of the factors described below occur. The Company cannot assure that its assumptions will be correct. Furthermore, additional risks and uncertainties not presently known to Össur, or that it currently deems immaterial, may also adversely affect its business operations and financial results. The risk factors discussed below are not listed in order of priority.

GENERAL RISKS

Össur's assumptions regarding market trends may prove incorrect.

Assumptions regarding demographic trends are important to Össur. The Company expects, for example, that the population of elderly will continue to grow, an increasing proportion of this population will live an active lifestyle and that the number of people with diabetes will increase in the future. No assurance can be made that these assumptions will prove to be correct or that these demographic trends will result in a demand for the Company's products.

Össur is subject to risks related to its international operations.

Headquartered in Reykjavík, Iceland, Össur has significant operations in the United States and Europe, and also operates in Asia, Australia and Africa. Össur's business and results of operations are therefore subject to various risks inherent to international operations. Such risks include, among others, recessionary trends, inflation, instability of financial markets, exposure to different legal standards and enforcement mechanisms, trade barriers, rules regarding the origins of products, labor unrest, foreign exchange controls and political and social instability.

Product liability claims could adversely impact Össur's financial condition and operations, and impair its reputation.

Össur is responsible for the safety and effectiveness of its products. Although Össur engages in internal quality control and product testing procedures, the Company cannot guarantee that it won't be found liable for a product liability claim in the future, or that insurance coverage will be sufficient or continue to be available on commercially reasonable terms.

Third-party payers' cost-control methods may result in reduced sales or repayment of prior sales. Össur's business is subject to healthcare industry reforms and legislative and regulatory changes.

Most of Össur's customers rely on third-party payers, including both government healthcare programs and private health insurance plans, to cover and reimburse some or all of the costs associated with Össur's products. All third-party payers, whether governmental or commercial, are developing increasingly sophisticated methods of controlling healthcare costs, including review of claims. These cost-control methods also potentially limit the coverage and the amount of payment for which governmental and third-party payers may be willing to pay for medical products. As such, the continuing efforts of both governmental and private payers of healthcare to contain or reduce costs could lead to patients being unable to obtain approval for payment from these third-party payers. If that were to occur, sales of Össur's products may decline significantly and its customers may reduce or eliminate purchases of its products. Review of claims may lead to repayment of prior sales. Further, future legislative or regulatory initiatives directed at reducing costs could be introduced at either the federal or state level. The Company cannot predict the impact of future legislative or regulatory initiatives on its business.

Össur's failure to comply with regulatory requirements, or receive regulatory clearance, or approval for its products or operations, including healthcare fraud and abuse laws and regulations, would adversely affect Össur's sales and potential for future growth.

Össur's products are medical devices that are subject to extensive regulation in the United States by the Food and Drug Administration (FDA), and by respective authorities in other countries where Össur conducts business. Such regulation can regulate virtually all aspects of a medical device's design and testing, manufacture, safety, labeling, storage, recordkeeping, reporting, clearance and approval, promotion and distribution. Failure to comply with the regulatory requirements of the applicable authority may subject a company to administrative or judicially imposed sanctions ranging from warning letters to criminal penalties or product withdrawal.

Össur is exposed to litigation from international investors.

In recent years Össur's shareholder base has changed and is now more diversified and has gradually become more international. Accordingly, Össur is more exposed to risk of litigation from international investors.

RISKS RELATED TO CORPORATE FINANCE

Össur may fail to continue to grow through acquisitions.

A substantial proportion of Össur's growth in recent years has been driven by acquisitions. No assurance can be given that Össur will be successful in identifying appropriate acquisition candidates in the key markets in which the Company operates or desires to operate. Acquisitions involve a number of risks, including diversion of management resources and management focus, integration risk, unexpected or high integration costs, failure to retain key employees of an acquired business and failure to attain expected synergies. To mitigate risk, Össur conducts due diligence and seeks protection from unexpected events through representations and warranties from selling shareholders.

Össur is exposed to financing risks and instability within financial markets.

As a global business Össur is exposed to various risk factors originating in the international financial markets, such as: interest rate risk, foreign exchange risk, credit risk and counterparty risk on cash held with financial institutions. These risk factors are managed according to internal rules that are outlined in the Company's treasury policy. Össur's functional and reporting currency is the US dollar, hence fluctuations in local currencies can have an impact on the operations of the Company. Fluctuation in the exchange rates between the US dollar, Euro and Icelandic krona can have an impact on Össur's financial condition and operations.

Össur's financing and tax structure is subject to laws and governmental approvals.

Össur is committed to complying with tax rules and paying all legally obliged taxes. At the same time, the Company has a responsibility to its shareholders to legally minimize costs and maximize earnings. Össur's tax strategy is to strive for optimizing taxes through a flexible and effective financing and tax structure. The goal is to balance benefits against risks and costs while at the same time meeting reporting obligations, compliance obligations and corporate social responsibilities. Össur recognizes that some areas are not free from doubt and that differing legal interpretations may be possible meaning that from time to time tax authorities may not share Össur's view and may question its interpretation. Also, relevant laws and regulations may change as a result of which higher taxes could become due or changes would have to be made to the tax and legal structure.

Össur is dependent on IT systems.

Össur's business is supported by several systems. The systems that are classified as mission critical are the ERP system, the VoIP phone system and the Exchange/Outlook email system. Those systems can fail resulting in serious influence on the business like a reduced ability to receive orders and an impossibility to complete deliveries. Without the ERP system working the ability to receive orders and complete shipping is seriously reduced. To improve reliability, in 2012 Össur consolidated its systems into one highly, reliable data center in the US, duplicated for the mission critical systems into a disaster recovery site located in Europe.

RISKS RELATED TO RESEARCH & DEVELOPMENT

Össur may be adversely affected by developments in medicine.

Össur's main products are intended to improve the quality of life for individuals suffering the effects of accidents or illnesses that are currently incurable. No assurance can be given that Össur's target market will not be materially diminished by advances in medical science, or that Össur will be able to generate comparable sales from alternative market segments.

Össur may be unable to develop or secure the use of new technologies.

Össur operates in markets that are characterized by rapid, technological change and driven by extensive research that is carried out by market participants. The development by any of Össur's competitors of substitute products that better satisfy market demands could have a material adverse effect on Össur's business and operations. A failure by Össur to develop new products or enhance existing products could have a material adverse effect on the Company.

Össur is subject to risks relating to the protection of intellectual property rights.

Össur relies on a combination of patents, trademarks, trade secrets and non-disclosure and non-competition agreements to protect its proprietary intellectual property, and will continue to do so. While Össur intends to defend against any threats to its intellectual property, there can be no assurance that these patents, trademarks, trade secrets or other agreements will adequately protect Össur's intellectual property.

RISKS RELATED TO SALES & MARKETING

Össur relies on orthopaedic professionals, and other agents in connection with the sale and distribution of its products.

Össur's sales depend primarily on the prescriptions and recommendations of its products by orthopaedic professionals. The Company has developed and maintained close relationships with a number of orthopaedics and prosthetic (O&P) workshops that support and recommend the Company's products. A failure to maintain the support of such orthopaedics professionals and O&P workshops, or a failure to develop relationships with new orthopaedic professionals and O&P workshops, could adversely affect Össur's business and operations.

Össur aims to maintain and increase its position as a market leader in non-invasive orthopaedics.

Össur aims to play a leading role in the likely continuance of consolidation in its markets. Össur's success thereof is subject to multiple factors both internal and external. As for external factors the risk remains that competitors accelerate the consolidation of the market, and strengthen their own position, at the expense of other participants like Össur.

Össur relies on agents and third-party distributors in connection with the sale and distribution of its products.

Third-party agents and distributors sell a portion of Össur's products. The Company's largest wholesale customer accounted for 6% of the Company's net sales at yearend 2012. Other distributors accounted for less than 2% of net sales for the same period. These agents and distributors are not employees of Össur, and Össur may be unable to influence their actions and performance.

RISKS RELATED TO MANUFACTURING & OPERATIONS

Össur is vulnerable to disruptions to its production and distribution facilities.

Össur's production and distribution facilities may be adversely affected by man-made or natural disasters. Recently, Össur has been working on a risk ranking program in all its manufacturing facilities, and the Company has managed to reduce the level of risk and awareness among employees. However a natural disaster or the disruption of Össur's production for any other reason could adversely affect the Company's production output, which, in turn, would impair the Company's ability to fulfill customer orders. This could lead to a decline in sales and increased costs due to necessary shifts in production within the Company and the possible need to outsource production. The Company maintains insurance to cover such losses relating to man-made and natural disasters. No assurance can be given, however, that insurance payments would be sufficient to cover the full loss resulting from a disruption in Össur's production or that Össur's insurance would cover the event that causes such a disruption.

Össur is dependent on certain raw materials.

Össur's products require silicone and carbon, metals and other raw materials. Such raw materials may not always be available on favorable terms, or at all.

CORPORATE GOVERNANCE

This statutory statement on corporate governance is made in accordance with Article 66 (c) of the Icelandic Financial Statements Act No. 3/2006, as amended. This statement has been approved by the Board of Directors and is published in the Annual Report and on the Company's website. This statement covers the financial year that ended on 31 December 2012.

The statement includes information on the following items:

- A reference to the corporate governance recommendations the Company follows and how the Company addresses the recommendations, including any deviations and explanations thereto.

- A descripton of the main aspects of internal controls and risk management systems in connection with the preparation of financial statements.

- A description of the Company's organizational structure and the role and composition of each function.

1. CORPORATE GOVERNANCE

The Company has chosen to follow the Danish Recommendations on Corporate Governance because the Company's shares are traded on NASDAQ OMX Copenhagen. It is recommended in the explanations to clause 4.3 of NASDAQ OMX Copenhagen's rules for issuers of shares to apply the Danish Recommendations if foreign companies are not subject to other rules. Applying the Danish Recommendations will also make it easier for investors on the Danish market to assess the Company's corproate governance practices.

The latest Danish Recommendations on Corporate Governance were issued by the Corporate Governance Committee in August 2011 and are available on the Committee's website: www.corporategovernance.dk.

The Company complies with the vast majority of the Danish Recommendations. The few deviations are explained below. A complete report on the Company's compliance with each recommendation is available on the Company's website.

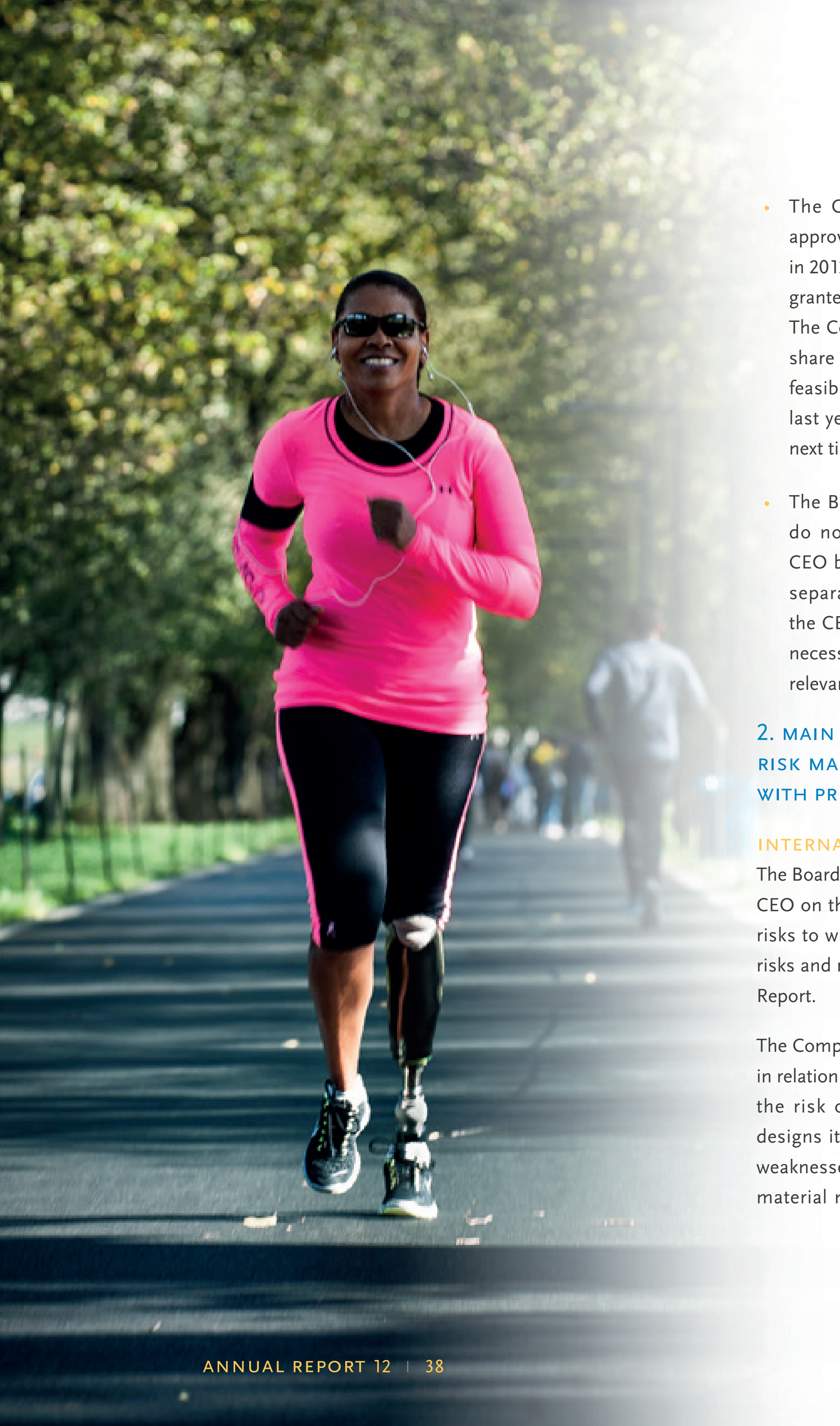
- The Company does not publish all information to the stock market in Danish. Instead the Company publishes all its material in English based on the assumption that most shareholders and investors are familiar with that language. Taking into account that the Company is legally domiciled in Iceland and its shares are admitted to trading on NASDAQ OMX Copenhagen, the Company also publishes the highlights of each quarterly financial report in Icelandic and Danish.

- The majority of the Board of Directors is considered dependent. Two of the members of the Board represent the interest of the Company's controlling shareholder. One member has been on the Board for 14 years. The two other members of the Board are considered independent. In the Board's opinion it is normal and understandable that the controlling shareholder is represented by two out of five members of the Board. It is also the Board's opinion that its longest serving member is in fact acting independently of special interest and his skills and experience, including his medical expertise and knowledge of the US healthcare system, are valuable to the Board and ensures diversity within it.

- The Company's Articles of Association do not include a provision on a fixed retirement age for members of the Board of Directors. In the Board's opinion, age is irrelevant as long as the contribution of the respective member of the Board is considered valuable.

- No nomination committee has been established and a remuneration committee was abolished in 2010 and the Company currently has no remuneration committee. In the Board of Directors' opinion such committees are not necessary taking into account the size of the Board and the balanced and relevant expertise and experience of the current members of the Board. The Board has the role and responsibilities such committees would otherwise have.

- The Remuneration Policy does not include criteria that ensures that the vesting period for variable components of remuneration agreements are longer than one calendar year. Bonuses for short-term performance may be paid quarterly, semi-annually or annually. The Company believes it is important to have certain flexibility to pay out such bonuses. On the other hand the vesting time for share options for long-term performance is currently three years.



- The Company's new Share Incentive Scheme, approved at the Company's Annual General Meeting in 2012, is not a roll-over program. Share options are granted in full in the beginning and not periodically. The Company has had the same setup in previous share incentive schemes and it was not considered feasible to propose a switch to a roll-over program last year. The Company will consider doing so the next time a share incentive scheme is introduced.
- The Board of Directors and the Audit Committee do not meet the external Auditors without the CEO being present. However, the Chairman has a separate conversation with the Auditors without the CEO being present. The Board intends to take necessary measures to ensure compliance with the relevant recommendations in 2013.

2. MAIN ASPECTS OF INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS IN CONNECTION WITH PREPARATION OF FINANCIAL STATEMENTS

INTERNAL CONTROLS

The Board of Directors has an ongoing dialogue with the CEO on the identification, description and handling of risks to which the Company may be exposed. Material risks and risk management are discussed in the Annual Report.

The Company's risk management and internal controls, in relation to financial processes, are designed to control the risk of material misstatements. The Company designs its processes to ensure there are no material weaknesses with internal controls that could lead to a material misstatement in its financial reporting. The external Auditors' evaluation of these processes is included in the Audit Report.

The Company goes through a detailed strategic and forecast process each year and a strategy and forecast report is prepared. The Board approves the Company's strategy, forecasts and targets each year. Performances against targets are monitored on a monthly basis. This includes a year over year comparison where the main reasons for changes are explained. A 12-month forecast is available at all times and forecasts are updated quarterly and reasons for changes explained.

To ensure high quality in the Company's financial reporting systems, the following policies, procedures and guidelines for financial reporting and internal control have been adopted, to which the subsidiaries and reporting units must adhere:

- Continuous analysis of year over year comparison.
- Continuous follow-up on results achieved compared to assumptions in forecasts.
- Policies for IT use, insurance, cash management, procurement, etc.
- Reporting instructions as well as reporting and finance manuals.

The responsibility for maintaining sufficient and effective internal control and risk management in connection with financial reporting lies with the CEO.

The Company does not have an internal audit function, but uses internal control systems that are monitored by the Audit Committee and assessed by external Auditors.

EXTERNAL AUDITORS

An auditing firm is elected at the Annual General Meeting for a term of one year. The external Auditors are not allowed to own shares in the Company. The external Auditors shall examine the Company's annual Consolidated Financial Statements in accordance with international standards on auditing, and shall, for this purpose, inspect account records and other material relating to the operation and financial position of the Company. The external Auditors shall have access to all of the Company's books and documents at all times. The external Auditors report any significant findings regarding accounting matters and any significant internal control deficiencies via the Audit Committee to the Board of Directors in the Auditor's Report.

3. ORGANIZATIONAL STRUCTURE AND THE ROLE AND COMPOSITION OF EACH FUNCTION

According to the Company's Articles of Association the Company is managed by:

- Shareholders' Meetings
- The Board of Directors
- The Chief Executive Officer

SHAREHOLDERS' MEETINGS

The supreme authority in all affairs of the Company, within the limits established by the Company's Articles of Association and statutory law, is in the hands of lawful Shareholders' Meetings.

The Company's controlling shareholder, William Demant Invest A/S, holds 41.2% of the shares and voting rights.

THE BOARD OF DIRECTORS

According to the Company's Articles of Association the Board of Directors is responsible for the affairs of the Company between Shareholders' Meetings.

The Board shall operate in accordance with the Company's Articles of Association and the Board's Rules of Procedure. The principal duties of the Board are as follows:

- Appoint a CEO and decide on salary and the terms of employment, establish terms of reference and supervise the CEO's work.
- Supervise continuously and precisely all aspects of the Company's operations and ensure that the Company's organization and activities are always in order. In particular, the Board of Directors shall ensure adequate supervision of the financial control and accurate reporting and disposal of the Company's financial assets, and at least once a year confirm the Company's financial plans.
- Establish the Company's goals in accordance with the Company's objectives pursuant to the Articles of Association, and formulate the policy and strategy required to achieve these goals.

THE AUDIT COMMITTEE

The Audit Committee shall operate in accordance with its Rules of Procedure. The principal duty of the Audit Committee is to ensure the quality of the Company's Consolidated Financial Statements and other financial information, and the independence of the Company's Auditors.

THE CHIEF EXECUTIVE OFFICER

According to the Company's Articles of Association the Board of Directors appoints a CEO to manage the Company's daily operations.

The principal duties of the CEO are as follows:

- The CEO is responsible for daily operations and is obliged to follow the Board's policy and instructions in that regard. The daily operations do not include measures that are unusual or extraordinary. The CEO may only take such measures if specially authorized by the Board, unless it impossible to wait for the Board's decision without substantial disadvantage to the Company's operations. In such an event the CEO shall inform the Board of his measures, without delay.
- The CEO shall normally act as chairman in the Company's subsidiaries, which are connected with the sales and manufacturing activities and/or the core activities of the Company.
- The CEO is responsible for the work and results of Executive Management.
- The CEO shall ensure that the Consolidated Financial Statements of the Company conform to the law and accepted practices and that the treatment of the Company's assets is secure. The CEO shall provide any information that may be requested by the Company's Auditors.

References to the executive board in the corporate governance recommendations only apply to the CEO.

The full report on corporate governance, further information on the Board, the Audit Committee and the CEO can be found in the Annual Report and on the Company's website.

REMUNERATION AND SHAREHOLDING

THE REMUNERATION AND SHAREHOLDING OF ÖSSUR DIRECTORS AND EXECUTIVES

BOARD OF DIRECTORS	POSITION	REMUNERATION (i) USD '000	NUMBER OF SHARES 2012 (INCL. FINANCIALLY LINKED PARTIES)	NUMBER OF SHARES 2011 (INCL. FINANCIALLY LINKED PARTIES)	SHARE OPTION
Niels Jacobsen (ii)	Chairman of the Board	90	187,276,933	179,791,616	0
Kristján Tómas Ragnarsson	Vice Chairman of the Board	54	623,789	623,789	0
Arne Boye Nielsen	Board member	36	0	0	0
Svafa Grönfeldt	Board member	36	0	0	0
Þórður Magnússon	Board member	36	1,456	1,456	0
CEO AND EXECUTIVE MANAGEMENT					
Jón Sigurðsson	President & CEO	1,441	341,168	265,258	1,250,000
Egill Jónsson	EVP of M&O	433	822,749	822,749	500,000
Hjörleifur Pálsson	CFO	627	20,000	0	500,000
Mahesh Mansukani	President of Össur Americas	566	0	0	500,000
Ólafur Gylfason	President of Össur EMEA	610	0	0	500,000
Þorvaldur Ingvarsson	EVP of R&D	190	0	0	500,000

(i) Salaries and related expenses.
(ii) The vast majority of the shares, or 187,085,828 are owned by William Demant Invest A/S, where Niels Jacobsen is the General Manager.

THE REMUNERATION POLICY OF ÖSSUR HF.

BOARD OF DIRECTORS, PRESIDENT & CEO AND EXECUTIVE MANAGEMENT

It is the policy and priority of Össur hf. and its subsidiaries ("the Company") to attract and retain exceptional employees long-term. In order to achieve this, the Company must have in place a competitive compensation structure in each of its operations. To the extent possible, the remuneration of managers and other employees shall be harmonized and fair, taking into account their responsibilities, local trends, performance and other relevant factors.

This Remuneration Policy is designed and implemented to ensure, to the extent possible, the alignment of interest of the Board of Directors, the President & CEO and Executive Management with the Company's performance long-term.

The remuneration of the President & CEO and Executive Management shall be determined as follows:

1. **Fixed salary.** When determining fixed salary, account should be taken of their responsibilities, local trends, performance and other relevant factors, such as the remuneration of their peers in other international companies of similar size.
2. **Bonuses for short-term performance.** Bonuses for short-term performance can be up to 50% of the basic salary. In determining bonuses, special attention shall be given to the Company's overall results, actual growth and its long-term profitability. Bonuses may be paid quarterly, semi-annually or annually.
3. Bonuses may be paid with shares in the Company, in part or in full. The shares shall not be delivered until three years after the bonus has been determined.
4. If bonus payments have clearly been based on false, misleading or insufficient data, such payments shall be repaid to the extent correct data shows that no or lower bonus would have been paid.
5. **Share options for long-term performance.** Share options may be offered. The key terms of such share option agreements or plans shall be submitted to a Shareholders' Meeting for approval. Put options shall not be offered and no loans or guarantees shall be granted.
6. **Pension rights.** Pension payments shall be paid to pension funds in accordance with applicable laws and employment agreements. No pension liabilities shall be undertaken, unless required by law.
7. **Severance payments.** No special retirement agreements shall be made, but instead shall mutual termination clauses in employment agreements apply. Termination clauses shall not exceed twenty-four (24) months.
8. The remuneration of the Board of Directors shall be approved by the Company's Annual General Meeting each year and paid in cash.

This Remuneration Policy shall apply to all future employment agreements with the President & CEO and Executive Management. Existing agreements shall remain unchanged and in full force unless otherwise agreed by relevant parties.

The Remuneration Policy is binding for the Board as regards share options, cf. item 3 above. In other instances the Remuneration Policy shall be of guidance for the Board. Any departure from the Remuneration Policy shall be recorded and reasoned in the Board's Minutes.

This Remuneration Policy has been approved by the Board of Directors of Össur hf. in accordance with Article 79. a. of the Icelandic Companies Act No. 2/1995, taking into consideration the Icelandic Guidelines on Corporate Governance. The Remuneration Policy is reviewed once a year and shall be approved at the Company's Annual General Meeting, with or without amendments.

ÖSSUR HF. CONSOLIDATED FINANCIAL STATEMENTS 2012

FINANCIAL HIGHLIGHTS AND KEY RATIOS

CONSOLIDATED STATEMENTS			2012	2011	2010	2009	2008
INCOME STATEMENT	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
SALES GROWTH	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
BALANCE SHEET	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
CASH FLOW	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
KEY FIGURES	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
MARKET	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.

All amounts in thousands of USD

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, Excecutive 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.

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
Þórður Magnússon

Kristján T. Ragnarsson
Svafa Grönfeldt

President and CEO
Jón Sigurðsson

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
NET SALES	6	399,437	398,325
Cost of goods sold		(151,485)	(152,255)
GROSS PROFIT		247,952	246,070
Other income	8	102	2,103
Sales and marketing expenses		(120,924)	(119,313)
Research and development expenses		(22,131)	(19,654)
General and administrative expenses		(48,223)	(49,806)
PROFIT FROM OPERATIONS		56,776	59,400
Financial income		153	224
Financial expenses		(6,788)	(10,845)
Net exchange rate difference		281	(2,052)
Net financial income / (expenses)	11	(6,354)	(12,673)
Share in net profit of associated companies		456	104
PROFIT BEFORE TAX		50,878	46,831
Income tax	12	(13,115)	(12,223)
NET PROFIT		37,763	34,608
Attributable to:			
Owners of the Company		38,451	33,810
Non-controlling interests		(688)	798
		37,763	34,608
EARNINGS PER SHARE	13		
Basic Earnings per Share (US Cent)		8.4	7.7
Diluted Earnings per Share (US Cent)		8.4	7.7

2011 figures are restated, see note 5.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME 2012 AND 2011

	NOTES	2012	2011
NET PROFIT		37,763	34,608
OTHER COMPREHENSIVE INCOME			
Gain / (loss) on hedge of a net investment in foreign operations		0	(1,175)
Change on cash flow hedges		1,334	1,100
Translation difference of shares in foreign operations		3,894	(4,639)
Income tax relating to components of other comprehensive income		199	(56)
Other comprehensive income (net of tax)		5,427	(4,770)
Total comprehensive income		43,190	29,838
Attributable to:			
Owners of the Company		43,878	29,040
Non-controlling interests		(688)	798
		43,190	29,838

2011 figures are restated, see note 5.

All amounts in thousands of USD

CONSOLIDATED BALANCE SHEETS

ASSETS

	NOTES	31.12.2012	31.12.2011
NON-CURRENT ASSETS			
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
		450,949	438,404
CURRENT ASSETS			
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
		140,214	141,564
TOTAL ASSETS		591,163	579,968

2011 figures are restated, see note 5.

EQUITY AND LIABILITIES

	NOTES	31.12.2012	31.12.2011
EQUITY			
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		406,853	363,070
Non-controlling interest in equity		881	1,663
TOTAL EQUITY		407,734	364,733
NON-CURRENT LIABILITIES			
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
		108,418	132,832
CURRENT LIABILITIES			
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
		75,011	82,403
TOTAL EQUITY AND LIABILITIES		591,163	579,968

2011 figures are restated, see note 5.

All amounts in thousands of USD

CONSOLIDATED STATEMENTS OF CASH FLOWS 2012 AND 2011

	NOTES	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operations		56,776	59,400
Depreciation and amortization	15, 17	13,180	13,206
(Gain) / loss on disposal of assets		127	(1,355)
Change in provisions		1,394	862
Changes in operating assets and liabilities		(924)	(3,736)
CASH GENERATED BY OPERATIONS		70,553	68,377
Interest received		127	176
Interest paid		(4,637)	(12,442)
Taxes paid		(8,475)	(7,664)
NET CASH PROVIDED BY OPERATING ACTIVITIES		57,568	48,447
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed and intangible assets	15, 17	(14,319)	(16,143)
Proceeds from sale of fixed assets		61	189
Acquisition of subsidiaries	33	(11,443)	0
Changes in financial assets		(932)	(2,631)
		(26,633)	(18,585)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term borrowings		0	116,147
Repayments of long-term borrowings		(21,718)	(195,427)
Changes in revolving credit facility		(6,840)	23,742
Dividends from subsidiaries paid to non-controlling interests		(615)	(763)
Purchased treasury shares		0	(8,206)
		(29,173)	(64,507)
NET CHANGE IN CASH		1,762	(34,645)
EFFECTS OF EXCHANGE RATE CHANGES ON:			
Balance of cash held in foreign currencies		(240)	522
Other items held in foreign currencies		700	(620)
CASH AT BEGINNING OF PERIOD		19,656	54,399
CASH AT END OF PERIOD		21,878	19,656
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	ATTRIB. TO OWNERS OF THE PARENT	NON-CONTROLLING INTEREST	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

All amounts in thousands of USD

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.

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.

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).

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.

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.

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.

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.

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.

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.

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 JUDGEMENTS 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.

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.

	REPORTED 2011	ADJUSTMENT 2011	RESTATED 2011
INCOME STATEMENT			
Net sales	401,325	(3,000)	398,325
Cost of goods sold	(152,255)		(152,255)
Gross profit	249,070	(3,000)	246,070
Other income	2,103		2,103
OPEX	(188,773)		(188,773)
Profit from operations	62,400	(3,000)	59,400
Total financial income/(expenses)	(12,569)		(12,569)
Profit before tax	49,831	(3,000)	46,831
Income tax	(13,200)	977	(12,223)
Net profit	36,631	(2,023)	34,608
EPS (US cent)	8.1	(0.4)	7.7
Organic growth	5%		5%
LC growth	9%	(1%)	8%
EBITDA	75,606	(3,000)	72,606
EBITDA ratio	19%	(1%)	18%
BALANCE SHEET 31.12.2011			
ASSETS			
Non-current assets	437,427	977	438,404
Current assets	144,564	(3,000)	141,564
Total assets	581,991	(2,023)	579,968
EQUITY AND LIABILITIES			
Equity	366,756	(2,023)	364,733
Non-current liabilities	132,832	0	132,832
Current liabilities	82,403	0	82,403
Total equity and liabilities	581,991	(2,023)	579,968
Equity ratio	63.0%		62.9%

The reclass does not affect cash or cashflow results.

All amounts in thousands of USD

6. NET SALES

Specified according to product lines:

	2012	2011
Bracing and Support	208,255	208,142
Prosthetics	171,895	170,425
Compression Therapy (Phlebology)	18,440	18,652
Other products	847	1,106
	399,437	398,325

7. SEGMENT INFORMATION

2012	AMERICAS	EMEA	ASIA	ELIMINATIONS	CONSOLIDATED
SALES					
External sales	207,999	169,932	21,506	0	399,437
Inter-segment sales	39,846	121,104	0	(160,950)	0
Total sales	247,845	291,037	21,506	(160,950)	399,437

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

	AMERICAS	EMEA	ASIA	ELIMINATIONS	CONSOLIDATED
RESULT					
Segment result	20,379	31,260	5,137	0	56,776
Financial income/(expenses)					(6,354)
Share in net profit of associated companies					456
Profit before tax					50,878
Income tax					(13,115)
Net profit					37,763
BALANCE SHEET 31.12.2012					
Segment assets	511,778	384,283	15,455	(320,353)	591,163
Segment liabilities	187,483	217,119	6,522	(227,695)	183,429
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

2011	AMERICAS	EMEA	ASIA	ELIMINATIONS	CONSOLIDATED
SALES					
External sales	206,729	173,341	18,255	0	398,325
Inter-segment sales	29,569	68,509	0	(98,078)	0
Total sales	236,298	241,850	18,255	(98,078)	398,325

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	21,897	32,737	4,766	0	59,400
Financial income/(expenses)					(12,673)
Share in net profit of associated companies					104
Profit before tax					46,831
Income tax					(12,223)
Net profit					34,608
BALANCE SHEET 31.12.2011					
Segment assets	465,631	372,084	11,185	(268,932)	579,968
Segment liabilities	166,702	244,778	5,113	(201,358)	215,235
OTHER INFORMATION 2011					
Capital additions	5,326	10,677	140	0	16,143
Depreciation and amortization	3,890	9,031	285	0	13,206

All amounts in thousands of USD

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
	137,955	142,530

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

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
	137,955	142,530

MANAGEMENT SALARIES AND BENEFITS

	SALARIES AND RELATED EXP.	STOCK OPTIONS	SHARES OWNED
BOARD OF DIRECTORS:			
Niels Jacobsen - Chairman of the Board (i)	90	0	179,791,616
Þórður 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
EXECUTIVE MANAGEMENT						
Jón Sigurðsson President and CEO(i)	927	224	0	175	115	1,441
Hjörleifur Pálsson CFO(ii)	470	64	43	0	50	627
Egill Jónsson EVP of M&O(iii)	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
	3,010	503	169	185	370	4,237

2011	FIXED BASE SALARY	CASH BASED INCENTIVE	PENSION	OTHER BENEFITS	SHARE BASED INCENTIVE	TOTAL REMUNERATION
EXECUTIVE MANAGEMENT						
Jón Sigurðsson President and CEO(i)	900	398	0	147	46	1,491
Hjörleifur Pálsson CFO(ii)	457	113	46	0	11	627
Egill Jónsson EVP of M&O(iii)	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
	2,827	899	168	156	127	4,177

(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).

All amounts in thousands of USD

10. FEES TO AUDITORS

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

11. FINANCIAL INCOME / (EXPENSES)

Financial income and (expenses) are specified as follows:

	2012	2011
FINANCIAL INCOME:		
Interests on bank deposits	71	78
Other financial income	82	146
	153	224
FINANCIAL EXPENSES:		
Interests on loans	(6,219)	(10,172)
Other financial expenses	(569)	(673)
	(6,788)	(10,845)
Net-exchange rate differences	281	(2,052)
Net Financial income / (expenses)	(6,354)	(12,673)

12. INCOME TAX

	2012	2011
Current tax expenses	(6,120)	(6,525)
Deferred tax expenses	(6,995)	(5,698)
	(13,115)	(12,223)

	2012 AMOUNT	%	2011 AMOUNT	%
Profit before taxes	50,878		46,831	
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	(1,061)	2%	(1,204)	3%
Other changes	92	0%	(346)	1%
	(13,115)	26%	(12,223)	26%

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)
	(6,995)	(5,698)

Deferred tax balances:

2012	1.1.2012	RECOGNISED IN INCOME STATEMENT	RECOGNISED 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	15,941	(6,995)	(44)	0	(24)	8,878

2011	1.1.2011	RECOGNISED IN INCOME STATEMENT	RECOGNISED 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	22,480	(5,698)	(56)	(880)	95	15,941

2011 figures are restated, see note 5.

All amounts in thousands of USD

13. EARNINGS PER SHARE

	2012	2011
Net profit	37,763	34,608
Total weighted average number of ordinary shares (in thousands)	448,732	450,877
Total average number of shares including potential shares from options (in thousands)	448,965	451,678
Basic Earnings per Share (US cent)	8.4	7.7
Diluted Earnings per Share (US cent)	8.4	7.7
Cash Earnings per Share	11.4	10.6
Diluted Cash Earnings per Share	11.3	10.6

2011 figures are restated, see note 5.

14. ADDITIONAL INFORMATION REGARDING CASH FLOW

	2012	2011
Net profit	37,763	34,608
Items not affecting cash	22,143	21,154
Working capital provided by operating activities	59,906	55,762
(Increase) / decrease in inventories	(3,476)	(6,401)
(Increase) / decrease in receivables	9,974	(6,819)
Increase / (decrease) in payables	(8,836)	5,905
Net cash provided by operating activities	57,568	48,447

2011 figures are restated, see note 5.

15. PROPERTY, PLANT AND EQUIPMENT

2012	BUILDINGS & SITES	MACHINERY & EQUIPMENT	FIXTURES & OFFICE EQUIP.	TOTAL
COST				
At 1 January 2012	13,865	38,957	25,469	78,291
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
DEPRECIATION				
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

2011	BUILDINGS & SITES	MACHINERY & EQUIPMENT	FIXTURES & OFFICE EQUIP.	TOTAL
COST				
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
DEPRECIATION				
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

All amounts in thousands of USD

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

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

Buildings	20 - 50 years
Fixtures & furniture	3 - 10 years
Machinery & 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

	2012	2011
COST		
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	348,935	333,484

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
		348,935	333,484

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.

17. OTHER INTANGIBLE ASSETS

2012	CUST./DISTRIB. RELATIONSHIPS	PATENTS	TRADEMARKS	SOFTWARE AND OTHER	TOTAL
COST					
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
AMORTIZATION					
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

2011	CUST./DISTRIB. RELATIONSHIPS	PATENTS	TRADEMARKS	SOFTWARE AND OTHER	TOTAL
COST					
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
AMORTIZATION					
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

All amounts in thousands of USD

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

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 amortisation.

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
AMERICAS			
Össur Americas, Inc.	USA	100%	Sales, R&D, distribution and services
Össur Canada, Inc.	Canada	100%	Manufacturer, sales, distribution and services
Össur Mexico S. de R.L. de C.V.	Mexico	100%	Manufacturer
EMEA			
Össur Europe BV	Netherlands	100%	Sales, distribution and services
Gibaud SAS	France	100%	Manufacturer, sales, distribution and services
Össur Nordic AB	Sweden	100%	Sales, distribution and services
Össur UK Ltd	UK	100%	Sales, distribution and services
Össur 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
ASIA			
Össur Asia Pacific PTY, Ltd.	Australia	100%	Sales, distribution and services
Össur Prosth. & Rehabilit. Co, Ltd.	China	100%	Sales, distribution and services
Össur Hong Kong, Ltd	Hong Kong	100%	Sales, distribution and services

The Consolidation is financed through two companies, Össur Americas LP and Össur Finance AG.

All amounts in thousands of USD

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
	6,824	6,809

INVESTMENTS IN ASSOCIATES

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

	2012	2011
At 1 January	2,986	20
Additions due to acquisitions	1,050	2,830
Share in net profit (net of dividend received)	108	61
Exchange differences	0	75
At 31 December	4,144	2,986

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
	56,757	52,171

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)
	52,666	52,549

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
	55,612	55,049

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	(1,886)	(1,419)

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.

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
	8,913	17,188

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
	21,878	19,656

24. ISSUED CAPITAL

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

	SHARES	NOMINAL VALUE
Total share capital at 31 December 2012	453,750	5,068
Treasury shares at period-end	(5,018)	(44)
	448,732	5,024

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	5,024	188,767	193,791

25. RESERVES

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
	3,750,000				
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
	3,000,000				
Total issued option contracts	6,750,000				

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 SHARES 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	(2,300,000)	6.5	(2,790,000)	7.8
Outstanding at end of period	6,750,000	8.3	3,300,000	6.6

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.

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
	20,354	83,742	20,956	110,113

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

Aggregated maturities of borrowings are as follows:

	31.12.2012	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
	104,096	131,069

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).

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
	8,878	15,941
Deferred tax in the balance sheet:		
Deferred tax asset	26,565	31,951
Deferred tax liabilities	(17,687)	(16.010)
	8,878	15,941

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

31.12.2012	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)	29,704	(20,826)	8,878
Tax asset and liabilities offsetting	(3,139)	3,139	0
	26,565	(17,687)	8,878

31.12.2011	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)	34,443	(18,502)	15,941
Tax asset and liabilities offsetting	(2,492)	2,492	0
	31,951	(16,010)	15,941

2011 figures are restated, see note 5.

29. PROVISIONS

	31.12.2012		31.12.2011	
	CURRENT	NON - CURRENT	CURRENT	NON - CURRENT
Warranty [(i)]	2,589	4,591	2,686	4,339
Other	2,173	247	948	154
	4,762	4,838	3,634	4,493

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

All amounts in thousands of USD

	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	7,025	1,102	8,127
Additional provision recognised	3,091	1,859	4,950
Utilization of provision	(2,936)	(556)	(3,492)
Exchange differences	0	15	15
Balance at 31 December 2012	7,180	2,420	9,600
Non-current	4,591	247	4,838
Current	2,589	2,173	4,762
Balance at 31 December 2012	7,180	2,420	9,600

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
	15,114	15,401

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 POLICES

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
	156,142	191,098	90,281	96,202

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 (i)		ISK (ii)	
	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.

All amounts in thousands of USD

	Weighted average effective interest	Less than 1 year	1–5 years	5+ years	Total
2012					
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
2011					
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 Carrying amount	Fair value	31.12.2011 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.

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)
	1,469
Noncontrolling interest	(212)
Goodwill	10,235
Total consideration	11,492
Net cash outflow arising on acquisition:	
Cash consideration	11,492
Bank balances and cash acquired	(49)
	11,443

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 recognised as an expense:

	2012	2011
Minimum lease payments	11,700	10,933

Non-cancellable operating lease commitments

	31.12.2012	31.12.2011
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
	48,135	46,944

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.

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.

All amounts in thousands of USD

A UNAUDITED INFORMATION

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

A1 QUARTERLY STATEMENTS

	Q4 2012	Q3 2012	Q2 2012	Q1 2012	TOTAL 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)
Gross profit	60,327	61,687	63,904	62,034	247,952
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)
Profit from operations	10,768	15,027	16,330	14,651	56,776
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
Profit before tax	10,557	13,645	13,323	13,353	50,878
Income tax	(2,486)	(3,758)	(3,320)	(3,551)	(13,115)
Net profit	8,071	9,887	10,003	9,802	37,763
EBITDA	14,384	18,242	19,493	17,837	69,956
EBITDA ratio	15%	19%	19%	18%	18%

FORWARD-LOOKING STATEMENTS

This annual report contains projections and other forward-looking statements regarding future events and/or the future financial performance of Össur hf. You can identify forward-looking statements by terms, such as “expect,” “believe,” “anticipate,” “estimate,” “intend,” “will,” “could,” “may” or “might” or the negative of such terms or other similar expressions. We wish to caution you that these statements are only predictions, and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, general economic conditions, our competitive environment, rapid technological and market change in our industries, as well as many other risks specifically related to Össur hf. and its operations.

The Össur Annual Report has been prepared in-house by Össur employees. All photos in the report are existing marketing material.
The only external cost occurred is for proofreading and printing.

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