



Annual Report

2019







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2019 in brief



As a global market leader in non-invasive orthopaedics, Össur maintained its market position as the second largest player in both prosthetics and bracing & supports in the year 2019.

FINANCIAL HIGHLIGHTS



5%

Organic growth



22%

EBITDA margin



10%

Net profit margin



2.0x

NIBD/EBITDA

SUSTAINABILITY AND CSR HIGHLIGHTS



63%

Waste
recycled

50%

Energy consumed
from renewable
sources

51% 49%

Gender ratio

51% Male
49% Female

38%

Female Management

Female in management
positions

0.6

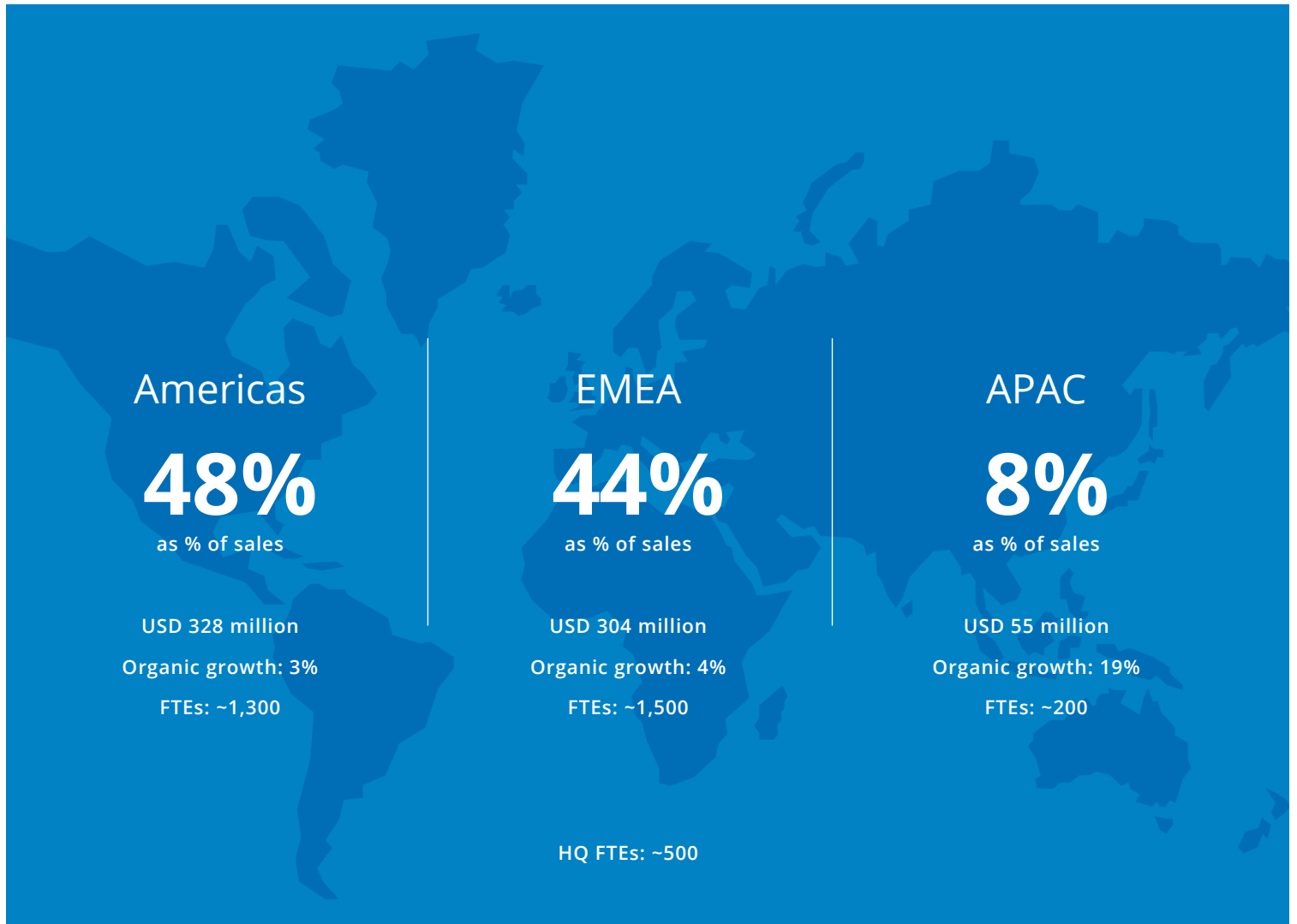
Incident Rate

Incident rate per 100 FTEs

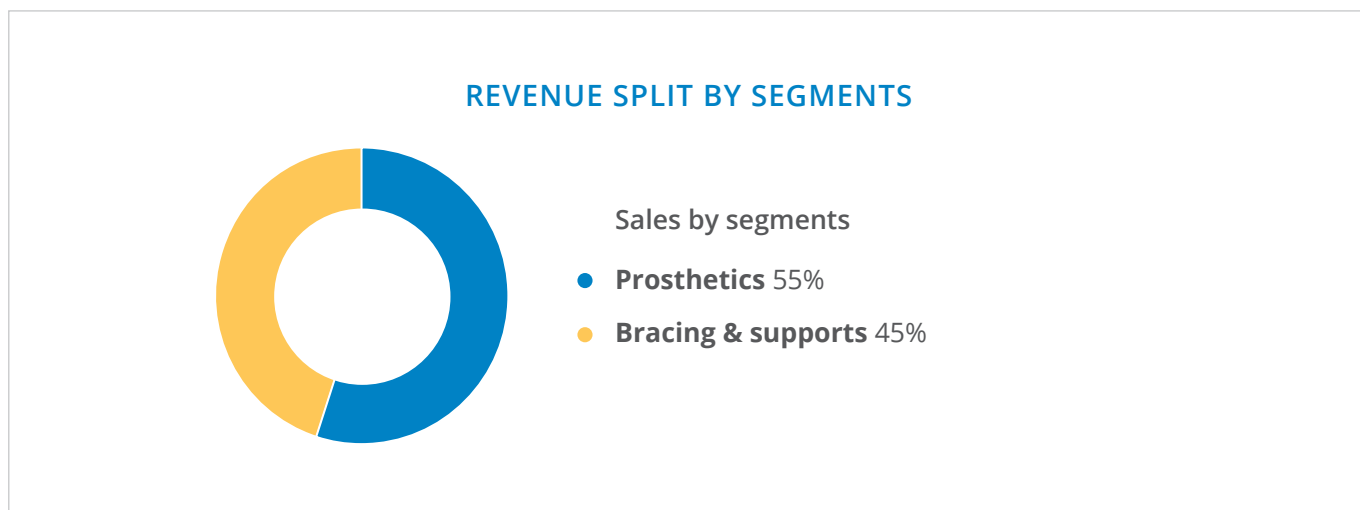


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Global Employee
Satisfaction



Sales by segments



Prosthetics

Sales amounted to USD 378 million and grew by 7% organic.

We continued to see good performance in prosthetics with growth above estimated market growth. High-end products such as our carbon-fiber mechanical feet products and bionics continued to deliver strong growth in the segment globally. Growth in other product categories was also good during the year. Growth in EMEA was strong across the main markets. In the Americas, growth was good even though sales in the United States were impacted by lower than expected sales to a certain customer in the fourth quarter of the year. The impact is largely considered to be of a temporary nature. Growth in APAC was excellent with strong growth across the emerging markets.

Sales of bionic products amounted to 23% of prosthetics component sales, compared to 22% in 2018. The increase between years is attributed to strong performance of bionic products.

New prosthetic products introduced to the market during the year include, among others, the new PROPRIO FOOT. The product is the latest generation of the world's first bionic ankle that offers enhanced features designed to reduce the risk of stumble and falls, and automatically detects the terrain, adjusting the ankle position in real-time. Other products launched during the year were additions to the portfolio upper-limb prosthetics and lower-limb carbon fiber feet.

Bracing and supports

Sales amounted to USD 308 million and grew by 3% organic.

High-end products such as the Rebound and Unloader product lines were the main growth drivers in the segment globally. Growth in EMEA and Americas was good, however sales were impacted by a competitive market environment in France and the United States. Growth in APAC continues to be strong.

New bracing & supports products introduced to the market during the year include, among others, the new Unloader One X. The product is the latest in Össur's range of clinically proven OA knee braces that is designed to be effortless to wear and easy to use. Other products launched during the year include additions to our portfolio of collars and knee bracing.

Year in review

As pioneers of advanced technology, we believe in "Life Without Limitations" and 2019 was once again a year filled with exciting milestones and achievements.



January

Team Össur member Markus Rehm nominated for Laureus World Sportsperson of the Year Award

RHEO KNEE XC wins the 2019 iF Design Award in the Medicine / Health category

New PROPRIO FOOT fully launched



March

New Miami J Select fully launched

RHEO KNEE XC wins the Red Dot Design Award in the Product Design category

Össur Ambassador Jami Goldman Marseilles appears on The Doctors



May

New Team Össur members featured in Japan Times

Life Without Limitations new Össur global brand campaign launched

Össur featured in Outlook Magazine

Dr. Liam Fox, Secretary of State for International Trade in UK and the DIT Trade Commissioner Andrew Michel visit Össur Head Office

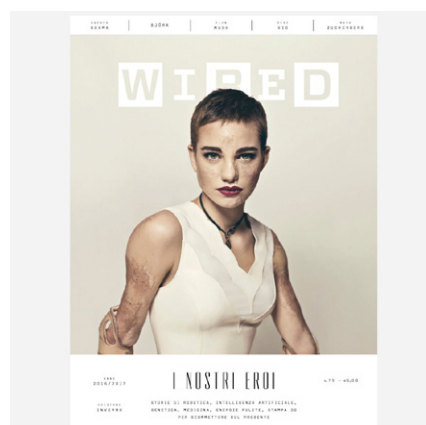
Össur Ambassador Lauren Wasser featured on the TODAY Show



February

Team Össur Sarah Reinertsen featured in Nike's 'Dream Crazy' Ad

Össur Formfit featured in Business Trends Magazine

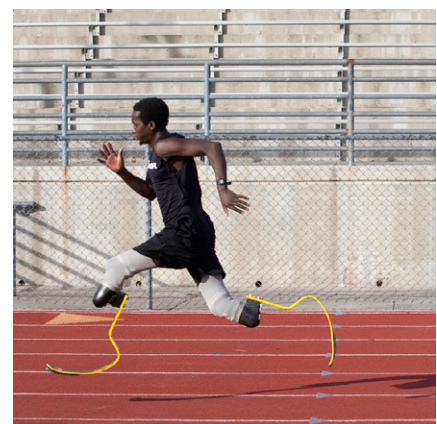


April

Össur and the Danish National Olympic & Paralympic Committee announce partnership agreement

Team Össur Bebe Vio featured on the cover of WIRED Magazine in Italy

Össur Ambassador Dani Molina featured in Men's Health magazine



June

i-Limb featured on BBC news

First Ladies of Germany and Iceland visit Össur Head Office

Össur Ambassador Marko Cheseto featured in Runner's World article

Össur featured in THE TIMES feature on prosthetics and rehabilitation



August

Össur featured in Börsen article

Össur Ambassador Giusy Versace from Italy walked the red carpet at the Venice Film Festival

Team Össur Fleur Jong sets a new world record and PB: 100m in 13.16

FORBES article on Nike's Para-Sport mannequins using Össur products



October

Össur participates in ISPO World Congress in Kobe, Japan

Össur featured in TIME Magazine



December

BBC program CLICK airs segment on Össur sports technology

Össur celebrates 20 years as a publicly traded company - Nasdaq closing bell ceremony in New York City's Times Square

Digital Trends - live interview with Jon Sigurdsson, Össur's CEO



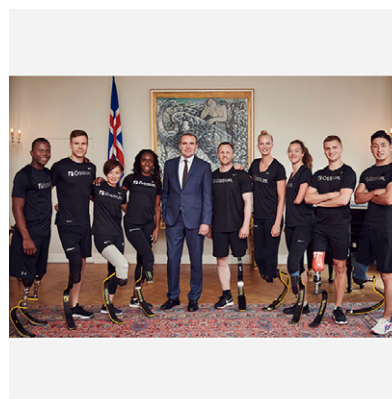
July

Össur Formfit Pro Knee Quest and Össur Formfit Pro Knee Flite introduced

Össur Ambassador Lauren Wasser featured in Women's Health Magazine

Team Össur Bebe Vio featured in global Nike Women campaign

Össur signs an agreement to acquire College Park Industries



September

Study featuring Össur prosthetics published in Nature Medicine and other scientific journals

Successful Capital Markets Day held in Copenhagen and feature article in Börsen

Team Össur members visit Iceland

Unloader One X introduced



November

Össur and Alfred Mann Foundation sign new agreement

Team Össur members excel at 2019 World Para Athletics Championships in Dubai

Össur Ambassador and double below-knee amputee Andrea Lanfri, climbed Putha Hhiumchuli in Nepal (7000m!)

Team Össur member Bebe Vio's Barbie unveiled

Letter from the CEO



As we look back on another successful year our customers and end-users continue to be top of mind. While the business continues to expand, we remain steadfast in our commitment to innovation and bringing new products and services to the market. In 2019 we launched more than 25 products and several incremental updates within both the prosthetic and bracing & supports segments. Our Bionic product portfolio benefited from the introduction of the new bionic ankle PROPRIO FOOT as well as the i-Limb Wrist, the first-ever wrist rotator of its kind. It's very rewarding to see how well the new PROPRIO FOOT has been received in the market. Our team of dedicated engineers and scientists, partnerships with academic and clinical institutions, and an overarching desire to constantly improve and further develop our product portfolio has meant that we are able to successfully maintain our position as an innovation leader in our industry.

Another highlight of the year from a product perspective was the launch of the highly anticipated Unloader One X knee brace. Osteoarthritis (OA) is a growing epidemic and effective treatment can often be challenging as it is a long-term, incurable condition. The Unloader One X is the latest in Össur's range of flagship OA braces and is based on biomechanical principles that have been tried and tested over twenty years. We will continue to build awareness for the clinical efficacy and cost effectiveness of knee bracing as a treatment option for OA patient, as we strongly believe not only in the product but also in the overall health economics that bracing has to offer.

It was equally exciting to see our products, end-users and employees receive global recognition in prestigious media outlets such as BBC, Forbes, TIME Magazine, Nature Medicine and more. At the heart of it all is a simple yet powerful message; Life Without Limitations.

Össur celebrated many milestones and achievements in 2019, one of them being our 20-year anniversary as a publicly listed company. To say, the Company has evolved since its original listing in Iceland in 1999, would be an understatement. Utilizing the drive and determination that comes from our entrepreneurial roots we have delivered a 20% compounded annual growth rate (CAGR) the last twenty years. Through a healthy combination of organic growth and acquisitions, Össur has gone from being a niche player in the prosthetics industry to a global leader in non-invasive orthopedics. From 120 employees in 1999 to about 3,500 in 26 countries around the world

at year-end 2019. A sought-after employer, business and clinical partner with continued growth on the horizon.

The 2019 financials were strong with organic sales growth of 5% and our EBITDA margin before special items amounted to 22%. Strong sales growth was primarily driven by excellent performance in the prosthetics segment and high-end solutions in both business segments. Favorable changes in the product mix and savings from ongoing efficiency initiatives continue to have a positive impact on profitability.

I am extremely proud to have led the Company during this transformational time. Former US President John Quincy Adams once said, "If your actions inspire others to dream more, learn more, do more and become more, you are a leader." I, however, have no doubt that the end-users of our products are what drives all of us at Össur to dream more, learn more and do more every single day.

My sincere thanks to our employees, customers, end-users, and shareholders for making 2019 a great year for Össur. Our shared passion for improving people's mobility will ensure continued success as we embark on a new decade.

Jon Sigurdsson
President and CEO

USER STORIES

Bertolt Meyer

The Musician and the Professor: Passion and Profession. These are just two of the many sides of Prof. Dr. Bertolt Meyer. He lives in Leipzig and seamlessly navigates between the factual world of the university on the one hand and the artistic world on the other. Confident and out of the box, Bertolt Meyer is a performer who loves and lives diversity - whether behind the turntable or the podium.

Recently, Meyer and a colleague published a study which shows how new bionic technology can change the stereotypes towards the disabled. "We can see that people wearing a bionic prosthetic are perceived completely different. Almost exactly like able bodied people. Bionic technology therefore offers a high value both functionally and psychologically."

Prof. Dr. Bertolt Meyer was born without his left forearm due to a rare condition called Dismelia. He uses a bionic hand prosthesis to compensate. His i-Limb Quantum is a multi-articulating prosthesis, which means that it offers five individually powered digits. Electrodes on his forearm register the muscle signals from the muscle he would usually use to bend his wrist and feed them to the prosthesis.

The prosthesis facilitates Bertolt's life, especially the little, everyday things like tying shoelaces, cooking, typing, riding his bicycle and driving his car. However, the psychological benefit is also enormous. "The standard model you receive via the insurance system has a flesh colored plastic glove. You feel ashamed and people react with pity - a stereotype. Ever since I've worn the bionic hand, people show positive interest. This has influenced my own attitude towards my disability in a positive manner."

Life Without Limitations means I can do exactly what I want to do.



Össur at a glance

We improve people's mobility

Össur is a global leader in non-invasive orthopaedics; innovating, producing, and providing advanced technological solutions within the prosthetics and bracing & supports market. Our mission is to improve the mobility of our users, so they can live their Life Without Limitations.

Össur was founded in 1971 and has since grown through a healthy combination of organic development and acquisitions in both prosthetics and bracing & supports. Today, Össur has a strong global position in the industry and key markets, being the second largest player worldwide in both segments and in a good position to leverage future growth opportunities. Össur has been listed since 1999, has operations in over 26 countries and about 3,500 FTEs.



Our users are at the core of everything we do

Individuals can be living with limb loss or limb difference for a variety of reasons. Vascular disease, diabetes, trauma and congenital defects are some of the more common reasons. There are also individuals who develop knee pain, are diagnosed with osteoarthritis in their joints, incur fractures to their ligaments or injure themselves resulting in movement impairment. For years Össur has helped these individuals focus on new goals rather than limitations by offering comprehensive solutions that are designed with the needs of the user top of mind.

World class innovation capabilities

Össur is a pioneer of advanced technology where our brand recognition is based on innovative and scientifically proven solutions that deliver effective clinical outcomes. By listening and understanding people's needs and pushing the boundaries of technology, we continue to create some of the best products and services available in the fields of prosthetics and bracing & supports. Every year Össur invests the equivalent of 5% of sales in R&D efforts to work on new innovative products for the benefit of our users. In 2019 we introduced more than 25 new products to the market.

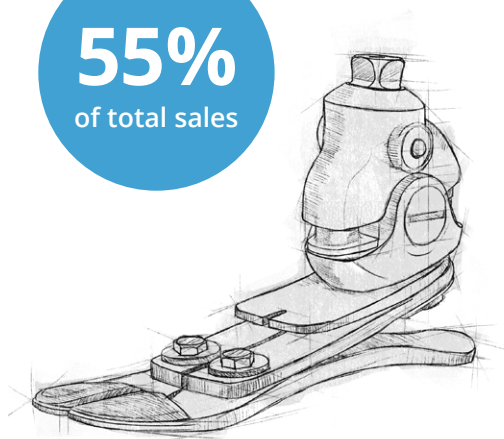
Our segments

Össur operates within two market segments of the orthopaedic market: bracing & supports and prosthetics. Prosthetic products include artificial limbs and related products for amputees. Bracing & supports products are primarily used to support joints and other body parts, both for preventive and therapeutic purposes.

OUR SEGMENTS

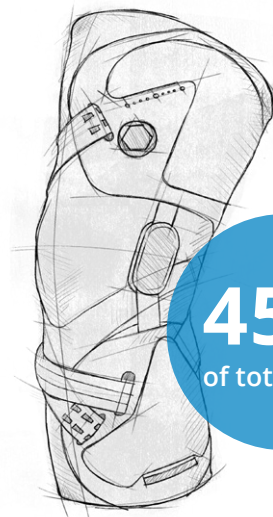
Prosthetics

55%
of total sales



Bracing & Supports

45%
of total sales



Sub-segment	User Profile	Improving mobility
Mechanical Products	People living with lower extremity amputation	Broad product offering for lower extremity prosthesis
Bionic Products	People living with lower and upper extremity amputation	Advanced microprocessor controlled feet, knees, hands and fingers

Sub-segment	User Profile	Improving mobility
Injury Solutions	People recovering from fractures, ligament injuries or need a post operative treatment	Products stabilizing joints and improving healing
OA Solutions	People living with Osteoarthritis (OA)	Non surgical treatment by unloading affected joint with braces

Our products



Prosthetic solutions

Össur's prosthetics portfolio includes a full spectrum of premium lower and upper limb prosthetic components. The portfolio ranges from solutions to support low active individuals who may struggle to maintain the ideal balance of safety, comfort, and mobility all the way to solutions designed to enable especially active people to engage in high-impact endeavors.

Bracing & supports

OA solutions

Össur's osteoarthritis (OA) solutions are designed to enhance quality of life, reduce pain, and improve mobility for people living with osteoarthritis. Össur offers the Unloader One and Unloader One Lite knee braces that relieve pain from knee osteoarthritis, as well as the Unloader Hip which is designed to reduce pain by optimizing load dispersion for patients suffering from mild and moderate osteoarthritis of the hip.

Injury Solutions

Össur's injury solutions are designed for people recovering from fractures, ligament injuries or for those in need of post-operative treatment solutions. These solutions are designed to support the healing process of bone and soft tissue injuries. Several of these products come with the Functional Healing seal that signifies a clinically validated healing solution that helps enhance the body's natural healing process while maximizing mobility.



Who are the users that benefit from our solutions?

Prosthetic Solutions

- High and low active lower-limb amputees
- Upper-limb amputees
- Children living with limb loss
- Athletes living with limb loss

Bracing & Supports

- People that require post-operative treatment
- People in rehabilitation for PCL ruptures
- People requiring protection and joint stabilization
- People with foot and ankle injuries that require immobilization
- People with mild to severe osteoarthritis
- People seeking treatment for venous ulcers and swelling

Five-year overview

FIVE-YEAR OVERVIEW					
USD m	2019	2018	2017	2016	2015
Net sales	686	613	569	521	483
Gross profit	439	387	355	328	303
Operating expenses (excl. other income)	341	304	280	256	226
EBITDA	141	107	97	94	97
EBITDA adjusted	150	115	103	98	99
EBIT	78	79	75	72	77
Net profit	69	80	58	51	51
Sales growth					
Sales growth USD %	12	8	9	8	-5
- Organic growth in LCY %	5	5	5	4	5
- Currency effect %	(4)	1	0	-1	-11
- Acquired/divested business %	11	2	4	5	1
Balance Sheet					
Total assets	1,091	914	793	746	653
Equity	569	538	500	467	463
Net interest-bearing debt (NIBD)	302	180	121	119	58
Cash Flow					
Cash generated by operations	120	92	90	88	84
Free cash flow	63	39	55	42	42
Key ratios					
Gross profit margin %	64	63	62	63	63
EBIT margin %	14	13	13	14	16
EBITDA margin %	21	18	17	18	20
EBITDA margin before special items %	22	19	18	19	20
Equity ratio %	52	59	63	63	71
Net debt to EBITDA	2.0	1.6	1.2	1.2	0.6
Effective tax rate %	24	18	16	25	25
Return on equity %	12	15	12	11	11
CAPEX / Net sales %	4.6	5.0	3.4	4.7	4.9
Full time employees on average	3,382	2,775	2,948	2,710	2,420
Market					
Market value of equity	3,340	2,055	1,871	1,582	1,546
Number of shares - Millions	425	431	437	443	446
Diluted EPS in US cents	16.2	18.7	13.3	11.6	11.5

Performance in 2019

Highlights

- Sales growth of 16% in local currency, organic sales growth of 5% and reported growth of 12%.
- Organic growth for 2019 was 7% for prosthetics and 3% for B&S. Strong organic growth in 2019 is attributed to good sales of high-end products, recently launched products and strong sales in the emerging markets.
- Gross profit margin was 64% in 2019 compared to 63% in 2018. The increase is driven by positive impact from changes in product mix, savings from the ongoing efficiency initiatives, and scalability in manufacturing.
- EBITDA margin before special items for 2019 was 22% and excluding the impact of IFRS 16 it was 19% compared to 19% for 2018. Profitability was positively impacted by changes in product mix and savings from the ongoing efficiency initiatives, however profitability was impacted by acquisitions and investments in emerging markets.
- In 2017, Össur announced efficiency initiatives in the areas of Manufacturing, Distribution, and Sourcing with estimated savings of USD 10 million by year-end 2020. The program is on track and savings began to materialize in 2018 and 2019 in line with original estimates.
- Össur made three acquisitions with combined full-year sales of about USD 20 million in 2019.
- Net profit for 2019 amounted to 10% of sales.
- Cash generated by operations was strong in the year and amounted to 17% of sales in 2019 compared to 15% of sales in 2018.
- Össur acquired 4,784,631 of own shares for approximately USD 30 million during the year.
- The financial guidance for the full year 2020 is 3-5% organic sales growth, 21-23% EBITDA margin before special items, 4-5% CAPEX of sales, and an effective tax rate of 23-24%.

KEY FINANCIALS AND GUIDANCE			
USD million	FY 2019	FY 2018	Guidance 2020
Net sales	686	613	
Sales growth, organic	5%	5%	3-5%
Growth profit margin	64%	63%	
EBITDA, before special items	150	115	
EBITDA margin, before special items	22%	19%	21-23%
CAPEX as % of sales	5%	5%	4-5%
Effective tax rate*	24%	24%	23-24%

* The effective tax rate has been normalized for one-time benefits impacting the tax rate in 2018.

Sales performance

Sales in 2019 amounted to USD 686 million compared to USD 613 million in 2018, corresponding to 5% organic growth, 16% growth including acquisitions (local currency growth) and 12% reported growth.

Currency movements impacted sales growth negatively by about USD 22 million which corresponds to approximately negative 4%-points effect on the reported growth rate.

Össur made three acquisitions in 2019. Further information can be found in the section "Acquisitions".

SALES BY REGIONS					
USD million	FY 2019	Organic growth	Acq. / div.	Curr. effect	USD growth
Americas	328	3%	+21%	-1%	23%
EMEA	304	5%	+3%	-6%	2%
APAC	55	19%	-	-5%	14%
Total	686	5%	+11%	-4%	12%

SALES BY SEGMENTS					
USD million	FY 2019	Organic growth	Acq. / div.	Curr. effect	USD growth
Prosthetics	378	7%	+17%	-4%	20%
Bracing and supports	308	3%	+5%	-4%	4%
Total	686	5%	+11%	-4%	12%

Gross profit

Gross profit in 2019 amounted to USD 439 million or 64% of sales compared to USD 387 million or 63% of sales in 2018.

Items impacting gross profit margin in the year were:

- Positive impact from changes in product mix, driven by strong growth in high-end solutions in both prosthetics and bracing & supports
- Savings from ongoing efficiency initiatives
- Scalability in manufacturing

Operating expenses

Excluding special items, operating expenses amounted to USD 333 million or 48% of sales for 2019 compared to USD 300 million or 49% of sales for 2018.

- Sales & marketing (S&M) expenses increased by 16% during the year and amounted to 34% of sales. Growth is mainly due to impact from acquisitions and investments in emerging markets.
- Research & development (R&D) expenses were at a similar level as the prior year and amounted to 5% of sales. Growth in R&D expenses were moderate in the year, it is however expected that R&D expenses will outgrow organic sales growth in 2020.
- General & administrative (G&A) expenses increased by 8% when excluding special items and amounted to 10% of sales. The increase is mainly due to acquisitions.

Efficiency initiatives

In September 2017, Össur announced efficiency initiatives in the areas of distribution, manufacturing, and sourcing to further increase scalability and profitability. The program is on track and Össur's savings target of USD 6 million in 2019 was reached, corresponding to USD 3 million in additional savings when compared to the previous year. Majority of the savings are visible in cost of goods sold which contributed to an increased gross profit margin between years. Össur targets savings of USD 10 million in 2020 which corresponds to USD 4 million in additional savings when compared with 2019.

Special items

Össur expensed USD 8.3 million in one-time expenses related to the ongoing efficiency initiatives and the acquisitions made in 2019. In the comparable period in 2018, Össur expensed USD 7.5 million in one-time expenses related to the ongoing efficiency initiatives and acquisitions. It should be noted that the expenses in relation to the efficiency initiatives were expected as they had already been communicated when the efficiency initiatives were first introduced in September 2017.

EBITDA

EBITDA before special items for 2019 amounted to USD 150 million or 22% of sales. EBITDA before special items and excluding the impact of IFRS 16 amounted to USD 130 million or 19% of sales for 2019 compared to an EBITDA before special items of USD 115 million or 19% of sales for 2018. Currency movements affected the EBITDA margin for 2019 positively by about 60 basis points net of hedge.

Profitability was positively impacted by changes in product mix and savings from the ongoing efficiency initiatives, however profitability was impacted by acquisitions and investments in emerging markets.

Financial items, income, tax and net profit

Net financial expenses in 2019 amounted to USD 8 million compared to USD 6 million in 2018, where the net exchange rate difference was positive by USD 1 million in 2019 compared to a negative USD 2 million in 2018.

Income tax in 2019 amounted to USD 21 million, corresponding to 24% effective tax rate, compared to USD 17 million or 18% effective tax rate in 2018. It should be noted that the comparable period in 2018 was positively impacted by a one-time revaluation of previously acquired shares. The normalized effective tax rate for 2018 amounted to 24%.

Net profit in 2019 amounted to USD 69 million or 10% of sales, compared to USD 80 million or 13% of sales in 2018. It should be noted that the comparable period in 2018 was positively impacted by USD 21 million due to a one-time revaluation of previously acquired shares. Diluted earnings per share in 2019 amounted to 16.2 US cent compared to 18.7 US cents in 2018.

Cash generated by operations

Cash generated by operations for 2019 amounted to USD 120 million or 17% of sales, compared to USD 92 million or 15% of sales for 2018. Cash generation was strong in 2019, in line with increased profits, bearing in mind higher net working capital in the year related to the ongoing efficiency initiatives.

Capital expenditures

Capital expenditures for 2019 amounted to USD 32 million or 4.6% of sales, compared to USD 31 million or 5.0% of sales for 2018. In addition to maintenance CAPEX, CAPEX in 2019 includes investments related to the ongoing efficiency initiatives in addition to an integration of a new CRM software. CAPEX relative to sales in the two years has been higher than the historical normalized level due to changes in the supply chain related to the ongoing efficiency initiatives.

Capital structure, share buybacks and dividends

Updated Capital Structure and Dividend Policy

Össur's Board of Directors has approved an updated Capital Structure and Dividend Policy. The level of net interest-bearing debt to EBITDA has been increased to 1.5-2.5x from the previous 1.0-2.0x. The increase is only due to the implementation of IFRS 16 which impacted both net interest-bearing debt and EBITDA. The updated policy is:

The key objective of the Capital Structure and Dividend Policy is to maintain a healthy balance sheet and a level of net interest-bearing debt of 1.5-2.5x to EBITDA. Össur will prioritize value-adding investment opportunities and acquisitions while excess capital is returned to shareholders via annual cash dividends and/or purchase of own shares. Össur's policy is to distribute a relatively stable cash dividend which will be decided annually in DKK per share. Return of capital to shareholders is based on objectives of maintaining a solid financial position, operational outlook and investment requirements. In order to maintain flexibility, Össur can temporarily exceed the level of net interest-bearing debt to EBITDA should additional attractive acquisition opportunities present themselves.

Net-interest bearing debt

Net interest-bearing debt at year-end 2019 amounted to USD 302 million compared to USD 180 million at year-end 2018. Changes in debt levels are mostly due to the implementation of IFRS 16 where lease liabilities are now included as part of net interest-bearing debt. Net interest-bearing debt excluding the impact of IFRS 16 was USD 193 million. Other items impacting the debt level include the recent acquisitions, the share buyback program, dividends, and changes in currency rates. Net interest-bearing debt to EBITDA corresponded to 2.0x at the end of Q4 2019 (NIBD/EBITDA was 1.5x excluding the impact of IFRS 16). The ratio is therefore in line with the updated Capital Structure and Dividend policy to maintain a healthy balance sheet and a level of net interest-bearing debt of 1.5-2.5x EBITDA.

Share buybacks and dividends

Since the beginning of 2019, Össur has purchased 4,784,631 of own shares for approximately USD 30 million. The purpose of the share buybacks is to reduce the Company's share capital and adjust the capital structure by distributing capital to shareholders in line with the Company's Capital Structure and Dividend Policy. At quarter-end, Össur held 3,359,631 treasury shares.

In 2019, Össur paid a cash dividend of DKK 0.14 per share, equivalent to USD 9 million or 11% of the net profit in 2018, compared to DKK 0.13 per share for 2017, which was paid out in 2018.

Acquisitions

Össur made three acquisitions in Q4 2019, two on the first working day of the quarter and one on November 1. Sales in the three entities on a full year basis amount to around USD 20 million combined. The acquired companies have a lower EBITDA margin than Össur on a full year basis and greater seasonality in their operations, where the first quarter of the year is seasonally the weakest.

Sales
686 USD m

EBITDA
150 USD m

Net Profit
69 USD m

Outlook for 2020

FINANCIAL GUIDANCE FOR 2020		
	Guidance FY 2020	Actual FY 2019
Sales growth, organic	3-5%	5%
EBITDA margin (before special items)	21-23%	22%
CAPEX as % of sales	4-5%	5%
Effective tax rate	23-24%	24%

The financial guidance assumes the prevailing economic outlook in key markets and no major fluctuations of main operating currencies.

Össur made three acquisitions in 2019. The combined full-year sales of the three acquisitions amount to about USD 20 million. The acquisitions are expected to have a slightly negative impact on the EBITDA margin in 2020. Further information on the acquisitions can be found in the section "Other matters".

For the last five years, organic growth has consistently been around 5% which is at the upper end of estimates for market growth rates. Going forward, growth is expected to continue to be at the upper end or slightly above estimates for market growth rates.

For 2020, organic sales growth is expected to be in the range of 3-5%. In prosthetics, continued good performance in key markets and high-end products are expected, including our high-end mechanical feet portfolio and bionics. The lower end of the guidance range factors in some uncertainty in the U.S. market related to the temporary slowdown in sales in the fourth quarter of 2019. Growth in prosthetics is estimated to be in line with or above estimated market growth in 2020. In bracing & supports, we expect to see a continued good performance in high-end solutions, including our Rebound and Unloader product lines. In 2020 the competitive market environment in France and the United States is expected to prevail. Continued good performance is expected in other key markets. Growth in bracing & supports is estimated to be in line with estimated market growth in 2020.

EBITDA margin before special items is expected to be in the range of 21-23% of sales. Continued underlying increase in profitability will be supported by positive development in product mix as higher margin products are expected to grow faster than the remainder of the product portfolio, savings from the ongoing efficiency initiatives, and scalability in core operations. Recent acquisitions are expected to have a slightly negative impact on EBITDA margin. At current foreign exchange rates, keeping all other factors constant, currency movements are expected to have a neutral impact on the EBITDA margin in 2020 when compared to 2019.

It should be noted that quarter one is, and has been historically, seasonally the weakest quarter of the year in terms of sales and profitability. The recent acquisitions have a greater seasonality in their operations compared to the pre-acquisition Össur business. Consequently, the seasonality of Össur's sales and profit is expected to slightly increase in 2020, where Q1 is seasonally the weakest quarter in terms of sales and profitability.

CAPEX is expected to be in the range of 4-5% of sales. Main CAPEX items include investments in relation to the ongoing efficiency initiatives, maintenance CAPEX in manufacturing, continuation of the implementation of a new CRM software, investments in computer equipment, software, leasehold improvements, and fixtures. CAPEX relative to sales is therefore expected to be higher in 2020 than the historical normalized level of 3-4% due to changes in the supply chain related to the ongoing efficiency initiatives.

Based on the current mix of taxable income, the expectation is that the 2020 effective tax rate will be in the range of 23-24%.

IN THE SPOTLIGHT

Össur celebrates 20 years as a publicly traded company

In December 2019, to mark Össur's 20th anniversary as a publicly traded company, President and CEO Jon Sigurdsson, rang the closing bell at the Nasdaq MarketSite in New York's Times Square.

Upon its first day of trading on the Iceland Stock Exchange in 1999, Össur (Nasdaq: OSSUR) made history as Iceland's largest Initial Public Offering (IPO), with more than 8,000 shareholders purchasing shares in the company, corresponding to approximately 3% of Iceland's population at the time. At that time Össur had 120 employees, reported annual revenues of approximately USD 18 million, and a market value of around USD 60 million. Ten years later, Össur was listed on the Nasdaq Copenhagen exchange and is today one of the 30 most valuable companies traded there with a market cap of approximately USD 3 billion, sales of USD 686 million and about 3,500 employees.

Since its 1999 IPO, Össur has transformed from a small Icelandic prosthetics provider to a global leader in non-invasive orthopaedic technologies, delivering a 20% compound annual growth rate (CAGR) with a healthy combination of organic growth and acquisitions.



Markets

Economic development around the world and global macro trends in the market create opportunities for growth. We have selected six trends that create opportunities for Össur:

INDUSTRY TRENDS CREATE OPPORTUNITY



Aging and more active population

1. The global population of 65 and older is increasing, and so is the amputee population
2. Growing number of people afflicted by vascular disease, the leading cause of amputation
3. Increased amount of fractures, joint instability and joint afflictions



Growing middle class in emerging markets

1. Global economic growth will be powered by emerging markets
2. Disposable income increasing in emerging markets, willingness to pay out-of-pocket
3. Increasing healthcare coverage in emerging markets



Increased pressure on healthcare budgets

1. Healthcare providers increasing efforts to manage cost
2. Demand for cost effective solutions without compromising quality
3. Consolidation in patient care



Increased penetration of new technologies and high-end products

1. New innovative technologies being accepted for reimbursement
2. Gradual transition from volume to value-based payment in healthcare
3. Increased acknowledgement of total healthcare economic benefits of bionics and OA bracing



Increasing regulatory requirements

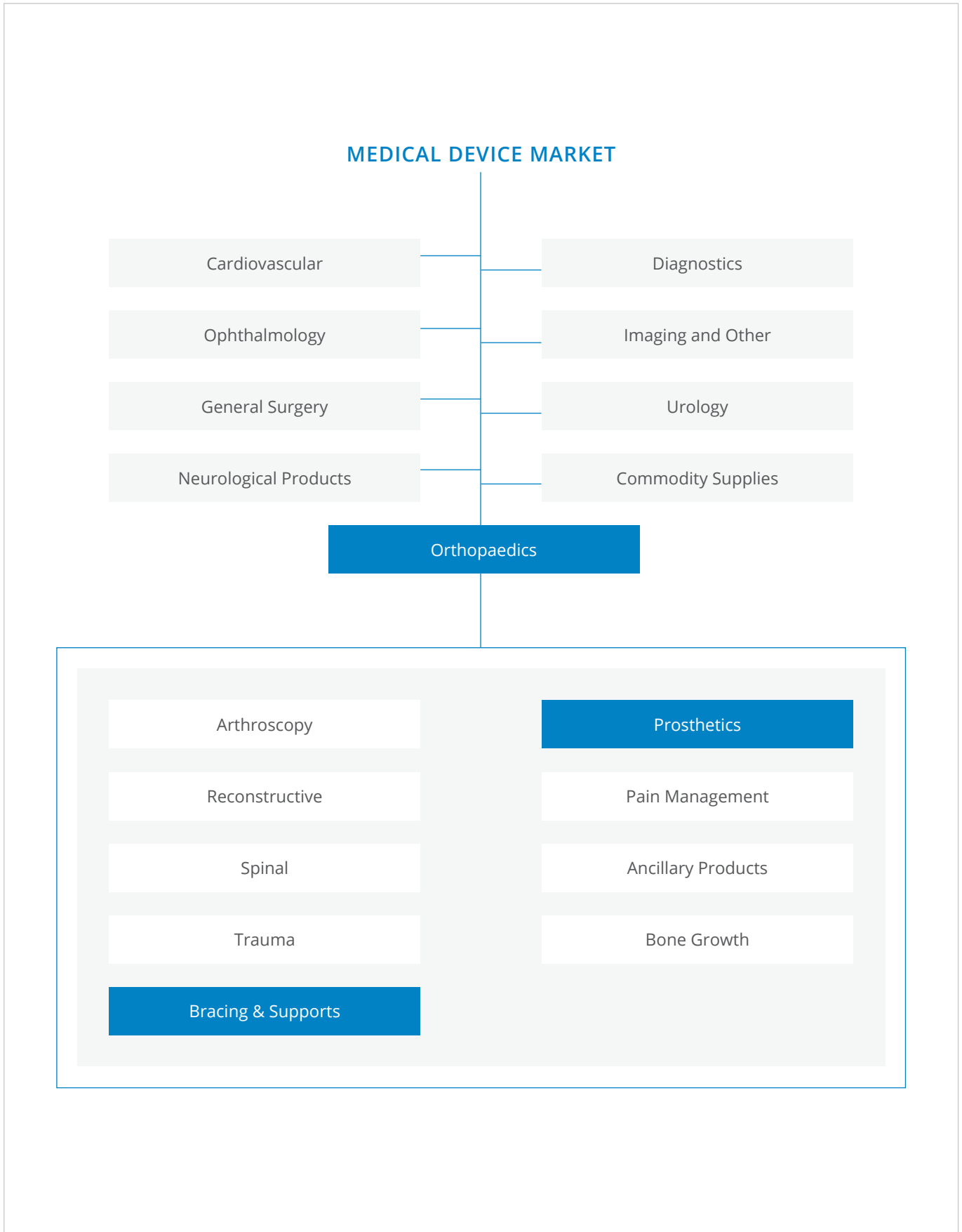
1. Investments in people and processes to adapt to changing healthcare requirements
2. Product development to meet prevailing regulatory requirements
3. Increasing importance of digital and personal data security



Improved treatment options

1. Earlier diabetic detection, limb salvage and alternative treatment options
2. Surgery, wound care and easily accessible pain medication provide alternatives to bracing
3. Increasing healthcare coverage and better access to patients

Össur operates within the global non-invasive orthopaedic industry, delivering advanced and innovative solutions within the prosthetics and bracing & supports markets.



The prosthetics market

Prosthetics include artificial limbs and related products for individuals who were born without limbs or who have had limbs amputated. Össur offers a full range of premium lower- and upper-limb prosthetics, including feet, knees, hands, liners, and other components.

The size of the global prosthetics component market is estimated to be approximately USD 1.3-1.4 billion. Össur is the second largest company operating in prosthetics with a market share estimated at 22-23%.

The growth rate of the prosthetics market is estimated to be 3-5%. Volume growth in the market is estimated to be moderate. Volume growth is determined by a relatively stable global amputee population and a moderate increase in the number of new amputees that get fitted with a prosthesis every year. Pricing in the prosthetics market is on average relatively stable. Growth in the prosthetics industry is mainly driven by increased utilization of higher quality prosthetics that lead to increased mobility and quality of life for the users.

PROSTHETIC MARKET

Market size

USD billion
1.3-1.4

Market share

#2 Worldwide
22-23%

Market growth

3-5%

Moderate volume growth ↗

Relatively stable pricing →

Positive product mix* ↑

Primary Sales Channels

Orthotic &
Prosthetic clinics
(O&P)

Source: Össur management estimates

Note: Estimates only account for component sales from providers to suppliers, i.e. not clinical services

* Increased penetration of high-end innovative products



The bracing & supports market

Bracing & supports (B&S) include products used to support joints and other body parts for therapeutic and preventative purposes. The B&S market includes devices supporting spinal, knee, hip, foot, ankle, and hands. Össur offers a comprehensive line of customer made and off-the-shelf products with primary focus on osteoarthritis and injury solutions.

The size of the global B&S product market is estimated to be approximately USD 2.7-3.0 billion. Össur is the second largest company operating in B&S with a market share estimated between 6-8%.

The growth rate of the B&S market is estimated to be 3-5%. We observe a healthy volume growth in the B&S market supported by global healthcare trends such as an aging and more active population. Price levels are relatively stable as B&S products are fully reimbursed in most of the markets that Össur operates in. For some markets, there is moderate price pressure for selected product categories, mainly products of a lower innovation level. Increased utilization of high-end innovative products such as Unloader bracing supports market growth in B&S.



Source: Össur management estimates

Note: Estimates only account for component sales from providers to suppliers, i.e. not clinical services

* Increased penetration of high-end innovative products



Orthopaedic industry stakeholders

In the orthopaedic industry, many stakeholders and decision makers are involved in the purchasing decision.

Stakeholders can be categorized into five groups.

ORTHOPAEDIC INDUSTRY STAKEHOLDERS

End-Users

Individuals that use the products.

Prescribers

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

Providers

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

Payers

Public and private insurance companies. About 95% of Össur products are reimbursed by a third party.

Influencers

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

USER STORIES

Markus Rehm

Markus is a 3x Paralympic Champion and World Record holder in long jump. Not only is he a professional athlete but he is also a certified prosthetist. He knows first-hand about the challenges people face following an amputation. He knows the fears of his patients because he has felt them himself. In 2003, he lost his left leg below the knee – he was only 14. He now draws strength from his job, which he pursues with enthusiasm. "Helping people return to mobility is one of my biggest goals."

Even when he was a child, sport was a big part of Markus Rehm's life. He had to learn to live with the consequences of a tragic accident at a young age. In 2005, only two years after his accident, he finished second in the German youth championships which set the stage for what became his passion for athletics. Today, he is the undisputed champion in his class (T64 Long Jump). The list of his achievements continues to grow, as he chases his own world record distance of 8.48m.

Markus is also very active in his private life and needs a prosthesis that can keep up with his busy lifestyle. Whether navigating the confined spaces of the workshop, running back and forth between appointments, or training in the weight room, the Pro-Flex XC Torsion from Össur, meets the challenges of his day-to-day activities. For his sport, he has worked closely with Össur in the development of the latest generation of sports blade for long jump, the Cheetah Xpanse.

Eyes on the goal, breaking his own World Record, winning gold medals and bringing the topic of inclusion into the public eye. Markus wants to show the world that challenged athletes are worthy of competing against able-bodied athletes.

Life Without Limitations means to me: Jumping further!



Business model

Össur's business model in brief

Össur manufactures a wide range of prosthetics and bracing & supports solutions with high standards of quality and excellence. These high-end products are developed with the objective to improve the mobility of end-users. The products are delivered to the end-users through customers (healthcare providers) who specialize in assisting individuals who suffer from movement impairment. Össur's products are in the vast majority of cases reimbursed by public or private insurance (payers). Össur makes a significant investment every year in R&D to further advance products and technologies for the benefit of all stakeholders.



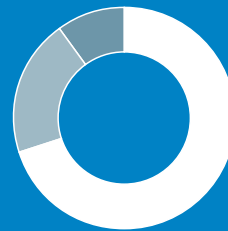
The end-users

End-users include lower and upper extremity amputees who have lost a limb due to, for example, vascular diseases including diabetes, trauma, and cancer. Össur also helps individuals who require support as they may have, for example, developed osteoarthritis in knee or hip ligaments, incurred temporary immobilization, or require enhanced healing after surgery.

By collaborating closely with the end-users, Össur gains a better understanding of their needs and challenges. In turn, Össur helps them to improve their mobility by providing new technologically advanced products to achieve their goals. The involvement with the end-user is not limited to research and development as there is also an aim to provide them with quality services, directly through clinics operated by Össur or indirectly through customer service programs.

Prosthetic Users

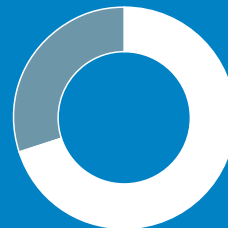
>750,000
new lower limb
amputees per year



Lower limb amputations

- Vascular related diseases 70%
- Trauma 20%
- Other 10%

>25,000
new upper limb
amputees per year



Upper limb amputations

- Trauma 70%
- Other 30%

30-40%
of new amputees are fitted
with prosthetic solutions

65-70
is the average age
of the amputee population

Research & Development

Össur develops prosthetics and bracing & supports, from an idea to a finished product. With every product, the aim is to deliver cost effective medical solutions that provide value for end-users and the healthcare system. When a product is designed, Össur accumulates medical and biomechanical data during the development process to verify product safety and efficacy before launch. Also, to obtain independent clinical evidence for product outcomes as well as health economic data, Össur initiates and promotes clinical studies in cooperation with leading scientists, institutions, and healthcare professionals in the field.

Össur supports open collaboration within the industry and academia. An example of such an initiative is the recent joint investment by Össur and Comau in IUVO, a spin-off company of The BioRobotics Institute (Scuola Superiore Sant'Anna) in the field of wearable technologies. The objective of IUVO is to create wearable, intelligent and active tools for a better quality of life. The first concrete examples are bionic bracing (robotic exoskeletons) capable of aiding and improving the quality of life for workers in industrial and service fields, and for end-users in need of improved mobility.



Manufacturing & Quality

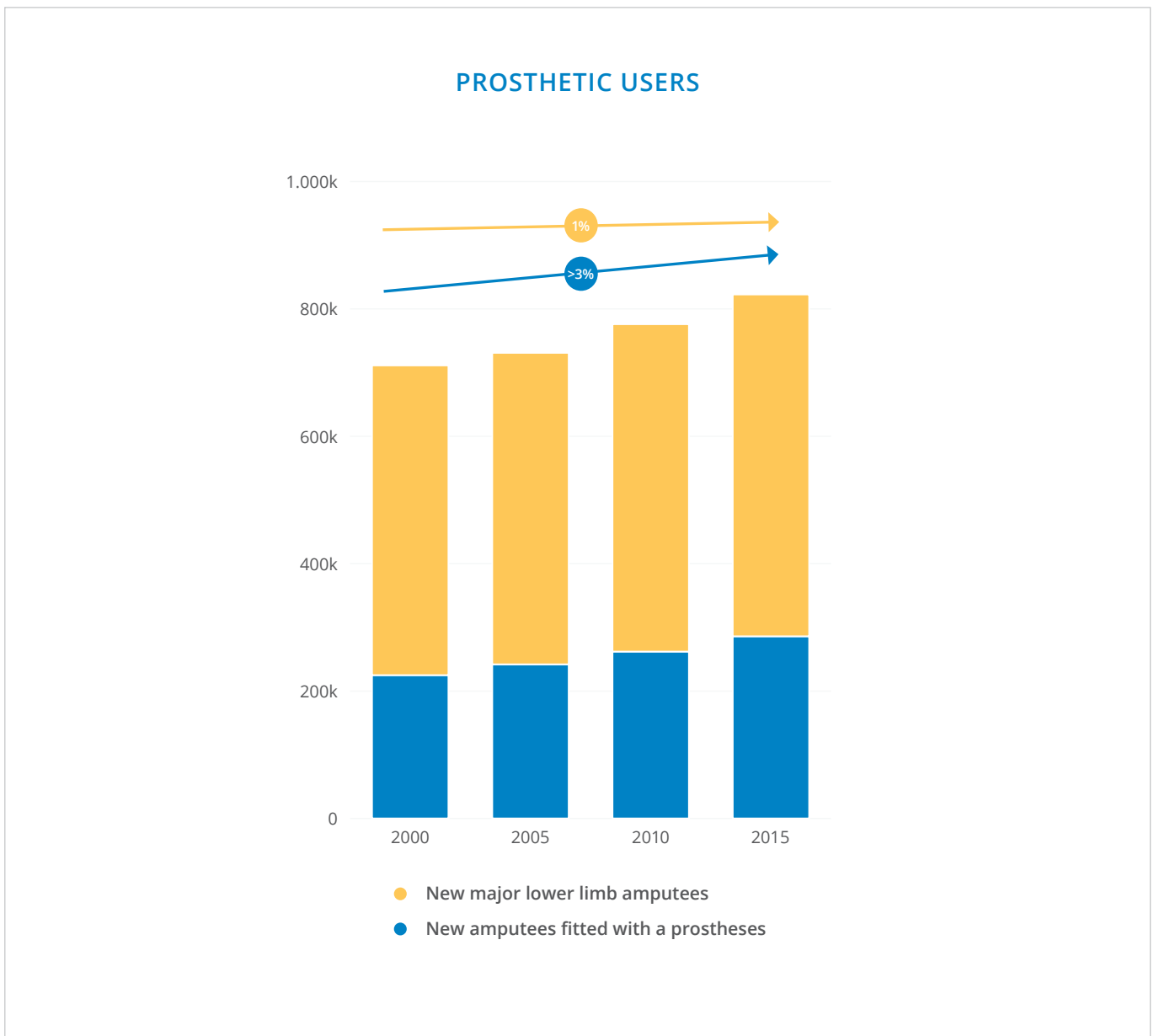
Össur maintains a strong global manufacturing function. Manufacturing of advanced prosthetic solutions, including bionics, takes place in Iceland and Scotland. Manufacturing of other prosthetics solutions, components and premium bracing solutions takes place in Mexico. Össur also manufactures some bracing and support products in France and outsources the manufacturing of soft goods to China. At Össur there is a continuous strive for profitability improvements, which includes finding ways to optimize the manufacturing process.

As a healthcare company, a great emphasis is placed on quality and it is highly important that quality is an intrinsic part of processes whereby Össur has had a certified quality system in place since 1993. Össur complies with various global quality and regulatory requirements for medical devices and is currently certified with the ISO9001:2008/2015, ISO14001:2015 and ISO13485:2016 standards.



Sales & Marketing

Össur operates within a highly specialized industry where the primary customers are specialized healthcare providers who provide and fit individuals with Össur products. In prosthetics these customers are orthopaedic and prosthetic (O&P) clinics and in bracing & supports it is a combination of O&P clinics, hospitals, and surgery centers. In a few selected markets, Össur operates its own O&P clinics. In most cases, when a user has been fitted with a product, Össur's customers claim reimbursement from the relevant public institutions or private insurance companies. Össur sells its products through its own direct sales network, and in some cases through distributors, with operations in more than 26 countries.



Payers, providers, and prescribers

Prescribers include healthcare professionals who prescribe products based on the clinical indication of the users. These include orthopaedic surgeons, non-surgical physicians, and emergency physicians as well as other professionals providing medical diagnosis.

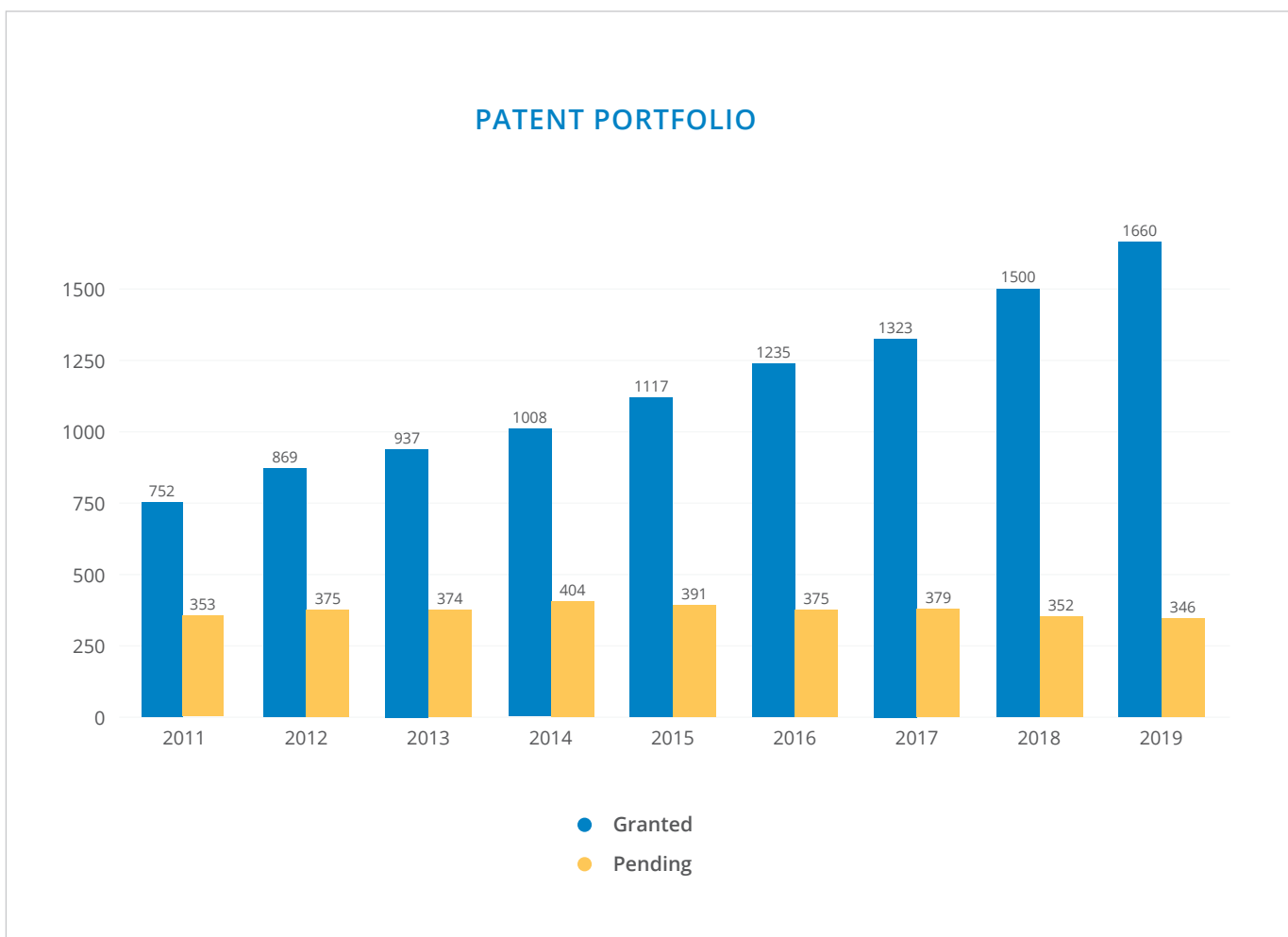
Providers are healthcare professionals who provide users with prosthetic and bracing products, and related services. These include certified prosthetists and orthotists (CPOs) working at O&P clinics, durable medical equipment (DME) clinics, orthopaedic clinics, and hospitals. Many providers not only recommend specific products but also fit and tailor-make certain products. For non-reimbursed products, a provider can be a pharmacy or sports store.

Payers include government reimbursement or insurance companies, where the vast majority of Össur's products are reimbursed by a third party. It should be noted that reimbursement systems vary substantially between countries. In other cases, the end-user would pay for the products out of pocket.

Innovation

Strong portfolio of Intellectual Property

Össur protects its investment in R&D by strategically growing its intellectual property portfolio. Proprietary technologies and products are protected with various types of intellectual property rights, such as patents, design registrations and, trade secrets. The IP portfolio is well diversified and representative of the business areas and markets in which Össur operates. In recent years, the portfolio has grown around 10% annually, which is mostly contributed to in-house innovation efforts. In 2019 alone, Össur was granted 104 new patents in addition to filing 113 new patent applications. At year-end 2019, Össur had around 1660 granted patents and some 350 pending patent applications. In addition, Össur's brand is protected by more than 500 trademark registrations.



Functional trade-up through technology

One of Össur's key innovation efforts has been to develop solutions explicitly intended for the large population of elderly amputees. Elderly individuals rarely receive advanced prosthetic solutions but need functional assistance and an effortless interface in order to use the prosthesis and feel confident enough to maintain an independent lifestyle. Össur's proven technology platforms in the field of prosthetics are the foundation for those new solutions. In 2019, Össur introduced three new product groups catering for the less active, more reliant amputee, facilitating functional trade-up

through technology for this population. These products are specifically designed as complete solutions, aesthetically pleasing and user centric.

Connect TF is a prefabricated adjustable socket that can be donned in a user friendly and effortless manner, while allowing for residual limb volume changes, which are both common reasons for low utilization of prosthetics in the indicated population.

Iceross Seal-In X Locking is a silicone liner interface, applicable for all activity levels but specifically designed with the elderly population in mind. It combines the benefits of locking suspension with the advantages of Össur's proprietary Seal-In technology, providing volume and rotational control.

Balance Foot S is a lightweight, waterproof foot designed to meet the needs of low active walkers by introducing a cushioning heel with gradual stiffening and a wide sole blade. Both providing enhanced stability perception and a smooth rollover.

Össur also introduced exciting new products within the area of bracing & supports. New launches included an addition to the Unloader family of osteoarthritis bracing. The Unloader One knee brace has for years been one of Össur's top performing products, clinically proven to relieve pain for patients with osteoarthritis, and providing improved quality of life and mobility for its users. In 2019, Össur launched an upgraded version of the brace, Unloader One X, incorporating the proprietary Dynamic Force Strap System and offering improved levels of comfort, aesthetics and ease of use.

Mind-controlled prosthetics

Technology advancements in the field of bionics have been extensive over the past decade where bionic components have become lighter, faster, more customizable and robust to various conditions. Össur believes that the future of prosthetics lies in providing the user with more direct control of the prosthesis, allowing the amputee to intuitively affect the behavior of their leg or arm. To further advance this vision, Össur signed a milestone agreement with the Alfred Mann Foundation on the development and licensing of a myoelectric sensor system (IMES), a solution utilizing implantable sensors that collect signals from the amputee's muscles and translate those into prosthetic movements. The focus for the first phase of this research and development initiative will be on upper limb controls. In 2019, Össur supplemented its upper limb prosthetic offering by launching the i-Limb Wrist, an active wrist rotator that can in the future, along with the i-Limb hand, be controlled through the IMES technology.

New Technologies

In collaboration with external parties, Össur has continued to explore the field of augmenting systems; wearable exoskeletons designed for both medical rehabilitation and industrial applications. Össur is applying existing high-end technology platforms ranging from bracing & supports to prosthetics to further advance the exploration and development in this area.

Strategy

Össur is a pioneer of advanced technology and by listening to people's needs and pushing the boundaries of technology, continues to create some of the best products and services available in the fields of prosthetics and bracing & supports. In the end, we strive to create a Life Without Limitations for all our users. Össur's mission is to improve people's mobility and its vision is to be a leading company in the non-invasive orthopaedics market.

Össur will continue to generate value for individuals and healthcare systems by focusing our business strategy on successful product innovation, sustainable growth and efficiency.



Innovation

Execute Ideas that add Value

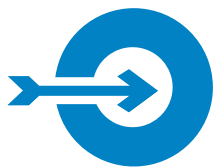
We embrace innovation in all our actions by creating value for our customers. We will be at the forefront of indication-related innovation to ensure our consistently strong position in the market.

In 2019, Össur continued to increase its investment level in research & development which currently stands at 5% of sales or USD 31 million. Össur launched more than a total of 25 new products and incremental updates to the market.

In prosthetics, Össur introduced the bionic PROPRIO FOOT which makes use of a motor-powered micro-processor-controlled ankle to adjust the foot position of the user in real time. The foot is designed to address variations in terrain better than other prosthetic feet. The PROPRIO FOOT provides a stable foot placement on stairs and inclined surfaces while reducing the risk of trips and falls by lifting the toe in every step.

In bracing & supports, Össur introduced the Unloader One X, the latest in Össur's range of clinically proven OA knee braces. The product is designed to be effortless to wear and easy to use.

During the year, good progress continued to be made in research & development in new technologies for our users. Össur, for example, signed an agreement with the Alfred Mann Foundation to extend the exploration of mind-controlled prosthetics. Additionally, continued investments were made in bionic solutions and wearable exoskeletons.



Growth

Maintain Sustainable Growth

We will achieve growth by successfully commercializing our innovation through our local go-to-market strategy and commitment to our customers' needs. We will further develop our business and leverage untapped market opportunities.

Organic sales growth amounted to 5% in 2019, driven by a strong performance in prosthetics and high-end innovative products in both business segments. These products include bionics such as the RHEO KNEE and PROPRIO FOOT, high-end mechanical feet such as the Pro-Flex range, OA bracing like the Unloader One X and post-operative bracing such as the Rebound Post-Op Knee.

One of the growth opportunities is within emerging markets where penetration of prosthetics and bracing is still relatively low. Össur continued to invest in selected emerging markets during the year by establishing direct sales and infrastructure. The goal in these markets is to drive conversion, technology trade-up, and offer partnership services.

Össur made good progress during the year with its partnership service model. These services include professional education, solutions to ease the reimbursement claim process, tools to enhance clinical outcomes, and outsourced fabrication.

Our strategy also includes exploring growth opportunities through acquisitions. Össur signed an agreement to acquire the prosthetics manufacturer College Park Industries. Össur furthermore acquired three companies with combined full-year sales of about USD 20 million. Two of the companies began to contribute to sales in the beginning of the fourth quarter of 2019 but the other began to contribute to sales in November of 2019.



Efficiency

Conduct Business Efficiently

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

EBITDA margin before special items amounted to 22% in 2019. Profitability was positively impacted by changes in product mix and savings from the ongoing efficiency initiatives, however the increase in profitability was neutralized by investments in emerging markets and impact from acquisitions.

In 2019, as in recent years, the gross profit margin increased as a result of changes in product mix. The positive development is mainly driven by stronger growth in high-end innovative products than in the remainder of the product portfolio, such as bionics, high-end mechanical feet and OA solutions.

Good progress was made with the ongoing efficiency initiatives this year which are in the area of distribution, manufacturing and strategic sourcing. The savings target of USD 6 million in 2019 was reached, corresponding to USD 3 million in additional savings when compared to the previous year. Össur targets savings of USD 10 million in 2020 corresponds to USD 4 million in additional savings when compared with 2019.

Össur has been investing in an increasingly scalable infrastructure. As an example, the global manufacturing platform is consolidating with about 10 fewer locations since the year 2019. Investments have been made in centralized procurement (strategic sourcing) and implementation of a new CRM platform. The shared service center in Poland supports around 60% of Össur's entities and the global IT department around 90% of entities.

People

At Össur we nurture a spirit of innovation; we offer an open and vibrant environment where each employee can achieve his or her full potential. We live by a set of values that are the foundation for our strategy and success. Our core values are Honesty, Frugality, and Courage; and these values guide our decisions. We live these values every day in everything that we do—in our interactions with colleagues and customers, and in our work efforts.

We have about 3,500 FTEs working in over 26 countries. While we are a diverse company, we work as one to improve people's mobility. Different ideas and points of view are beneficial to our business, and we believe in creating an environment where diversity, knowledge, skills, and strengths are fully utilized. As individuals, our employees can expect equal treatment and equal opportunities for growth within Össur. Our employees take responsibility, both for their current job and for their career advancement. We offer various learning opportunities, so employees can build lasting and rewarding careers with us.

We measure our employees' motivation once a year and we are proud that our employee satisfaction and motivation is high. Our employees' passion, drive, and capabilities to help our customers are our greatest assets.

We have a Competency Framework within Össur that allows us to identify the behaviors that drive successful performance. It provides a clear behavioral link to our business strategy and suggested methods for our employees to further develop their competencies.

Össur recruits competent and ambitious individuals that can work on demanding projects, and we are proud that we've been able to provide advancement opportunities for our talented employees. Our hiring decisions are based on a potential employee's skills and abilities. Our global team of talented professionals is passionate about helping people live a Life Without Limitations. While innovation drives us as we strive to be the leading company in non-invasive orthopaedics, it is the people that work at Össur that make this possible. If you are interested in joining our team you can view and apply for an open position on Össur's applicant portal.





HONESTY

— Stay True —

FRUGALITY

Make Every Step Count

COURAGE

— Aim Higher —



Diversity and Equality

Every day we interact with people from a wide range of cultures and backgrounds. We do business in numerous locations around the world, working and communicating with many different colleagues, customers and other stakeholders in our industry.

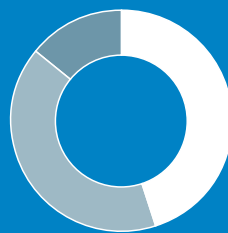
Diversity and equality are extremely important to us. Different ideas and points of view are beneficial to our business, and we believe in creating an environment where all our knowledge, skills and strengths are fully utilized. As individuals, we can expect equal treatment and equal opportunities for growth within Össur.

Diversity and Equality



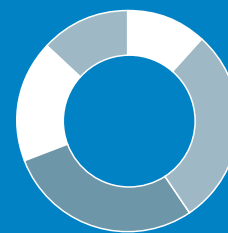
Gender Ratio

- Male 51%
- Female 49%



Education

- University Degree 44%
- Other 45%
- Vocational or Technical Training 11%



Age

- 16-25 10%
- 26-35 27%
- 36-45 27%
- 46-54 20%
- 55+ 16%

Risk management

Four key risks

Investment in Össur's shares involves various risks where the business, financial conditions, and results of operations going forward rest upon certain assumptions and could be negatively affected if any of the factors described in this chapter occur. Össur has chosen to highlight four key risks which are currently considered most relevant. Össur cannot ensure that given assumptions for the description of the risk is correct. Furthermore, additional risks and uncertainties which are listed on Össur's corporate website, or not presently known to Össur, or that the Company currently deems immaterial, may adversely affect its business operations and financial results, to an even greater extent, than the four risks identified here.

CHANGES IN REIMBURSEMENT

Description

Most of Össur's products and services are reimbursed by third-party payers, including government healthcare programs and private health insurance plans. All third-party payers continue to develop methods of controlling healthcare costs, including review of claims, selective contracting, and competitive bidding.

Potential impact

These cost-control methods may limit or even eliminate the coverage and the amount of payment for which third-party payers may be willing to pay on Össur's products and services. As a result, sales may decline significantly, and customers may reduce or eliminate purchases. Reviews of claims may lead to repayment of prior sales.

Mitigative actions

Össur only brings products to the market that have medical indication and are clinically validated. Össur applies its reimbursement knowledge from the earliest stages of product development to the post-sale education of customers. Össur also pursues several strategies to manage the reimbursement of its products and services.

REGULATORY REQUIREMENTS

Description

Össur's products are medical devices that are subject to extensive global regulations by the respective authorities in countries where Össur conducts its business. Such regulations can restrict virtually all aspects of a medical device's design and testing, manufacturing, safety, labeling, storage, recordkeeping, reporting, clearance and approval, promotion, distribution, and services.

Potential impact

Failure to comply with the regulatory requirements of the applicable authority may subject Össur to sanctions ranging from warning letters to penalties and product withdrawal. Össur's failure to comply with regulatory requirements or receive regulatory clearance and approval for its products or operations would adversely affect Össur's sales and potential for future growth.

Mitigative actions

Össur maintains a robust global quality system that complies with international medical device standards and is an intrinsic part of internal processes. Furthermore, employees actively monitor the medical device regulation landscape and stay on top of changes to international and local regulations in the countries where Össur markets and sells medical devices.

ÖSSUR MAY BE UNABLE TO DEVELOP OR SECURE THE USE OF NEW TECHNOLOGIES

Description

Össur operates in markets that are characterized by rapid technological change, driven by extensive research that is carried out by market participants. Technological innovation takes place at various stages in Össur's value chain and may include individual components, design, and functionalities of Össur products, and patient care.

Potential impact

The development by any suppliers or competitors of substitute products or components that better satisfy market demands could have a material adverse effect on Össur's business and results of operations. A failure to develop new products or enhance existing products could also have a material adverse effect on Össur's operations and potential for future growth.

Mitigative actions

Significant reinvestment into R&D and constant strive to find new technologies has resulted in a vast IP portfolio and enables a strong position to compete with potential new entries. External connections and appeal to universities, research institutes and investors provides the opportunity to stay informed and review emerging innovation as part of acquisitions or research cooperation initiatives.

INDUSTRY CONSOLIDATION AND FORWARD INTEGRATION

Description

Major shifts in Össur's marketplace include the consolidation of prosthetics manufacturers in recent years and the additional momentum that forward integration is gaining in the industries where the Company operates. Given the nature of acquisitions, it is uncertain to what degree Össur will be able to participate in further consolidation and to what degree forward integration will affect Össur's operations.

Potential impact

The consolidation has been a material contributor to the growth of Össur in the past. If Össur were not to participate in further consolidation or forward integration, it might limit Össur's potential for future growth. In addition, these shifts may impact the competitive landscape of the industries and the associated market shares. Changes in the industry may furthermore impact Össur's customers.

Mitigative actions

Össur continuously reviews value enhancing acquisition and investment opportunities in its business segments and keeps a good relationship with the relevant stakeholders in the industry. Össur furthermore operates its own clinics in certain regions and has partnership programs in place with patient care providers to offer end-users quality services.

Other relevant risk factors






For other relevant risk factors please see the Investor Relations section on our corporate website:

www.ossur.com/corporate

Shareholder information

The Össur stock price increased by 68% in 2019, compared to an increase of 29% of the OMXC25GI index, a leading index for the Danish equity market. Össur returned USD 39 million to its shareholders in 2019, in the form of USD 30 million share buybacks and USD 9 million in dividends.

Össur's stock is listed on Nasdaq Copenhagen and was the 24th largest company listed on Nasdaq Copenhagen when measured in terms of market value at year-end 2019.

KEY INFORMATION TABLE				
Market	ISIN	Ticker	Industry	Nr. of shares
				
CPH (DKK)	IS0000000040	OSSR	Health Care	425,377,804

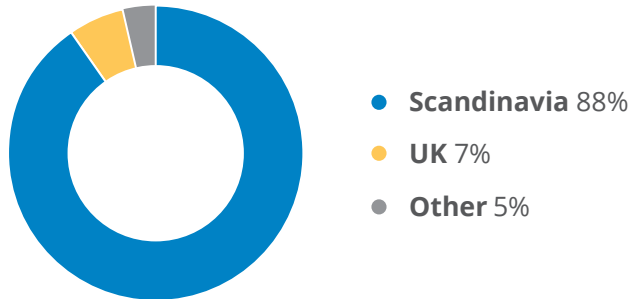
The share capital of Össur is ISK 425,377,804 nominal value, divided into the same number of shares. There is only one class of shares and all shares carry one vote.

Össur's largest shareholder is William Demant Invest A/S (WDI) which held 52% of the total shares and 52% of the voting rights at year-end 2019. WDI has been invested in Össur since 2004. According to an announcement by WDI, their intention is to hold between 50-60% of Össur's shares going forward. Apart from Össur, the fund's investment activities include a majority share in William Demant Holding A/S, a leading provider of hearing aids, and Vision RT in addition to minority holdings in Jeudan A/S, Vitrolife AB, and Cellavision AB.

In addition, ATP Pension Fund, The Pension Fund of Commerce, LSR Pension Fund, and Invesco Adviser, Inc. had announced holdings above 5% in Össur at year-end 2019.

At year-end, about ~88% of Össur's shareholders were located in Scandinavia. The remaining ~12% of the shares are held by investors residing in other countries.

SHAREHOLDER INFORMATION



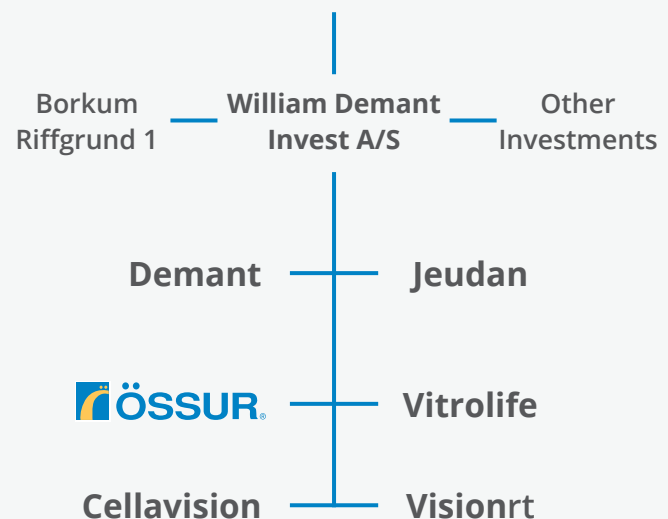
Ownership structure

The William Demant Foundation is a Danish charitable business foundation that support projects within the areas of research, education, culture and selected social areas.

William Demant Invest manages the investment activities.

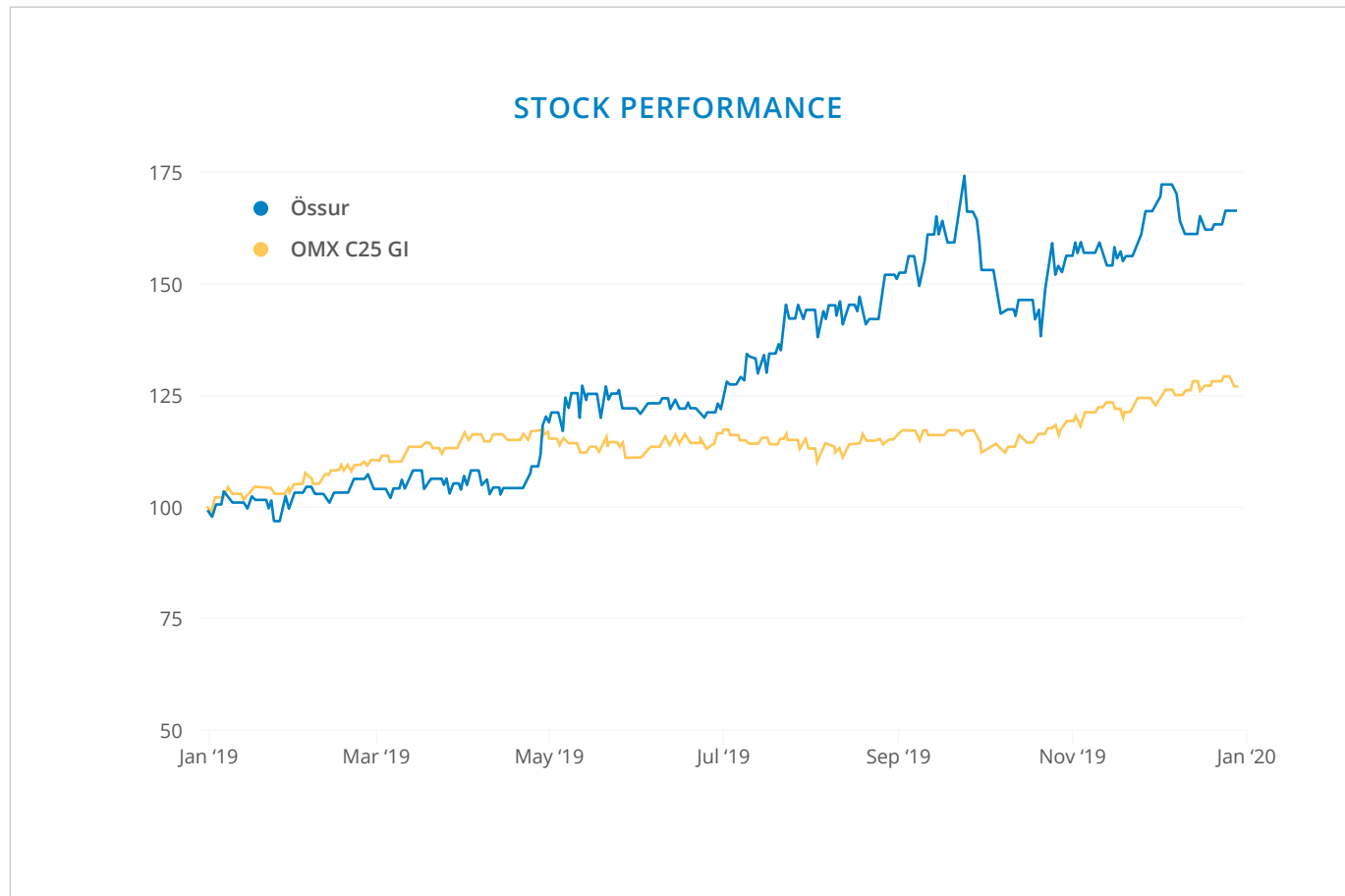
When investing in new companies, William Demant Invest generally looks for the following industry and company traits:

- Medtech/healthcare industries
- Strong underlying market factors such as demographic trends and structural growth
- Niche industries with consolidation potential
- Companies and products with proof of concept and existing revenue, i.e. not biotechnology/clinical trials
- Stable cash flow generation or the potential to achieve it in a short to medium term

William Demant
Foundation

Stock performance

Össur's share price increased by 68% in 2019, from DKK 31.1 per share at year-end 2018 to DKK 52.3 per share at year-end 2019. The rise in share price increased Össur's market capitalization to DKK 22.2 billion (USD 3.3 billion) at year-end 2019 from DKK 13.4 billion (USD 2.1 billion) at year-end 2018.



Updated Capital Structure and Dividend Policy

Össur's Board of Directors has approved an updated Capital Structure and Dividend Policy. The level of net interest-bearing debt to EBITDA has been increased to 1.5-2.5x from the previous 1.0-2.0x. The increase is only due to the implementation of IFRS 16 which impacted both net interest-bearing debt and EBITDA.

The updated policy is:

The key objective of the Capital Structure and Dividend Policy is to maintain a healthy balance sheet and a level of net interest-bearing debt of 1.5-2.5x to EBITDA. Össur will prioritize value-adding investment opportunities and acquisitions while excess capital is returned to shareholders via annual cash dividends and/or purchase of own shares. Össur's policy is to distribute a relatively stable cash dividend which will be decided annually in DKK per share. Return of capital to shareholders is based on objectives of maintaining a solid financial position, operational outlook and investment requirements. In order to maintain flexibility, Össur can temporarily exceed the level of net interest-bearing debt to EBITDA should additional attractive acquisition opportunities present themselves.

Share buybacks

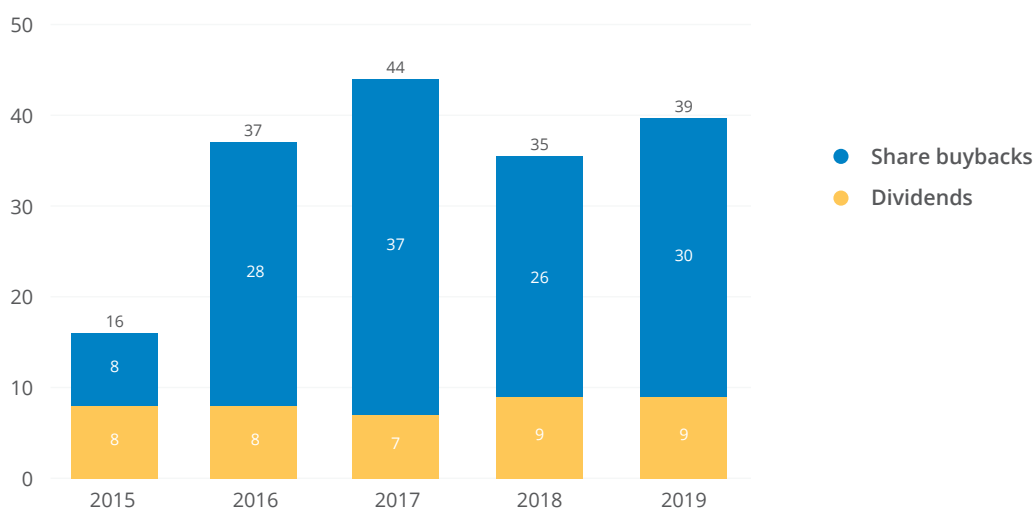
During 2019, Össur purchased 4,784,631 of own shares (approx. 1.1% of outstanding shares) under share buyback programs. The total purchase price was DKK 201 million (USD 30 million). The purpose of the share buyback programs is to adjust the capital structure in line with a desired capital level of 1.5-2.5x net interest-bearing debt to EBITDA outlined in Össur's Capital Structure and Dividend Policy. At year-end 2019, treasury shares totaled 3,359,631.

The Board of Directors will propose to the Annual General Meeting in 2020 to reduce the share capital by way of cancelling shares acquired in 2019 amounting to 2,377,804 of Össur's own shares of ISK 1 nominal value each. If the Annual General Meeting approves the motion, the number of outstanding shares will be 423,000,000.

Dividends

The Board of Directors will propose to the Annual General Meeting in 2020 that Össur pays a cash dividend of DKK 0.15 per share for 2019, equivalent to approx. 14% of net profit in 2019, compared to DKK 0.14 per share for 2018, an increase of 7% per share. If the Annual General Meeting approves the motion, the dividend for 2019 will be paid out on March 26, 2020 and the last trading day with right to dividend for 2019 is March 12, 2020.

SHARE BUYBACKS AND DIVIDENDS



Over the last five years, Össur has paid out USD 171 million to shareholders in the form of share buybacks and dividends.

Financial calendar

Annual General Meeting	12 March 2020
Interim Report Q1 2020	30 April 2020
Interim Report Q2 2020	23 July 2020
Interim Report Q3 2020	27 October 2020
Interim Report Q4 2020 and Annual Report for 2020	2 February 2021
Annual General Meeting	8 March 2021

According to the Articles of Association, the Annual General Meeting (AGM) shall be held before the end of April. The meeting is convened with at least three weeks' notice. The AGM results are sent to the news system of Nasdaq immediately following the meeting and are also made available on the corporate website. Össur's AGM will be held at the Company's headquarters in Iceland on 12 March 2020.

Investor relations

Össur's policy is to disclose financial and corporate information to provide investors, analysts, and other stakeholders with comprehensive and accurate information to help them understand Össur's current and expected outlook. Five sell-side equity analysts currently cover Össur.

Visit our website for financial reports, announcements, presentations, financial calendar, upcoming events, share information, and information on Össur: ossur.com/investors

Contact Investor Relations

David Hreidarsson

Investor Relations Manager

Tel.: +354 515 1380

e-mail: dhreidarsson@ossur.com

Corporate Governance

Recommendations on Corporate Governance

Össur applies the Danish Recommendations on Corporate Governance (“Recommendations”) as the Company’s shares are solely traded on Nasdaq Copenhagen and Össur is not subject to a corporate governance code in Iceland. The Recommendations are the best practice guidelines for companies admitted to trading on a regulated market in Denmark. For further information see clause 2.5 and explanations to clause 4.1 in Nasdaq Copenhagen’s rules for issuers of shares.

Each year the Board of Directors evaluates and decides to what extent the Company should comply with the Recommendations and consequently whether relevant rules, policies and processes should be adopted or amended. When reporting on corporate governance, Össur comments and provides information on each recommendation. In the few cases where Össur has decided to deviate from the Recommendations, the “comply or explain” principle is applied, and well-founded explanations are provided why the relevant recommendation is not considered appropriate or desirable for the Company.

Össur’s Corporate Governance Report is approved by the Board of Directors. The Report includes both the statutory statement on corporate governance as well as comments and information on each item in the Recommendations. The report is available on the Össur’s website.

Governance Structure

Shareholders’ Meetings

The supreme authority in Össur’s affairs is in the hands of lawful Shareholders’ Meetings, within the limits provided for in the Company’s Articles of Association and law.

At each Annual General Meeting the shareholders confirm the Company’s consolidated financial statements, approve the Company’s remuneration policy and decide on remuneration for the Board of Directors. The Board of Directors and an auditor are also elected at the Annual General Meeting, for a term of one year. Other resolutions are made on an ad-hoc basis, such as amendments to the Company’s articles of association (including capital reductions or authorizations for the Board of Directors to increase share capital) as well as authorizations to the Board of Directors (including to purchase own shares, initiate share buyback programs, or initiate share incentive programs).

Resolutions at Shareholders’ Meetings generally require a simple majority. However, resolutions to amend the Company’s Articles of Association usually require two-thirds of the votes cast and capital represented.

William Demant Invest A/S holds the voting majority at Össur’s Shareholders’ Meetings due to its majority ownership of the Company.

Minutes of Shareholders’ Meetings are available on Össur’s website.

Board member	Responsibilities	Independent	Nationality	Residence	Board tenure
Niels Jacobsen	Chairman of the Board	No	Danish	Denmark	2005
Kristján Tómas Ragnarsson	Vice Chairman of the Board	No	Icelandic	USA	1999
Arne Boye Nielsen	Chairman of the Audit Committee	No	Danish	Denmark	2009
Guðbjörg Edda Eggertsdóttir	Member of the Audit Committee	Yes	Icelandic	Iceland	2013
Svafa Grönfeldt	Member of the Audit Committee	Yes	Icelandic	USA	2008

Board of Directors

The Board of Directors is the supreme authority in Össur's affairs between Shareholders' Meetings. The Board has various roles and responsibilities, including establish goals for the Company and formulate the policy and strategy to achieve those goals, hire a CEO to manage the Company's daily operations, supervise the Company's activities and ensure that the Company's organization and operations are in good and proper order, ensure adequate surveillance of the accounting and financial management of the Company, and evaluate the Company's capital structure as well as the performance of the Board and the CEO. The Board's roles and responsibilities are further described in the Board's rules of procedure, which are available on the Össur's website.

THE BOARD OF DIRECTORS' ANNUAL SCHEDULE

Quarter 1

February Meeting

- Full -year results
- Corporate Governance Statement
- Capital Structure and Dividend Policy
- Agenda for the Annual General Meeting

March Meeting

- Election of Chairman and Vice Chairman
- Appointment of Audit Committee
- Review of Internal Rules

Annual General Meeting

Quarter 2

April Meeting

- Quarterly results

Quarter 3

July Meeting

- Half-year results

September Meeting

- Strategy

Quarter 4

October Meeting

- Quarterly results

December Meeting

- Strategy and forecast
- Performance evaluation
- Diversity discussions

The Board of Directors is composed of five individuals, all elected by the shareholders at the Annual General Meeting for a term of one year. The Board shall be represented by at least 40% of each gender, and currently there are three men and two women on the Board. The Board members have all served for several years, which ensures consistency and good insights into the Company's business and markets.

The Chairman and the Vice Chairman of the Board of Directors are elected each year following the Company's Annual General Meeting. The Chairman's main responsibility is to ensure that the Board performs its duties in an orderly and efficient manner. In the absence of the Chairman, the Vice Chairman performs his duties. Niels Jacobsen has served as the Chairman since 2006 and Kristján Tómas Ragnarsson as the Vice Chairman since 2012.

The Board of Directors conducts a performance evaluation each year, which includes evaluation of individual contribution, co-operation within the Board and with the CEO, the Chairman's leadership and setup of meetings, quality of board material, committee structure, etc. The Board also evaluates its composition each year to ensure that the members of the Board have between them the relevant knowledge, professional experience, expertise and skills required to perform the Board's tasks in the best interest of the Company. The Chairman oversees the evaluation process and proposes the actions to be taken, if any. The Chairman shall seek external assistance at least every three years.

Further information on each member of the Board of Directors is available on the Össur's website.

Board member	Board Meetings attended
Niels Jacobsen	● ● ● ● ● ● ● ● ●
Kristján Tómas Ragnarsson	● ● ● ● ● ● ● ● ●
Arne Boye Nielsen	● ● ● ● ● ● ● ● ●
Guðbjörg Edda Eggertsdóttir	● ● ● ● ● ● ● ● ●
Svafa Grönfeldt	● ● ● ● ● ● ● ● ●

Audit Committee

The Audit Committee acts as an advisor to the Board of Directors but has no authority to take any decision on behalf of the Board. The principal duty of the Audit Committee is to ensure good quality of the Company's Consolidated Financial Statements and other financial information as well as the independence of the Company's Auditors. The Audit Committee's role and responsibilities are further described in the Audit Committee's rules of procedure, which are available here on Össur's website.

The Audit Committee is composed of three Board Members. The majority of the Audit Committee shall be independent of the Company, the CEO and the Auditor. The Members of the Audit Committee shall possess the knowledge and expertise needed to perform the tasks of the Audit Committee. At least one Member of the Audit Committee shall have solid knowledge and experience in the field of financial statements or auditing. Arne Boye Nielsen has served as the Chairman of the Audit Committee since 2012. Further information on each member of the Audit Committee is available on the Össur's website.

Board member	Audit Committee Meetings attended
Niels Jacobsen*	● ● ● ● ●
Kristján Tómas Ragnarsson*	● ● ● ● ●
Arne Boye Nielsen	● ● ● ● ●
Guðbjörg Edda Eggertsdóttir	● ● ● ● ●
Svafa Grönfeldt	● ● ● ● ●

*Attends the meeting in his capacity as Chairman or Vice Chairman of the Board.

Executive Board

According to Össur's Articles of Association the Executive Board is formally composed of the CEO alone. He is not a member of the Board of Directors. The CEO is responsible for the Company's daily operations and is obliged to follow the Board of Directors' policy and directions, within the limits provided for by the Company's articles of association and law. The daily operations do not include measures that are unusual or extraordinary, which may generally only be taken if specially authorized by the Board.

The Board of Directors evaluates the CEO's performance each year and then the Chairman of the Board and the CEO have a meeting to discuss the results of the evaluation and the actions to be taken, if any.

Össur also has a wider executive committee consisting of the CEO, the CFO and Executive Vice Presidents ("Executive Management"). The Executive Management generally meets every week and collectively prepares and implements the Company's strategic plans. The CEO is responsible for the work and results of the Executive Management. The CEO evaluates the performance of the Executive Management each year and discusses the results of the evaluation with each member and the actions to be taken, if any. Further information on each member of the Executive Management is available on Össur's website.

Corporate Social Responsibility

Össur joined the UN Global Compact in 2011 and signed the UN Women's Empowerment Principles in 2014. In 2019, Össur evaluated its impact on the UN Sustainable Development Goals and will start to report on the goals accordingly.



The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labor standards, the environment and anti-corruption.

Össur's contribution to the UN Sustainable Development Goals (SDG)

Össur's largest impact on society is through the Company's innovative products, research activities and expertise in the field of prosthetics and bracing and supports. Össur works with individuals, clinicians and diverse communities around the world to support a better quality of life and increase the mobility of millions of people. Consequently, Össur's greatest impact on the SDGs is on Goal 3, Good Health and Well-Being. Additionally, Össur will also contribute to Goal 5 on Gender Equality, Goal 12 on Responsible Consumption and Production and Goal 13 on Climate Action.

Össur's sustainability vision is to provide products and services that contribute to good health, using responsible production methods and supporting climate action, while being a sponsor for gender equality.

Goal 3
Good Health
and Well Being



Our Focus Project

Improve access to healthcare for amputees

Globally, only 30-40% of new lower limb amputees are fitted with a prosthetic solution. The average age is between 65-70 years and vascular related amputations are above 80%. Statistics demonstrate that if amputees in this age group do not become mobile, life-expectancy is materially reduced. Physical activity and exercise can have immediate and long-term health benefits and more importantly, regular activity can improve quality of life. Össur is adding special focus on designing products that support the needs of this age group.

Main targets supporting this goal:

- Design and market functional products for elderly
- Initiate and/or support clinical investigations focusing on clinical benefits related to more functional products for this user group
- Engage with industry specialists and decision makers to secure access to more functional products for this demographic

Goal 5
Gender
Equality



Our Ongoing Commitment

Össur believes in diversity in its broadest sense. Rooted in our Nordic heritage is the importance of gender equality and women's positive contribution to the workplace and the society.

Main targets supporting this goal:

- Maintain an even gender split amongst employees (+/-5%)
- Increase management positions held by women
- Encourage greater diversity and inclusiveness in the industry

Goal 12
Responsible
Consumption
and Production



Our Products

Reducing the environmental footprint of our products

Össur is taking a product-centric approach to environmental management and aims to reduce the product's environmental footprint throughout the full lifecycle, from development, through production, use and disposal.

Main targets supporting this goal:

- Sustainable product development
- Material choices, recyclable and safe materials
- Reduce plastics in final product packaging
- Explore opportunities for circular business models

Goal 13
Climate
Action



Taking Action

Actively working towards a carbon neutral operation

Össur is committed to reducing its Greenhouse Gas Emissions and improving the efficiency of our energy and resource consumption before looking into offsetting options.

Main targets supporting this goal:

- Reduce emissions from business travel and freight.
- Improve energy efficiency and aim for renewable energy options.
- Reduce waste and increase recycling.

Environment

Össur has a certified environmental management system in accordance with ISO 14001:2015 at the biggest manufacturing and distribution locations.

ENVIRONMENTAL METRICS			
Environmental Metrics	2017	2018	2019
E1 GhG Emissions			
Total amount, in CO2 equivalents, for Scope 1	43	38	360
Total amount, in CO2 equivalents, for Scope 2	3,480	3,700	3,600
Total amount, in CO2 equivalents, for Scope 3	1,280	1,660	7,100
Emissions neutralized by carbon offset projects, in Tonnes CO2 equivalents	-660	-880	-1,000
E2 Emissions Intensity			
Total GhG emissions per revenue (tCO2e/USD Million)	4	4	16
E3 Energy Usage			
Total amount of energy directly consumed (MWh)	14.110	15.830	18.550
E4 Energy Intensity			
Total Energy usage per revenue (MWh/USD Million)	-	23	27
E5 Energy Mix			
Energy usage by generation type			
Fossil Fuel (%)	41%	41%	46%
Nuclear Energy (%)	0%	2%	4%
Renewable Energy (%)	59%	57%	50%
E6 Water Usage			
Total amount of water consumed (m3)	80.000	94.000	95.400
E7 Environmental operations			
Does your company follow a formal Environmental Policy? Yes, No	Yes	Yes	Yes
Does your company follow specific waste, water, energy, and/or recycling polices? Yes/No	Yes	Yes	Yes
Does your company use a recognized energy management system? Yes/No	No	No	Yes
E8 Climate Oversight / Board			
Does your Board of Directors oversee and/or manage climate-related risks? Yes/No	No	No	No
E9 Climate Oversight / Management			
Does your Senior Management Team oversee and/or manage climate-related risks? Yes/No	No	No	No
E10 Climate Oversight / Management			
Total amount invested, annually, in climate-related infrastructure, resilience, and product development.	n/a	n/a	n/a

Össur joined the UN Global Compact in 2011 and signed the UN Women's Empowerment Principles in 2014. In 2019 Össur evaluated its impact on the UN Sustainable Development Goals and will start to report on the goals accordingly.

Össur is continuously improving its Greenhouse gas emission reporting with more extensive data from suppliers and service providers.

In 2019, the main changes are:

- Emission from global business travel added. This explains the increase in Scope 3 emission in 2019 and Emission Intensity.
- A new environmental management software solution implemented, providing improved overview of environmental aspects. This explains the increase in Scope 1 emission, reflecting local gas consumption.
- For more detailed information, see Össur's CSR report.

USER STORIES

Paola Antonini

Brazilian fitness model Paola Antonini was at the beginning of a promising career when she was a victim of a drunk driver. Her left leg was severely crushed and despite four attempts to repair her injuries, amputation was determined to be the best course of action.

"At that moment, I didn't care what that meant for my modeling career or the rest of my life; I just wanted the pain to go away."

Today, nearly five years later, she lives life without limitations as a successful working model, social media influencer, columnist, positive body image advocate and amputee.

Physiotherapy began immediately, and frustration and negativity gave way to determination and confidence. Paola did not want to be defined nor limited by her injuries. In April 2016, she proudly shared a modeling photo which highlighted her amputated leg. The post went viral and earned her worldwide recognition as a source of inspiration to others in similar situations. Focused on resuming her modeling career, Paola continued to engage on social media, documenting her progress and setbacks, quickly amassing over 2.5 million followers.

"I really want to show people that anything is possible, and life doesn't have to stop because of an amputation. No way! We can do whatever we want."



Social

Below social metrics in accordance with the Nadsaq ESG guidance. Further details on other initiative are discussed in Össur's CSR report.

SOCIAL METRICS			
Social Metrics	2017	2018	2019
S1 CEO Pay Ratio			
CEO total compensation to median FTE total compensation	25	22	21
Does your company report this metric in regulatory filings? Yes/No	Yes	Yes	Yes
S2 Gender Pay Ratio			
Equal pay audit	Yes	Yes	Yes
S3 Employee Turnover Ratio			
Year-over-year change for full-time employees	13%	15%	10%
Year-over-year change for part-time employees	n/a	n/a	n/a
Year-over-year change for contractors and/or consultants	n/a	n/a	n/a
S4 Gender Diversity			
Total enterprise headcount held by men and women	M 52% / F 48%	M 51% / F 49%	M 51% / F 49%
Entry- and mid-level positions held by men and women	M 63% / F 37%	M 64% / F 36%	M 62% / F 38%
Senior- and executive-level positions held by men and women	M 77% / F 23%	M 80% / F 20%	M 74% / F 26%
S5 Temporary Worker Ratio			
Total enterprise headcount held by part-time employees	3%	4%	8%
Total enterprise headcount held by contractors and/or consultants	n/a	n/a	n/a
S6 Non-Discrimination Policy			
Does your company follow a sexual harassment and/or non-discrimination policy? Yes/No	Yes	Yes	Yes
S7 Injury rate			
Percentage: Frequency of injury events relative to total workforce time	1.7	1.1	0.6
S8 Global Health and Safety policy			
Does your company follow an occupational health and/or global health & safety policy? Yes/No	Yes	Yes	Yes
S9 Child & Forced Labor Policy			
Does your company follow a child and/or forced labor policy? Yes/No	Yes	Yes	Yes
If yes, does your child and/or forced labor policy See also: cover suppliers and vendors? Yes/No	Yes	Yes	Yes
S10 Human Rights Policy			
Does your company follow a human rights policy? Yes/No	Yes	Yes	Yes
If yes, does your human rights policy See also: cover suppliers and vendors? Yes/No	Yes	Yes	Yes

Corporate Governance

Össur's Corporate Governance reporting complies with the Danish Recommendations on Corporate Governance. Further details on the Corporate Governance Reporting can be found in the Corporate Governance Statement on Össur's website: ossur.com/corporate/investor-relations/corporate-governance

GOVERNANCE METRICS			
Governance Metrics	2017	2018	2019
G1 Board Diversity			
Percentage: Total board seats occupied by women (as compared to men)	M 60% / F 40%	M 60% / F 40%	M 60% / F 40%
Percentage: Committee chairs occupied by women (as compared to men)	M 100% / F 0%	M 100% / F 0%	M 100% / F 0%
G2 Board Independence			
Does company prohibit CEO from serving as board chair? Yes/No	Yes	Yes	Yes
Percentage: Total board seats occupied by independents	D 60% / I 40%	D 60% / I 40%	D 60% / I 40%
G3 Incentivized Pay			
Are executives formally incentivized to perform on sustainability? Yes/No	No	No	No
G4 Collective Bargaining			
Total enterprise headcount covered by collective bargaining agreement(s)	n/a	n/a	41%
G5 Supplier Code of Conduct			
Are your vendors or suppliers required to follow a Code of Conduct?	n/a	n/a	Yes
If yes, what percentage of your suppliers have formally certified their compliance with the code?	n/a	n/a	76%
G6 Ethics & Anti-Corruption			
Does your company follow an Ethics and/or Anti-Corruption policy? Yes/No	Yes	Yes	Yes
If yes, what percentage of your workforce has formally certified its compliance with the policy?	91%	91%	91%
G7 Data Privacy			
Does your company follow a Data Privacy policy? Yes/No	Yes	Yes	Yes
Has your company taken steps to comply with GDPR rules? Yes/No	Yes	Yes	Yes
G8 ESG Reporting			
Does your company publish a sustainability report? Yes/No	Yes	Yes	Yes
Is sustainability data included in your regulatory filings? Yes/No	Yes	Yes	Yes
G9 Disclosure Practices			
Does your company provide sustainability data to sustainability reporting frameworks? Yes/No	Yes	Yes	Yes
Does your company focus on specific UN Sustainable Development Goals (SDGs)? Yes/No	No	No	Yes
Does your company set targets and report progress on the UN SDGs? Yes/No	No	No	Yes
G10 External Assurance			
Are your sustainability disclosures assured or validated by a third party? Yes/No	Third party assurance and third party audits are performed on vast majority of the CSR data, further details in the CSR report		



Board of Directors



Niels Jacobsen

Chairman of the Board of Directors

Born in 1957

Member of the board of directors since the year 2005

Education

Master's degree in Business Administration from the University of Aarhus in Denmark

Board positions

Nissens A/S (chairman)

KIRKBI A/S (deputy chairman)

A.P. Møller-Mærsk A/S (deputy chairman)

Central Board of the Confederation of Danish Industries

Directorships in several wholly and partly owned companies in the William Demant Group:

William Demant Holding A/S (deputy chairman)

Sennheiser Communications A/S (chairman) Jeudan A/S (chairman)

Jeudan A/S (chairman)

HIMPP A/S (chairman)

Experience

Mr. Jacobsen has broad management experience both as CEO and as chairman in major international companies, including listed companies. Previous positions include President of Orion A/S and Vice President overseeing corporate affairs for both Atlas Danmark A/S and Thrige-Titan A/S.

Shares held in Össur

203,330 (incl. related parties). Mr. Jacobsen holds no share options in the Company

Other

Mr. Jacobsen has no interest links with the Company's main clients or competitors. Mr. Jacobsen is a dependent member of the Board.



Dr. Kristjan Tomas Ragnarsson

Vice Chairman of the Board of Directors

Born in 1943

Member of the board of directors since the year 1999

Education

Certified by the American Board of Physical Medicine and Rehabilitation University of Iceland's School of Medicine

Experience

Between 1986 and 2016, Dr. Ragnarsson served as the Chairman and Lucy Moses Professor of the Department of Rehabilitation Medicine for the Mount Sinai Medical Center in New York City. He has also served in multiple other leadership positions at Mount Sinai and various professional organizations.

Shares held in Össur

Dr. Ragnarsson holds no shares nor share options in the Company.

Other

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.



Arne Boye Nielsen

Member of the Board of Directors

Born in 1968

Member of the board of directors since the year 2009

Education

Master's degree in Business Administration from the Copenhagen Business School in Denmark

Board positions

Sennheiser Communications A/S (member)

Interacoustics A/S (president)

Experience

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.

Shares held in Össur

Mr. Nielsen neither has shares nor share options in the Company

Other

Mr. Nielsen has no interest links with the Company's main clients or competitors. Mr. Nielsen is a dependent member of the Board.



Dr. Svafa Grönfeldt

Member of the Board of Directors

Born in 1965

Member of the board of directors since the year 2008

Education

Doctorate in Industrial Relations from the London School of Economics

Experience

Previous positions include President of Reykjavik University, deputy to the CEO of Actavis Group hf., Assistant Professor of Economics and Business Administration at the University of Iceland and Managing Director and Managing Partner of IMG Gallup/ Deloitte.

Shares held in Össur

Dr. Grönfeldt holds no shares nor share options in the Company

Other

Dr. Grönfeldt has no interest links with the Company's main clients, competitors, or major shareholders. Dr. Grönfeldt is an independent Board member.



Gudbjörg Edda Eggertsdóttir

Member of the Board of Directors

Born in 1951

Member of the board of directors since the year 2013

Education

Master's degree (Pharm.) from Copenhagen University

Board positions

Brunnur Investment Fund (chairman)

Florealis ehf. (chairman)

Orf Genetics hf. (member)

MentisCura ehf. (member)

Mentis Cura A/S (member)

Vistor hf. (member)

Heilsulausnir ehf. (member)

Saga Medica ehf. (member)

Pretium ehf. (member)

Experience

Previous positions include President & EVP Strategic Projects of Actavis Plc in Iceland, a global integrated specialty pharmaceutical company; Deputy CEO and EVP Third Party Sales at Actavis Group hf.; Deputy CEO, Head of R&D, Assistant Managing Director, Development Manager, Regulatory Manager and Marketing Manager at Delta hf.; and Medical Representative at Pharmaco hf. She was the President of the European Generic Medicines Association from 2011-2013.

Shares held in Össur

26,318 (incl. related parties). Ms. Eggertsdóttir holds no share options.

Other

Ms. Eggertsdóttir has no interest links with the Company's main clients or competitors. Ms. Eggertsdóttir is an independent member of the Board.

Executive Management



Jon Sigurdsson
President and CEO

Born in 1956

Education

Master's degree in Business Administration (MBA) from the United States International University in San Diego.

Bachelor degree in Industrial Engineering from Odense Technical College in Denmark.

Board Positions

Vitrolife AB

The Icelandic American Chamber of Commerce

Experience

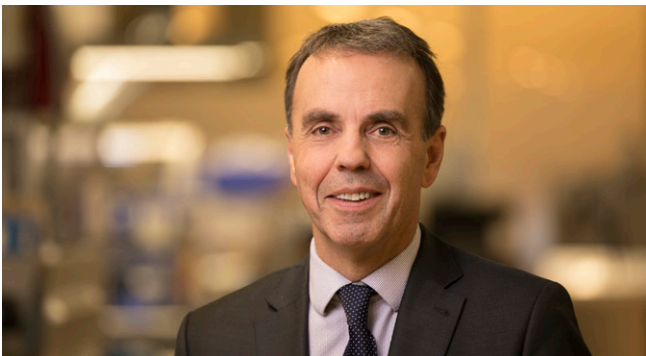
Jón has been the CEO of Össur since 1996 and prior to that he was the Commercial Counselor for the Icelandic Trade Council in New York (1992-1996), Chief Financial Officer at Álafoss (1989-1991), Head of the International Division of Eimskip (1986-1989) and an Engineer for Bang and Olufsen Denmark (1982-1984).

Jón's experience as a member of the Board of Directors in other companies/ organizations includes:

- Rio Tinto Alcan Iceland 2003-2015
- The 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

Shares held in Össur

525,540



Egill Jonsson
EVP of Manufacturing and Operations

Born in 1957

Education

Master's degree in Mechanical Engineering from the Technical University in Copenhagen (DTU).

Bachelor degree in Engineering from the University of Iceland

Board positions

Federation of Icelandic Industries

Experience

Egill has led the M&O function since he joined in 1996. He was formerly a Project Manager at VGK hf, an Engineering firm in Reykjavik (1985-1996).

Shares held in Össur

822,749 (incl. related parties)



Gudjon G. Karason
EVP of Clinics

Born in 1969

Education

Master's degree in Engineering from the University of Iceland.

CS degree in Mechanical Engineering from the University of Iceland.

Experience

Gudjon has been with Össur since 1998, and has since then worked in R&D, Marketing, Sales, and Clinics in multiple positions. Prior to joining Össur, Gudjon worked as Development Manager for a couple of smaller industrial companies in Iceland.

Shares held in Össur

42,743



Margret Lara Fridriksdottir

EVP of Human Resources and Corporate Strategy

Born in 1978

Education

Master's degree in Management and Strategy from the University of Iceland.
Bachelor degree in Business Administration from the University of Iceland.

Experience

Margrét has been with Össur since 2000 in various roles in finance and human resources.

Shares held in Össur

16,300



Dr. Kristleifur Kristjansson

EVP of Research and Development

Born in 1955

Education

Medical Doctor degree from the University of Iceland
Board-Certified Pediatrician from the Medical College of Georgia
Clinical and molecular genetics fellowship from the Baylor College of Medicine in Houston, Texas
Certified Pediatrician and Clinical Geneticist in Iceland from 1993

Experience

Dr. Kristjansson joined Össur in 2012, for the first 5 years as Medical Officer and another 2 years as Medical Officer and VP of Clinical Affairs. Dr. Kristjansson's previous positions include co-founder and VP of Clinical Affairs and Collaborations at deCODE genetics ehf. 1995 to 2012 and co-founder and CEO of Pediatric Services in Iceland 1995 to 2014. Dr. Kristjansson has acted as a consulting Pediatrician and Clinical Geneticist for the University Hospital, Landspítalinn Reykjavík Iceland, from 1998 to the present, and he is the Founder of Skraeda ehf.

Shares held in Össur 1,850



Olafur Gylfason

EVP of Sales & Marketing

Born in 1969

Education

Master's degree in International Business Economics from Alborg University in Denmark.

Bachelor degree in Business Administration from Bifrost School of Business in Iceland.

Experience

Ólafur has been with Össur since 1997; from 2001-2013 as the Managing Director of EMEA and before that in emerging markets.

Shares held in Össur

9,517



Sveinn Sölvason

Chief Financial Officer

Born in 1978

Education

Master's degree in Finance and Accounting (Cand.Merc.FIR) from Copenhagen Business School.

Bachelor degree in International Business from Copenhagen Business School.

Board positions

Icelandic Chamber of Commerce

Experience

Sveinn has been with Össur since 2009, previously as Director of Treasury and Corporate Development. Prior to joining Össur he worked at Marel, Kaupthing Bank, Goldman Sachs and HSH Nordbank.

Shares held in Össur

25,000





ÖSSUR HF.
CONSOLIDATED FINANCIAL STATEMENTS
31 December 2019

Össur hf.

Consolidated Financial Statements

31.12.2019

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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 2019. 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 and additional requirements in the Icelandic Financial Statement Act no. 3/2006.

Össur hf. designs, manufactures and sells orthopedic products specializing in prosthetics and bracing and supports solutions. The Company is headquartered in Iceland and the Company owns and operates subsidiaries in multiple countries around the world. The Company sells its products worldwide, but the principal market areas are North America and Europe.

A requirement to conclude on non-financial information has been made part of Icelandic law from 2016 as part of the implementation of EU directive 2013/34/EU that became effective for Member States in 2017. It is the Board of Directors opinion that necessary information to analyze the environmental, social and employee aspects of the business can be obtained by reviewing information in the Annual Report to help provide fundamental understanding of the Company's development, performance and position on non-financial matters. Össur joined the UN Global Compact in 2011 and signed the UN Women's Empowerment Principles in 2014. Annually, Össur publishes a progress report, reporting on the progress of key projects in the four categories set forth by the Global Compact; environmental concerns, labor practices, human rights and anti-corruption. Further information about Össur's corporate social responsibilities (CSR) activities can be found in the Annual Report and 2019 progress report, available on the Company's website: <https://corporate.ossur.com/corporate/our-responsibility>.

The total sales of the Company amounted to USD 686.3 million (2018: USD 612.9 million) and increased by 12% from the preceding year. Organic local currency sales growth was 5%. Net profit amounted to USD 68.9 million (2018: USD 79.8 million). Diluted Earnings per Share amounted to US cents 16.2 (2018: US cents 18.7.). Earnings before interest, taxes, depreciation, impairment and amortization (EBITDA) amounted to USD 141.3 million (2018: USD 107.3 million).

The total assets of the Company amounted to USD 1,090.7 million at year end, liabilities were USD 521.7 million and equity was USD 569.0 million. The equity ratio at year end was 52%, (2018: 59%).

The Company employed on average 3,382 employees in 2019 (2018: 2,775) and 3,449 at year end (2018: 3,147).

Össur's shares are admitted to trading on the Nasdaq Copenhagen stock exchange. The market value of the Company at year end was USD 3,340 million and the share price in DKK increased by 68% during the year. At year end, registered shareholders in Össur were 4,322 compared to 3,017 at the beginning of the year. It should be noted that due to the concentration of trading in Nasdaq Copenhagen in 2017, about 1,600 shareholders that held shares listed in Iceland were consolidated into a few nominee accounts. The ten largest shareholders and their ownership percentage are: William Demant Invest A/S - 51.6%, Islandsbanki Bank - 18.0% (nominee), JP Morgan Chase Bank - 5.4% (nominee), Arbejdsmarkedets Tillægspension (ATP) - 5.1%, SEB Stockholm - 2.6% (nominee, of which the vast majority is held by Lannebo Fonder), Landsbankinn Bank - 2.1% (nominee), Clearstream - 1.4% (nominee), Verdipapirfond Odin Norden - 1.0%, Arion Bank - 0.9% (nominee), and Deutsche Bank - 0.9%. William Demant Invest A/S (WDI) ownership in Össur exceeded 50% in January 2018. According to WDI's announcement at the time, their intention was to hold 50-60% of Össur's shares going forward and WDI had no intention of taking over Össur or delisting Össur's shares from Nasdaq Copenhagen. Furthermore, WDI had no intention of making changes to Össur's strategy, management or operations.

Statement by the Board of Directors and President and CEO

In 2019, Össur acquired in total 4,784,631 shares at the average price of DKK 42.01. The share buyback programs are managed by Nordea, which makes its trading decisions independently and without influence by the Company regarding the timing of the purchases. The Company's purchases under the program are announced every Monday for the previous week. The purpose of the program is to reduce the Company's share capital and adjust the capital structure by distributing capital to shareholders in line with the Company's Capital Structure and Dividend Policy in addition to being able to meet the Company's share option obligations. Share option contracts amounting to 2,700,000 Össur shares were exercised during the year.

The Company follows the Danish Recommendations for Corporate Governance issued by the Danish Committee on Corporate Governance, available at: <https://corporategovernance.dk/>. The Board of Directors complies with the Articles of Association of the Company and the Board of Directors' Rules of Procedure, which address the Board's roles and responsibilities etc. The Board of Directors is composed of five members elected at each Annual General Meeting for a term of one year. The Board of Directors consists of two women and three men in compliance with Icelandic law on gender ratio. No Össur employee sits on the Board of Directors. The Audit Committee complies with the Committee's Rules of procedures, which address the Committee's roles and responsibilities etc. The Audit Committee is composed of three members elected by the Board. The CEO manages the Company's daily operations. The Board has approved an Equal Opportunity Policy that prohibits all discrimination. The policy is available on the Company's website: www.ossur.com/corporate/careers/equal-opportunity-policy - and reporting on the progress and objectives of the Policy is made in the Company's Corporate Social Responsibility report available on the Company's website: <https://corporate.ossur.com/corporate/our-responsibility>. The Board approves a corporate governance report that includes all the information to be included in the statutory statement referred to in Article 66 (c) of the Icelandic Financial Statement Act no. 3/2006, as well as explanations, comments and information on each recommendation in the Danish Recommendation for Corporate Governance. The report is available on the Company's website: www.ossur.com/corporate/investor-relations/corporate-governance.

The Board of Directors will propose to the Annual General Meeting in 2020 to reduce the share capital by way of cancelling shares acquired in 2019 amounting to 2,377,804 of Össur's own shares of ISK 1 nominal value each. If the Annual General Meeting approves the motion, the number of outstanding shares will be 423,000,000. The Board of Directors will propose to the Annual General Meeting in 2020 that Össur pays a cash dividend of DKK 0.15 per share for 2019, equivalent to approximately 14% of net profit in 2019, compared to DKK 0.14 per share for 2018, an increase of 7% per share. If the Annual General Meeting approves the motion, the dividend for 2019 will be paid out on March 26, 2020 and the last trading day with right to dividend for 2019 is March 12, 2020.

Statement by the Board of Directors and President and CEO

The Board of Directors and President and CEO of Össur hf. hereby confirm the Consolidated Financial Statements of Össur for the year 2019 with their signatures.

Reykjavík, 4 February 2020

Board of Directors

Niels Jacobsen

Chairman of the Board

Arne Boye Nielsen

Kristján T. Ragnarsson

Guðbjörg Edda Eggertsdóttir

Svafa Grönfeldt

President and CEO

Jón Sigurðsson

Independent auditor's report

To the Shareholders of Össur hf.

Opinion

We have audited the Consolidated Financial Statements of Össur hf. and its subsidiaries (the Company), which comprise the Consolidated Balance Sheet as at December 31, 2019, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flow, the Consolidated Statement of Changes in Equity for the year then ended, and the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the Company financial position at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, additional Danish disclosure requirements for listed companies and additional requirements in the Icelandic financial statement act no. 3/2006.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of goodwill

Book value of goodwill at year end amounted to 521 million. The change in goodwill consist of provisional additions due to current year acquisitions and adjustments to prior year provisional values amounting to 22,0 million and currency difference loss amounting to 1,8 million.

The management consider that each geographical segment constitutes its own cash generating unit ('CGU').

The key assumptions applied by the managements in the impairment reviews are: segment specific discount rates; — future revenue growth; and — expected future margins. Determining whether the carrying value of goodwill is recoverable requires management to make significant estimates regarding the future cash flows, discount rates and long-term growth rates based on management's view of future business prospects. Determining whether the carrying value of goodwill is recoverable requires management to make significant estimates regarding the future cash flows, discount rates and long-term growth rates based on management's view of future business prospects.

Due to the relative sensitivity of certain inputs to the impairment testing process, in particular the future cash flows of the CGUs noted above, the valuation of goodwill is considered a key audit matter.

In order to address this key audit matter, we audited the assumptions used in the impairment model for goodwill. As part of our work, we engaged our internal specialists to assist with:

- Critically evaluating whether the model used by management to calculate the value in use of the individual Cash Generating Units (CGU's) complies with the requirements of IAS 36 Impairment of Assets;
- Validating the assumptions used to calculate the discount rates and recalculating these rates;
- Considering the projected future cash flows, understanding variances between the forecast and actual results for the year ended 31 December 2019 and comparing the forecast growth trends to historic trends;
- Comparing the long-term growth rates for each CGU to external market data;
- Evaluating the appropriateness of the sensitivity analysis applied by management to the impairment testing model including considering whether the scenarios reasonably represent possible changes in key assumptions.
- Performing further sensitivity analysis based on recent trading activity and our understanding of the future prospects to identify whether these scenarios could give rise to further impairment; and
Analysing the future projected cash flows used in the models to determine whether they are reasonable and supportable given the current macroeconomic climate and expected future performance of the CGU's).

We also reviewed the disclosures presented in note 13 to the Consolidated Financial Statements to confirm compliance with the requirements within IAS 36.

Independent auditor's report

Other information

Management is responsible for other information. Other information consist of *Statement by the Board of Directors and President and CEO*. Our opinion on the Consolidation Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon except the confirmation regarding Statement of Board of Director and President and CEO as stated below. In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the information in the Consolidated Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Icelandic financial statement act no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the board of directors includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the financial statements.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the European Union, additional Danish disclosure requirements for listed companies and additional requirements in the Icelandic financial statement act no. 3/2006, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent auditor's report

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Kópavogur, 4 February 2020

Deloitte ehf.

Þorsteinn Pétur Guðjónsson

State Authorized Public Accountant

Eyþór Guðjónsson

State Authorized Public Accountant

Financial Highlights and Key Ratios

USD millions		2019	2018	2017	2016	2015
Income Statement						
Net sales		686	613	569	521	483
Gross profit		439	387	355	328	303
Operating expenses (excl. other income)		341	304	280	256	226
EBITDA		141	107	97	94	97
EBITDA before special items		150	115	103	98	99
EBIT		98	79	75	72	77
Net profit		69	80	58	51	51
Sales growth						
Sales growth USD	%	12	8	9	8	(5)
Growth breakdown:						
Organic growth in LCY	%	5	5	5	4	5
Currency effect	%	(4)	1	0	(1)	(11)
Acquired/divested business	%	11	2	4	5	1
Balance Sheet						
Total assets		1,091	914	793	746	653
Equity		569	538	500	467	463
Net interest-bearing debt (NIBD)**		302	180	121	119	58
Cash Flow						
Cash generated by operations		120	92	90	88	84
Free cash flow		63	39	55	42	42
Key ratios						
Gross profit margin	%	64	63	62	63	63
EBIT margin	%	14	13	13	14	16
EBITDA margin	%	21	18	17	18	20
EBITDA margin before special items	%	22	19	18	19	20
Equity ratio	%	52	59	63	63	71
Net debt to EBITDA before special items **		2.0	1.6	1.2	1.2	0.6
Effective tax rate	%	24	18	16	25	25
Return on equity *	%	12	15	12	11	11
CAPEX / Net sales	%	4.6	5.0	3.4	4.7	4.9
Full time employees on average		3,382	2,775	2,948	2,710	2,420
Market						
Market value of equity		3,340	2,055	1,871	1,582	1,546
Number of shares in millions		425	431	437	443	446
Diluted EPS in US cents		16.2	18.7	13.3	11.6	11.5

* Financial ratios are based on operations for the preceding 12 months.

** Excluding the effects of the implementation of IFRS 16, NIBD would be USD 193 million, Net debt to EBITDA would be 1.5 for 2019.

* The Company applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 36.

Consolidated Income Statement

All amounts in USD '000	Notes	2019	2018 *
Net sales	3	686,264	612,876
Cost of goods sold		(247,614)	(226,072)
Gross profit		438,650	386,804
Other income / (expenses)		196	(4,102)
Sales and marketing expenses		(233,746)	(202,106)
Research and development expenses		(31,326)	(31,356)
General and administrative expenses		(76,050)	(70,324)
Earnings before interest and tax (EBIT)		97,724	78,916
Financial income		1,147	558
Financial expenses		(10,129)	(4,912)
Net exchange rate difference		1,269	(1,848)
Net financial income / (expenses)	8	(7,713)	(6,202)
Effects of associates	15	258	24,210
Earnings before tax (EBT)		90,269	96,924
Income tax	9	(21,395)	(17,101)
Net profit		68,874	79,823
Attributable to:			
Owners of the Company		66,040	79,754
Non-controlling interests		2,834	69
Net profit		68,874	79,823
Earnings per share	10		
Earnings per share (US cent)		16.3	18.8
Diluted earnings per share (US cent)		16.2	18.7

* The Company applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 36.

Consolidated Statement of Comprehensive Income

All amounts in USD '000	2019	2018 *
Net profit	68,874	79,823
Items that may be reclassified subsequently to profit or loss:		
Change in cash flow hedges	1,428	(86)
Exchange differences on translating foreign operations	(317)	(13,071)
Effect of implementation of IFRS 15	0	(1,900)
Income tax relating to components of other comprehensive income	(716)	(620)
Other comprehensive income, net of income tax	395	(15,677)
Total comprehensive income	69,269	64,146
Attributable to:		
Owners of the Company	66,435	64,077
Non-controlling interests	2,834	69
Total comprehensive income	69,269	64,146

* The Company applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 36.

Consolidated Balance Sheet

Assets

All amounts in USD '000	Notes	31.12.2019	31.12.2018 *
Property, plant and equipment	11	65,194	63,032
Right of use assets	12	98,218	0
Goodwill	13	521,046	500,842
Other intangible assets	14	62,658	49,110
Investment in associates	15	6,099	5,998
Other financial assets	16	2,998	2,727
Deferred tax assets	25	27,081	17,839
Non-current assets		783,294	639,548
Inventories	17	112,013	95,863
Accounts receivables	18	106,588	103,923
Other assets	19	30,168	18,515
Bank balances and cash equivalents	20	58,611	55,706
Current assets		307,380	274,007
Total assets		1,090,674	913,555

* The Company applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 36.

Consolidated Balance Sheet

Equity and liabilities

All amounts in USD '000	Notes	31.12.2019	31.12.2018 *
Issued capital and share premium	21	77,813	93,767
Reserves		(47,108)	(46,396)
Retained earnings		533,661	487,090
Equity attributable to owners of the Company		564,366	534,461
Non-controlling interest		4,590	3,076
Total equity		568,956	537,537
Borrowings	23	243,928	222,049
Lease liabilities	24	93,010	0
Deferred tax liabilities	25	29,670	22,906
Provisions	26	6,535	7,596
Deferred income	27	6,801	3,776
Other financial liabilities	28	698	2,127
Non-current liabilities		380,642	258,454
Borrowings	23	7,193	13,434
Lease liabilities	24	16,089	0
Accounts payable		26,675	28,142
Income tax payable		13,054	6,156
Provisions	26	9,438	6,103
Accrued salaries and related expenses		41,244	39,037
Other liabilities	30	27,383	24,692
Current liabilities		141,076	117,564
Total equity and liabilities		1,090,674	913,555

* The Company applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 36.

Consolidated Statement of Cash Flow

All amounts in USD '000	Notes	2019	2018 *
Earnings before interests and tax (EBIT)		97,724	78,916
Depreciation, impairment and amortization	11, 12, 13,14	43,556	28,391
Loss / (gain) on disposal of assets		308	181
Change in provisions and deferred income		3,386	1,965
Change in inventories		(14,667)	(13,910)
Change in receivables		(11,226)	(1,776)
Change in payables		898	(1,643)
Cash generated by operations		119,979	92,124
Interest received		1,533	2,145
Interest paid		(10,129)	(6,194)
Income tax paid		(16,104)	(18,635)
Net cash provided by operating activities		95,279	69,440
Purchase of fixed and intangible assets	11, 14	(31,850)	(30,860)
Acquisition of subsidiaries, net of cash in acq. entities	31	(30,447)	(65,713)
Dividend received		134	4,847
Other investing activities		(201)	(417)
Cash flows to investing activities		(62,364)	(92,143)
Proceeds from long-term borrowings		55,202	55,608
Repayments of long-term borrowings		(21,580)	(30,056)
Changes in revolving credit facility		(31,685)	47,681
Payment of dividends		(9,058)	(9,184)
Increase in subsidiaries that does not affect control		(258)	(422)
Dividends from subsidiaries paid to non-controlling interests		(1,318)	0
Change in treasury shares		(20,601)	(19,256)
Cash flows from / (to) financing activities		(29,298)	44,371
Net change in cash		3,617	21,668
Effects of exchange rate changes on:			
Balance of cash held in foreign currencies		(677)	(1,753)
Other items held in foreign currencies		(35)	(1,481)
Cash at beginning of period		55,706	37,272
Cash at end of period		58,611	55,706

* The Company applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 36.

Consolidated Statement of Changes in Equity

All amounts in USD '000	Share capital	Share premium	Statutory reserve	Share option reserve	Fair value reserve	Translation reserve	Accumulated profits	Attributable to owners of the parent	Non-controlling interests	Total equity
Balance at 1 January 2018	4,849	108,675	1,267	2,968	(718)	(36,453)	419,334	499,922	539	500,461
Net profit							79,754	79,754	69	79,823
Change in cash flow hedges					91			91		91
Effect of implementation of IFRS 15							(1,900)	(1,900)		(1,900)
Transl. diff. of shares in subsidiaries						(13,868)		(13,868)		(13,868)
Total comprehensive income	0	0	0	0	91	(13,868)	77,854	64,077	69	64,146
Payment of dividends							(9,184)	(9,184)		(9,184)
Share option charge for the period				1,322				1,322		1,322
Share option vested during the period	14	6,141		(1,005)			(577)	4,573		4,573
Change in non-controlling interests							(337)	(337)	(61)	(398)
Non controlling interest arising on acquisition								0	2,529	2,529
Purchase of treasury shares	(52)	(25,860)						(25,912)		(25,912)
Balance at 31 December 2018	4,811	88,956	1,267	3,285	(627)	(50,321)	487,090	534,461	3,076	537,537
Effect of implementation of IFRS 16							(7,797)	(7,797)		(7,797)
Adjusted balance at 1 January 2019	4,811	88,956	1,267	3,285	(627)	(50,321)	479,293	526,664	3,076	529,740
Net profit							66,040	66,040	2,834	68,874
Change in cash flow hedges					1,143			1,143		1,143
Transl. diff. of shares in subsidiaries						(748)		(748)		(748)
Total comprehensive income	0	0	0	0	1,143	(748)	66,040	66,435	2,834	69,269
Payment of dividends							(9,058)	(9,058)	(1,318)	(10,376)
Share option charge for the period				1,063				1,063		1,063
Share option vested during the period	21	14,102		(2,170)			(2,356)	9,597		9,597
Change in non-controlling interests							(258)	(258)	(2)	(260)
Purchase of treasury shares	(38)	(30,039)						(30,077)		(30,077)
Balance at 31 December 2019	4,794	73,019	1,267	2,178	516	(51,069)	533,661	564,366	4,590	568,956

In June 2016 the Icelandic Parliament passed a legal reform of the Icelandic Financial Statements Act no. 3/2006 which became effective on January 1, 2016. The requirement is that retained earnings are separated into two categories: restricted and unrestricted retained earnings. Unrestricted retained earnings consist of undistributed profits and losses accumulated by the Company, less transfers to the Company's statutory reserve and other restricted retained earnings categories. The amount of restricted retained earnings is USD 300 million at year end (2018: USD 196 million).

Notes to the Consolidated Financial Statements

1. General information

Össur is a limited liability company incorporated and domiciled in Iceland. The address of its registered office is Grjothals 5, Reykjavik. Its ultimate controlling party is William Demant Invest A/S. The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as "the Company" or "Össur").

The Company is a global orthopaedics company, specializing in the design, development, manufacturing and sales of prosthetics and bracing and supports products. The Company sells its products worldwide, but the principal market areas are North America and Europe.

The Consolidated Financial Statements are presented in US dollars and all values are rounded to the nearest thousand ('000), except when otherwise indicated. In preparing the Consolidated Financial Statements, the Company has applied the concept of materiality to the presentation and level of disclosure. Only essential and mandatory information is disclosed which is relevant to an understanding by the reader of these Consolidated Financial Statements.

These Consolidated Financial Statements have been approved for issue by the Board of Directors and CEO on 4 February 2020. These Consolidated Financial Statements as presented in this report are subject to approval by the Annual General Meeting of Shareholders, to be held on 12 March 2020.

The Company is listed on the Nasdaq Copenhagen Stock Exchange.

2. Quarterly statements

	Full year 2019	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Net sales	686,264	179,505	167,625	179,063	160,071
Cost of goods sold	(247,614)	(66,576)	(59,568)	(64,277)	(57,193)
Gross profit	438,650	112,929	108,057	114,786	102,878
Gross profit margin	64%	63%	64%	64%	64%
Other income / (expenses)	196	(105)	134	123	44
Sales and marketing expenses	(233,746)	(61,741)	(55,953)	(58,852)	(57,200)
Research and development expenses	(31,326)	(7,555)	(7,411)	(8,453)	(7,907)
General and administrative expenses	(76,050)	(18,264)	(23,802)	(15,907)	(18,077)
EBIT	97,724	25,264	21,025	31,697	19,738
Net financial income / (expenses)	(8,982)	(2,697)	(1,940)	(2,105)	(2,240)
Net exchange rate difference	1,269	731	(399)	22	915
Effects of investments in associates	258	60	59	26	113
EBT	90,269	23,358	18,745	29,640	18,526
Income tax	(21,395)	(5,730)	(4,227)	(7,024)	(4,414)
Net profit	68,874	17,628	14,518	22,616	14,112
EBITDA	141,280	37,154	31,883	42,276	29,967
EBITDA margin	21%	21%	19%	24%	19%
EBITDA before special items	149,622	37,154	40,225	42,276	29,967
EBITDA margin before special items	22%	21%	24%	24%	19%

EBITDA is calculated as earnings before interest, taxes, depreciation, impairment and amortization. Financial items and share in net profit or loss of associated companies are not included in the EBITDA measurement.

Management monitors the performance measure EBITDA before special items, at a consolidated level and considers the measure relevant to an understanding of the Company's financial performance as it facilitates a better comparison of the Consolidated Income Statement between periods. Special items comprise material amounts of a non-recurring nature, such as costs relating to divestment, closure or restructuring, lawsuits, etc. Management reviews items presented as special items and considers whether such items are part of ordinary operations or not.

Notes to the Consolidated Financial Statements

3. Net sales

	2019	2018
Specified according to geographical segments:		
Americas	327,503	266,169
EMEA	304,002	298,523
APAC	54,759	48,184
Total	686,264	612,876
Specified according to product lines:		
Prosthetics	378,072	315,634
Bracing and Supports	308,192	295,941
Other products	0	1,301
Total	686,264	612,876

All sales are from contracts with customers.

Timing of revenue recognition

Refer to note 37.7 for accounting policy on revenue recognition and note 27, deferred income, for breakdown of revenues deferred and released from deferred income during the year.

4. Segment information

Information reported to the President and CEO for the purposes of resource allocation and assessment of segment performance focuses on geographical markets from the location of customers. The geographical segments are EMEA (Europe Middle-East and Africa), Americas and APAC (Asia-Pacific).

2019	Americas	EMEA	APAC	Eliminations	Consolidated
Sales					
External sales	327,503	304,002	54,759	0	686,264
Inter-segment sales	105,717	405,428	8,900	(520,045)	0
Total sales	433,220	709,430	63,659	(520,045)	686,264
Results					
Segment results	43,710	43,356	10,657	0	97,724
Net financial income / (expenses)					(7,713)
Effects of associates					258
EBT					90,269
Income tax					(21,395)
Net profit					68,874

Balance sheet 31.12.2019

Assets

Segment assets	588,071	451,795	50,808	0	1,090,674
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Liabilities

Segment liabilities	147,361	362,729	11,628	0	521,718
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Other information 2019

Capital additions	4,437	26,451	962	0	31,850
Depreciation and amortization	16,101	26,440	1,015	0	43,556

Sales of approximately USD 27 million (2018: USD 28 million) arose from sales to the Company's largest customer. The majority of inter-segment sale prices are set using the Transactional Net Margin Method (TNMM).

Notes to the Consolidated Financial Statements

2018	Americas	EMEA	APAC	Eliminations	Consolidated
Sales					
External sales	266,169	298,523	48,184	0	612,876
Inter-segment sales	58,845	430,139	6,509	(495,492)	0
Total sales	325,014	728,662	54,693	(495,492)	612,876
Results					
Segment results	35,342	37,286	6,288	0	78,916
Net financial income/(expenses)					(6,202)
Effects of associates					24,210
EBT					96,924
Income tax					(17,101)
Net profit					79,823

Balance sheet 31.12.2018

Assets					
Segment assets	488,345	385,278	39,932	0	913,555
Liabilities					
Segment liabilities	83,157	286,187	6,674	0	376,018
Other information 2018					
Capital additions	10,084	20,267	509	0	30,860
Depreciation, impairment and amortization	11,748	16,212	431	0	28,391

5. Sales and expenses split by main currencies

	2019		
	LCY	USD	%
Sales			
USD	311,841	311,841	45%
EUR	144,979	162,345	24%
ISK	240,947	1,966	0%
Nordic curr. (SEK, NOK, DKK)		96,374	14%
Other (GBP, AUD, CAD & Other)		113,738	17%
Total		686,264	100%
COGS and OPEX			
USD	264,326	264,326	45%
EUR	101,972	114,185	19%
ISK	7,780,363	63,493	11%
Nordic curr. (SEK, NOK, DKK)		85,345	15%
Other (GBP, MXN, CAD & Other)		61,191	10%
Total		588,540	100%

Notes to the Consolidated Financial Statements

	2018		
	LCY	USD	%
Sales			
USD	250,142	250,142	41%
EUR	143,108	169,068	28%
ISK	237,639	2,189	0%
Nordic curr. (SEK, NOK, DKK)		84,897	14%
Other (GBP, AUD, CAD & Other)		106,580	17%
Total		612,876	100%
COGS and OPEX			
USD	214,425	214,425	40%
EUR	95,803	113,351	21%
ISK	6,668,049	61,995	12%
Nordic curr. (SEK, NOK, DKK)		78,167	15%
Other (GBP, MXN, CAD & Other)		66,022	12%
Total		533,960	100%

Currency split is derived by using best available information at each time.

6. Salaries

	2019	2018
Salaries	232,756	204,214
Salary-related expenses	45,965	43,731
	278,721	247,945

Included in salary-related expense are pension related expenses amounting to USD 14.8 million (2018: USD 12.7 million).

Full time employees (FTE) on average	3,382	2,775
Full time employees at period end	3,449	3,147

Salaries and salary-related expenses, classified by functional category:

	2019	2018
Cost of goods sold	72,541	71,917
Sales and marketing expenses	140,231	116,090
Research and development expenses	21,841	21,173
General and administrative expenses	44,108	38,765
	278,721	247,945

Notes to the Consolidated Financial Statements

Management salaries and benefits

Board of Directors:	Salaries		Shares owned ⁽ⁱⁱⁱ⁾	
	2019	2018	2019	2018
Niels Jacobsen - Chairman of the Board ⁽ⁱ⁾	97	94	219,493,992	219,493,992
Kristján Tómas Ragnarsson - Vice Chairman	58	56	0	0
Arne Boye Nielsen	39	38	0	0
Guðbjörg Edda Eggertsdóttir	39	38	26,318	26,318
Svafa Grönfeldt	39	38	0	0

The Board of Directors did not hold any share option contracts at the end of the current period nor at the end of the prior year period.

(i) Shares owned by William Demant Invest A/S which Niels Jacobsen represents on the Board. Niels and financially related parties own personally 203,330 shares.

(ii) Shares owned are displayed in total number of owned shares, not rounded to the nearest thousand.

2019	Fixed base salary	Cash based incentive	Pension	Other benefits	Share based incentive	Total remuneration
Executive Management:						
Jón Sigurðsson President and CEO ⁽ⁱ⁾	1,083	289	0	177	145	1,694
Executive management ⁽ⁱⁱ⁾	2,020	236	218	107	514	3,096
	3,103	525	218	285	659	4,790

2018	Fixed base salary	Cash based incentive	Pension	Other benefits	Share based incentive	Total remuneration
Executive Management:						
Jón Sigurðsson President and CEO ⁽ⁱ⁾	1,031	573	0	175	283	2,062
Executive management (6 people) ⁽ⁱⁱ⁾	2,106	390	268	125	600	3,489
	3,137	963	268	300	883	5,551

(i) Shares owned by Jón Sigurðsson 525,540 (2018: 660,708)

(ii) Shares owned by members of executive management at year end 918,159 (2018: 970,109). The executive management team consists of six persons at each time.

7. Fees to auditors

	2019	2018
Audit of Financial Statements	1,489	1,229
Other services	726	642
	2,215	1,871

Notes to the Consolidated Financial Statements

8. Financial income / (expenses)

	2019	2018
Interests on bank deposits	1,021	362
Other financial income	126	196
Financial income	1,147	558
Interests on loans	(4,350)	(3,759)
Interest on obligations under finance leases	(3,984)	0
Other financial expenses	(1,795)	(1,153)
Financial expenses	(10,129)	(4,912)
Net exchange rate differences	1,269	(1,848)
Net financial expenses	(7,713)	(6,202)

9. Income tax

	2019	2018
Current tax expenses	(22,640)	(14,423)
Deferred tax expenses	1,245	(2,678)
	(21,395)	(17,101)

	2019		2018	
	Amount	%	Amount	%
Earnings before taxes	90,269		96,924	
Income tax calculated at 20%	(18,054)	20%	(19,385)	20%
Effect of different tax rates of other jurisdictions	(3,692)	4%	(2,454)	3%
Effect of non-deductible expenses / non-taxable income	221	(0%)	4,635	(5%)
Effect of change in tax rate	(14)	0%	384	(0%)
Other effects	144	(0%)	(281)	0%
	(21,395)	24%	(17,101)	18%

The 20% tax rate used for 2019 and 2018 in the above tax rate reconciliation is the statutory corporate income tax rate applicable to entities subject to tax in Iceland. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Deferred tax:	2019	2018
Origination and reversal of temporary differences	1,259	(3,062)
Effect of changes in tax rate	(14)	384
	1,245	(2,678)

Notes to the Consolidated Financial Statements

Deferred tax recognized in the Consolidated Income Statement:

2019	1.1.2019	Recognized in Income Statement	Recognized directly in equity	Acquisitions / disposals	Exc. rate difference	31.12.2019
Goodwill	(5,554)	(2,079)			16	(7,617)
Intangible assets	(6,964)	(950)		(1,732)	8	(9,638)
Property, plant and equipment	(3,657)	762			7	(2,888)
Tax loss carry forward	709	307	(314)	135	(1)	836
Inventories	4,334	1,466			18	5,818
Provisions	1,651	499			9	2,159
Current liabilities	2,867	429		737	(37)	3,996
Receivables	832	694			(41)	1,485
Other	715	117	2,466		(38)	3,260
Total	(5,067)	1,245	2,152	(860)	(59)	(2,589)

2018	1.1.2018	Recognized in Income Statement	Recognized directly in equity	Acquisitions / disposals	Exc. rate difference	31.12.2018
Goodwill	(5,080)	(511)			37	(5,554)
Intangible assets	(5,063)	420		(2,418)	97	(6,964)
Property, plant and equipment	(2,924)	(756)		(95)	118	(3,657)
Tax loss carry forward	2,783	(812)	(1,155)		(107)	709
Inventories	4,313	129		(99)	(9)	4,334
Provisions	1,616	120		(58)	(27)	1,651
Current liabilities	3,518	(689)			38	2,867
Receivables	1,399	(531)		(28)	(8)	832
Other	452	(48)	322		(11)	715
Total	1,014	(2,678)	(833)	(2,698)	128	(5,067)

The Company has unused tax losses available for which no deferred tax asset is recognized. At year end 2019 these unused tax losses amount to USD 5.3 million (2018: USD 3.7 million). Of this amount, USD 3.3 million of unused tax losses will expire in 5-10 years (2018: USD 2.0 million). The remaining tax losses carry an indefinite term.

10. Earnings per share

	2019	2018
Net profit	68,874	79,823
Total weighted average number of ordinary shares (in '000)	423,384	425,658
Total weighted avg. number of shares incl. potential shares (in '000)	424,571	426,479
Earnings per share (US cent)	16.3	18.8
Diluted earnings per share (US cent)	16.2	18.7

Notes to the Consolidated Financial Statements

11. Property, plant and equipment

2019	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Computer equipment	Total
Cost					
At 1 January	12,711	93,436	45,212	16,313	167,671
Reclassification	0	(1,734)	1,707	27	0
Additions	0	10,339	6,410	3,140	19,889
Acquired on acquisition of subsidiary	0	126	443	14	583
Exchange rate differences	(210)	(647)	(16)	(156)	(1,029)
Eliminated on disposal	(3)	(2,266)	(956)	(1,331)	(4,556)
Fully depreciated assets	0	(9,614)	(3,931)	(1,918)	(15,463)
At 31 December 2019	12,498	89,640	48,869	16,089	167,095
Depreciation					
At 1 January	9,464	59,532	25,043	10,600	104,639
Reclassification	0	(1,304)	1,266	38	0
Charge for the period	291	9,424	5,055	2,726	17,496
Exchange rate differences	(190)	(507)	(57)	146	(608)
Eliminated on disposal	(2)	(1,921)	(931)	(1,309)	(4,163)
Fully depreciated assets	0	(9,614)	(3,931)	(1,918)	(15,463)
At 31 December 2019	9,563	55,610	26,445	10,283	101,901
At 31 December 2019	2,935	34,030	22,424	5,806	65,194

Depreciation classified by functional category:	2019	2018
Cost of goods sold	9,303	9,052
Sales and marketing expenses	3,551	3,160
Research and development expenses	1,219	1,102
General and administrative expenses	3,423	2,864
Total	17,496	16,178

2018	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Computer equipments	Total
Cost					
At 1 January	13,143	84,954	34,271	13,529	145,896
Additions	9	9,264	9,249	3,369	21,891
Acquired on acquisition of subsidiary	130	2,793	3,458	449	6,830
Exchange rate differences	(571)	(1,676)	(1,046)	(418)	(3,711)
Eliminated on disposal	0	(1,899)	(720)	(616)	(3,235)
At 31 December 2018	12,711	93,436	45,212	16,313	167,671
Depreciation					
At 1 January	9,381	51,981	19,814	8,739	89,915
Charge for the period	393	8,795	4,514	2,476	16,178
Acquired on acquisition of subsidiary	108	1,907	1,886	210	4,111
Exchange rate differences	(418)	(1,333)	(533)	(313)	(2,597)
Eliminated on disposal	0	(1,818)	(638)	(512)	(2,968)
At 31 December 2018	9,464	59,532	25,043	10,600	104,639
At 31 December 2018	3,247	33,904	20,169	5,713	63,032

None of the Company's property, plant and equipment are pledged. Major divestments are subject to bank approval.

Notes to the Consolidated Financial Statements

12. Right of use assets

2019	Buildings & sites	Machinery & equipment	Total
Cost			
At 1 January	84,144	4,316	88,460
Additions	18,802	1,466	20,268
Acquired on acquisition of subsidiary	8,065	0	8,065
Exchange rate differences	(1,845)	(72)	(1,917)
At 31 December 2019	109,166	5,710	114,876
Depreciation			
At 1 January	0	0	0
Charge for the period	14,306	2,272	16,578
Exchange rate differences	69	11	80
At 31 December 2019	14,375	2,283	16,658
At 31 December 2019	94,791	3,427	98,218

Depreciation classified by functional category:	2019	2018
Cost of goods sold	6,625	0
Sales and marketing expenses	3,312	0
Research and development expenses	1,987	0
General and administrative expenses	4,654	0
Total	16,578	0

Amounts recognised in Income Statement:	2019	2018
Depreciation expense from right of use assets	16,578	0
Interest expense and exchange difference on lease liabilities	3,327	0
Short-term and low value lease expenses not included in lease liabilities	1,151	0
Total	21,056	0

The Company applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 36.

13. Goodwill

	31.12.2019	31.12.2018
At 1 January	500,842	414,663
Arising on acquisition of subsidiaries	23,732	102,432
Arising on prior year acquisitions	6,366	0
Purchase price allocation	(8,093)	0
Exchange rate differences	(1,801)	(12,008)
Impairment	0	(4,245)
At 31 December	521,046	500,842

The initial accounting for the acquisitions has been provisionally determined at balance sheet date. The fair value of assets and liabilities has been provisionally determined to be around 1 million based on management's best estimate.

During the year, the Company assessed the recoverable amount of goodwill and determined that none of the Company's cash-generating units have suffered an impairment loss. The Company recognized USD 4.2 million goodwill impairment in 2018, the impairment is shown as part of other income / (expenses) in the Income Statement 2018.

Notes to the Consolidated Financial Statements

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

	WACC %	31.12.2019	31.12.2018
Americas	9.6 / 9.7	348,534	326,561
EMEA	8.8 / 8.4	156,442	158,094
APAC	9.9 / 9.8	16,070	16,187
Total		521,046	500,842

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 2020 approved by management and the Board of Directors. The discount rate of 8.8 - 9.9% (2018: 8.4 - 9.8%) per annum was used.

Cash flow projections in the forecast are based on the same expected gross margins and raw material prices throughout the period. Cash flows beyond 2024 have been extrapolated using a steady 3% per annum growth rate for all cash-generating units. This growth rate does not exceed the long-term average growth rate for the market in each market area. Management believes that any reasonable change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

14. Other intangible assets

2019	Cust./distrib. relationships	Patents	Trademarks	Software and other	Total
Cost					
At 1 January	37,717	14,009	16,370	47,094	115,190
Additions	0	0	0	3,409	3,409
Additions - internally generated	0	0	0	8,552	8,552
Acquired on acquisition of subsidiary	0	2,461	0	4	2,465
Purchase price allocation	11,063	0	(2,366)	0	8,697
Fully amortized assets	(5,251)	(321)	0	(10,945)	(16,517)
Exchange rate differences	(546)	108	(198)	(41)	(677)
At 31 December 2019	42,983	16,257	13,806	48,073	121,119
Amortization					
At 1 January	31,218	3,508	334	31,020	66,080
Charge for the period	3,305	895	0	5,282	9,482
Fully amortized assets	(5,251)	(321)	0	(10,945)	(16,517)
Exchange rate differences	(215)	18	61	(448)	(584)
At 31 December 2019	29,057	4,100	395	24,909	58,461
At 31 December 2019	13,926	12,157	13,411	23,164	62,658

Amortization classified by functional category:	2019	2018
Cost of goods sold	814	1,118
Sales and marketing expenses	4,924	3,532
Research and development expenses	1,521	1,189
General and administrative expenses	2,223	2,129
Total	9,482	7,968

Notes to the Consolidated Financial Statements

2018	Cust./distrib relationships	Patents	Trademarks	Software and other	Total
Cost					
At 1 January	37,647	14,511	14,453	38,850	105,461
Additions	0	64	0	2,678	2,742
Additions - internally generated	0	0	0	6,227	6,227
Acquired on acquisition of subsidiary	1,695	0	2,645	292	4,632
Exchange rate differences	(1,625)	(566)	(728)	(953)	(3,872)
At 31 December 2018	37,717	14,009	16,370	47,094	115,190
Amortization					
At 1 January	30,287	2,787	596	26,778	60,448
Charge for the period	2,045	819	16	5,088	7,968
Exchange rate differences	(1,114)	(98)	(278)	(846)	(2,336)
At 31 December 2018	31,218	3,508	334	31,020	66,080
At 31 December 2018	6,499	10,501	16,036	16,074	49,110

The Gibaud trademark amounting to USD 12.5 million (2018: USD 12.8 million) is estimated to have infinite life. The trademark has been well established within the French market since the foundation of the company in 1890.

15. Investment in associates

	2019	2018
At 1 January	5,998	14,740
Share in net profit	258	3,529
Revalued in step-up acquisition	0	20,681
Change in control (moved to subsidiary)	0	(28,035)
Dividend received	(134)	(4,847)
Exchange rate differences	(23)	(70)
At 31 December	6,099	5,998

Effect on Income Statement	2019	2018
Share in net profit	258	3,529
Revalued in step-up acquisition	0	20,681
Total	258	24,210

Notes to the Consolidated Financial Statements

16. Other financial assets

	31.12.2019	31.12.2018
Restricted cash	1,185	1,045
Other financial assets	1,813	1,682
	2,998	2,727

17. Inventories

	31.12.2019	31.12.2018
Raw material	29,280	24,502
Work in progress	12,098	7,327
Finished goods	70,635	64,034
	112,013	95,863

Inventories of USD 14.1 million (2018: USD 11.9 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 USD 27.9 million (2018: USD 20.4 million) were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 6.5 million (2018: USD 5.0 million) is made in the Consolidated Financial Statements to adjust income tax expense.

The cost of inventories recognized as an expense includes USD 2.0 million (2018: USD 2.7 million) in respect of write-downs of inventory to net realizable value. Reserve for obsolete inventories at year end is USD 3.7 million compared to USD 4.1 million in 2018.

18. Accounts receivables

	31.12.2019	31.12.2018
Nominal value	110,381	110,781
Allowances for doubtful accounts	(3,793)	(5,115)
Allowances for sales return	0	(1,743)
	106,588	103,923

The average credit period on sales of goods is 46.4 days (2018: 48.7 days). Allowance has been made for doubtful accounts, this allowance has been determined by management in reference to future expectations. Management considers that the carrying amount of receivables approximates their fair value. Allowances for sales return are accounted for as part of other liabilities at year end 2019, USD 1.8 million.

Movement in the allowance for doubtful accounts	2019	2018
At 1 January	(5,115)	(3,958)
Impairment (losses)/gains recognized on receivables	1,041	(2,399)
Amounts written off as uncollectable	258	1,156
Exchange rate difference	23	86
At 31 December	(3,793)	(5,115)

Notes to the Consolidated Financial Statements

	31.12.2019			
	Gross carrying amount at default	Collective allowance (lifetime ECL)	Individual allowance	Net carrying amount
Accounts receivables - past due				
Not past due	73,252	0	223	73,029
Less than six months past due	33,497	0	335	33,162
Six to twelve months past due	957	0	560	397
More than twelve months past due	2,675	2,675	0	0
	110,381	2,675	1,118	106,588

	31.12.2018			
	Gross carrying amount at default	Collective allowance (lifetime ECL)	Individual allowance	Net carrying amount
Accounts receivables - past due				
Not past due	80,133	0	791	79,342
Less than six months past due	24,856	0	504	24,352
Six to twelve months past due	3,075	0	1,103	1,972
More than twelve months past due	2,717	2,717	0	0
	110,781	2,717	2,398	105,666

Allowance for impairment is calculated for expected credit losses based on an assessment of the debtor's ability to pay. The Company has recognized an allowance of 100% for all receivables more than twelve months past due as historical experience have indicated that these receivables are generally not recoverable. Receivables more than ninety days past due are assessed on an individual basis. As credit losses for receivables less than 90 days past due have historically been immaterial, the Company does not recognise an allowance for those receivables. Refer to note 37.17 for further details.

There has been no change in significant assumptions made during the current reporting period. The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

19. Other assets

	31.12.2019	31.12.2018
VAT refundable	9,670	3,827
Prepaid expenses	14,761	10,643
Other	5,737	4,045
	30,168	18,515

20. Bank balances and cash equivalents

	31.12.2019	31.12.2018
Bank accounts	58,290	52,046
Bankers draft received	0	3,476
Cash and other cash equivalents	321	184
	58,611	55,706

Notes to the Consolidated Financial Statements

21. Issued capital and share premium

Common stock is as follows in thousands of shares:

	Issued shares	Treasury shares	Total
Balance at 1 January 2018	437,163	(9,080)	428,083
Cancellation of own shares	(6,355)	6,355	0
Sold treasury shares		1,450	1,450
Purchased treasury shares		(5,430)	(5,430)
Balance at 31 December 2018	430,808	(6,705)	424,103
Cancellation of own shares	(5,430)	5,430	0
Sold treasury shares		2,700	2,700
Purchased treasury shares		(4,785)	(4,785)
Balance at 31 December 2019	425,378	(3,360)	422,018

In 2019, Össur acquired in total 4,784,631 shares at the average price of DKK 42.01 in the following share buyback programs:

	Start Date	End Date	Shares	Average Share Price
Aquired own shares	9 Oct 2018	7 May 2019	1,442,318 *	32.09
Aquired own shares	14 May 2019	4 Sep 2019	1,621,079	41.73
Aquired own shares	10 Sep 2019	22 Nov 2019	1,317,814	48.83
Aquired own shares	26 Nov 2019	11 Mar 2020	403,420 *	52.22
Total Össur shares aquired in 2019			4,784,631	42.01

*Shares aquired in 2019

The share buyback programs are managed by Nordea, which make its trading decisions independently and without influence by the Company regarding the timing of the purchases. The Company's purchases under the program are announced every Monday for the previous week. The purpose of the program is to reduce the Company's share capital and adjust the capital structure by distributing capital to shareholders in line with the Company's Capital Structure and Dividend Policy in addition to being able to meet the Company's share option obligations. Share options contracts amounting to 2,700,000 Össur shares were exercised during the year.

Movement in issued capital is as follows in USD thousands:

	Share capital	Share premium	Total
Balance at 1 January 2018	4,849	108,675	113,524
Sold treasury shares	14	6,141	6,155
Purchased treasury shares	(52)	(25,860)	(25,912)
Balance at 31 December 2018	4,811	88,956	93,767
Sold treasury shares	21	14,102	14,123
Purchased treasury shares	(38)	(30,039)	(30,077)
Balance at 31 December 2019	4,794	73,019	77,813

Notes to the Consolidated Financial Statements

22. Share option contracts

The Company has in place a share option plan, approved at the Company's Annual General Meetings, under which managers may be granted options to purchase ordinary shares at an exercise price, determined by the average closing price on shares traded on 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.

Each employee share option converts into one ordinary share on exercise. No amounts are paid or payable by the recipient to the Company on receipt of the option. The options carry neither rights to dividends nor voting rights and are valued using the Black-Scholes pricing model. The expected volatility assumptions used to value the options range from 26.2% to 29.9% and the annual discount rate range from -0.9% to -0.5%. The options expire one year after the exercise date. If a share option vests during a closed period for insider trading the vesting period is automatically extended until the next open window for insider trading.

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	958,000	2016/'18	2019/'21	25.9/27.7	25.8/28.0
Members of executive management (1 persons)	225,000	2016	2019	26.8	26.9
Members of executive management (3 persons)	675,000	2017	2020	25.0/28.1	26.1/26.7
Members of executive management (5 persons)	550,000	2018	2021	28.5/27.7	27.7/28.0
Members of executive management (3 persons)	320,000	2019	2022	32.3/45.5	33.5/48.0
	2,728,000				
Issued to management team:					
Three managers	125,000	2016	2019	25,1	25.2
Seven managers	300,000	2017	2020	25.0 - 30.1	26,1 - 29,9
Eleven managers	480,000	2018	2021	27.5 - 32.3	27.7 - 32.2
Eleven managers	338,000	2019	2022	32.3 - 49.8	33.5 - 52.3
	1,243,000				
Total issued option contracts	3,971,000				

Movements in share options during the period:

	31.12.2019		31.12.2018	
	Number of shares	Weighted average contract rate (in DKK)	Number of shares	Weighted average contract rate (in DKK)
Outstanding at 1 January	6,013,000	25.6	6,150,000	23.8
Granted during period	768,000	41.4	1,363,000	28.4
Forfeited during period	(110,000)	45.5	(50,000)	21.9
Exercised during period	(2,700,000)	23.5	(1,450,000)	20.8
Outstanding at 31 December	3,971,000	29.6	6,013,000	25.6

Estimated remaining cost due to the share option contracts is USD 1.3 million. An expense of USD 1.1 million (2018: USD 1.3 million) is recognized in the Income Statement for the period. Exercise period of the share options contracts is 2020-2022.

Notes to the Consolidated Financial Statements

23. Borrowings

	31.12.2019		31.12.2018	
	Current	Non-current	Current	Non-current
Loans in USD	1,262	29,556	2,047	28,866
Loans in EUR	5,931	128,284	11,387	74,509
Revolver in USD	0	53,000	0	70,000
Revolver in EUR	0	33,088	0	48,674
Total	7,193	243,928	13,434	222,049

The maturity of the revolving credit facility is Q1 2022. The Company has classified the revolving credit facility as non-current liability as the intention is to use it to finance further growth of the Company.

Aggregated maturities of borrowings are as follows:

	31.12.2019	31.12.2018
In 2020 / 2019	7,193	13,434
In 2021 / 2020	9,219	13,076
In 2022 / 2021	147,420	183,951
In 2023 / 2022	31,168	12,126
Later	56,121	12,896
Total	251,121	235,483

Össur has a multicurrency term and revolving facility with Nordea and Danske Bank for a total amount of USD 173 million as well as two loans with the Nordic Investment Bank for a total amount of 94 million. All loan contain covenants that place various financial and operational restrictions on the company and are in line with market standards for investment grade rated companies. Current weighted average interest terms on floating rate loans are <80 bps +LIBOR/EURIBOR, changing in line with financial leverage.

The table below shows how cash and non-cash changes affect borrowings within the Company.

	31.12.2018	Cash flows	Non-cash changes			31.12.2019
			Acquisition	Exchange rate	Transaction cost	
Borrowings	235,483	17,157	525	(1,870)	(174)	251,121

24. Lease liabilities

	31.12.2019		31.12.2018	
	Current	Non-current	Current	Non-current
Lease Liabilities in USD	5,010	44,137	0	0
Lease Liabilities in EUR	4,072	14,555	0	0
Lease Liabilities in other currencies	7,007	34,318	0	0
Total	16,089	93,010	0	0

Aggregated maturities of lease liabilities are as follows:

	31.12.2019	31.12.2018
In 2020	16,089	0
In 2021	15,155	0
In 2022	13,802	0
In 2023	13,019	0
Later	51,034	0
Total	109,099	0

The Company applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 36.

In prior year 19.5 million payment of operating lease arrangements were recognized as an expense and non-cancellable operating lease commitments amounted to 78.0 million at year end 2018.

Notes to the Consolidated Financial Statements

25. Deferred tax asset / (liability)

	2019	2018
At beginning of period	(5,067)	1,014
Income tax payable for the period	22,640	14,423
Calculated tax for the period	(21,395)	(17,101)
Arising on acquisition of a subsidiary	(860)	(2,698)
Recognized directly through equity	2,152	(833)
Exchange rate differences	(59)	128
At 31 December	(2,589)	(5,067)
Deferred tax in the Balance Sheet:		
Deferred tax asset	27,081	17,839
Deferred tax liabilities	(29,670)	(22,906)
	(2,589)	(5,067)

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

31.12.2019	Assets	Liabilities	Net
Goodwill	5,724	(13,341)	(7,617)
Intangible assets	1,425	(11,063)	(9,638)
Property, plant and equipment	387	(3,275)	(2,888)
Tax loss carry forward	836	0	836
Inventories	6,036	(218)	5,818
Provisions	2,217	(58)	2,159
Current liabilities	5,628	(1,632)	3,996
Receivables	1,564	(79)	1,485
Other	3,850	(590)	3,260
Total tax assets / (liabilities)	27,667	(30,256)	(2,589)
Tax asset and liabilities offsetting	(586)	586	0
	27,081	(29,670)	(2,589)
31.12.2018			
Goodwill	5,724	(11,278)	(5,554)
Intangible assets	766	(7,730)	(6,964)
Property, plant and equipment	144	(3,801)	(3,657)
Tax loss carry forward	709	0	709
Inventories	4,433	(99)	4,334
Provisions	1,657	(6)	1,651
Current liabilities	3,963	(1,096)	2,867
Receivables	832	0	832
Other	1,375	(660)	715
Total tax assets / (liabilities)	19,603	(24,670)	(5,067)
Tax asset and liabilities offsetting	(1,764)	1,764	0
	17,839	(22,906)	(5,067)

Notes to the Consolidated Financial Statements

26. Provisions

	Warranty provisions	Other provisions	Total
2019			
At 1 January	6,245	7,454	13,699
Additional provision recognized	7,105	7,816	14,921
Utilization of provision	(7,846)	(4,771)	(12,617)
Exchange rate differences	18	(48)	(30)
At 31 December 2019	5,522	10,451	15,973
Non-current	2,776	3,759	6,535
Current	2,746	6,692	9,438
At 31 December 2019	5,522	10,451	15,973
	Warranty provisions	Other provisions	Total
2018			
At 1 January	6,312	4,718	11,030
Additional provision recognized	4,730	3,824	8,554
Utilization of provision	(4,789)	(935)	(5,724)
Exchange rate differences	(8)	(153)	(161)
At 31 December 2018	6,245	7,454	13,699
Non-current	3,934	3,662	7,596
Current	2,311	3,792	6,103
At 31 December 2018	6,245	7,454	13,699

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

Other provisions represent earn outs related to acquisitions of companies and employee retirements.

27. Deferred income

	31.12.2019	31.12.2018
At 1 January	5,183	4,616
Deferred income	6,660	3,629
Released from deferred income	(2,880)	(3,176)
Exchange rate differences	(46)	114
At 31 December	8,917	5,183
Non-current	6,801	3,776
Current	2,116	1,407
At 31 December	8,917	5,183

Deferred income relates to sale of additional warranty for prosthetic products and service checks included in standard warranty. Income from additional warranty is deferred when sold and released on a straight line basis within the warranty period. Income from service checks is deferred when sold and released when the service has been rendered. Income is deferred for 2-6 years.

Notes to the Consolidated Financial Statements

28. Other financial liabilities

Other financial liabilities consist of fair value of hedge contracts and fair value of a purchase option of minority shares amounting to USD 0.7 million (2018: USD 2.1 million).

29. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated in consolidation and are not disclosed in this note.

The Company engages in transactions with some of its associated companies and other related parties. The transactions consist of, among others, sale of Össur products where commercial terms and market prices apply. In 2018 Össur acquired the majority of its associated companies.

Transactions and balances with related parties:

	2019	2018
Sales of products	873	7,657
Purchases	1,883	1,922
Receivables at 31 December	422	446

For disclosures relating to key management positions, refer to note 6.

30. Other liabilities

	31.12.2019	31.12.2018
Accrued expenses	13,513	14,669
Accrued royalties	562	804
Sales tax and VAT	4,144	4,282
Sales return accrual	1,840	0
Deferred income	2,116	1,407
Other	5,208	3,530
	27,383	24,692

Sales return accrual was accounted for as part of accounts receivables at year end 2018, USD 1.7 million.

Notes to the Consolidated Financial Statements

31. Business combinations

Össur made acquisitions during 2019 to strengthen the Company's sales channels. One of the companies has minority shareholders but the others were acquired in full. In the Income Statement of the year 2019, sales amounting to USD 8 million and net profit of USD 1.5 million were related to these acquisitions. USD 1.7 million was expensed as special items in relation to the acquisitions during the year and classified as general and administrative expenses in the Income Statement.

The purchase price allocation (PPA) for assets and liabilities acquired in 2018 was finalized during 2019. The initial accounting for the acquisitions in 2019 has been provisionally determined at balance sheet date. The PPA will be finalized in 2020.

The total PPA amounted to USD 8.1 million, mainly related to intangible assets. Amortization of intangibles relating to the PPA was recognised in the Income Statement for USD 2.6 million during 2019.

2019	Book value at acquisition date			Fair value	Total
Assets acquired and liabilities recognized at the date of acquisition:	Americas	EMEA	Total	changes	fair value
Current assets	4,517	2,317	6,834	623	7,457
Non-current assets	617	2,567	3,184	8,533	11,717
Non-current liability	(145)	(105)	(250)	(1,063)	(1,313)
Current liabilities	(1,909)	(1,415)	(3,324)	0	(3,324)
Non controlling interest	0	(226)	(226)	0	(226)
	3,080	3,138	6,218	8,093	14,311
Consideration paid in cash					36,316
Book value of identifiable net assets acquired					(6,218)
Fair value of identifiable net assets acquired					(8,093)
Goodwill arising on acquisition					22,005
Consideration paid in cash					36,316
Deferred payment					(5,115)
Cash from acquired companies					(754)
Consideration shown in Cashflow					30,447

Össur signed an agreement in 2019 to acquire College Park Industries, a global provider of lower and upper limb prostheses and supporting services. Closing is expected in 2020 and is subject to closing conditions and regulatory review. College Park's financials will become part of Össur's consolidated statements after closing.

Notes to the Consolidated Financial Statements

Össur made four acquisitions during 2018 to strengthen the Company's sales channels. One acquisition was finalized in Q3 and three in Q4 2018, of which two had no impact on operating income during the year. Two of the companies were acquired in full while the other two have minority shareholders. In the Income Statement of the year 2018, sales amounting to USD 12 million and net profit of USD 1 million were related to these acquisitions. The combined full-year sales of the four acquisitions amount to about USD 70 million. About USD 1 million were expensed as special items in relation to the acquisitions during the year. The acquisitions resulted in a revaluation of previously acquired shares of USD 21 million.

2018	Book value at acquisition date			Fair value	Total
Assets acquired and liabilities recognized at the date of acquisition:	Americas	EMEA	Total	changes	fair value
Current assets	17,979	4,905	22,884		22,884
Non-current assets	4,563	796	5,359	1,694	7,053
Non-current liability	(6,473)	(230)	(6,703)		(6,703)
Current liabilities	(10,643)	(1,758)	(12,401)		(12,401)
Non controlling interest	(2,537)	0	(2,537)		(2,537)
	2,889	3,713	6,602	1,694	8,296
Consideration paid in cash					76,716
Shares in associates transferred					28,035
Book value of identifiable net assets acquired					(6,602)
Book value of identifiable net assets previously acquired					5,977
Fair value of identifiable net assets acquired					(1,694)
Goodwill arising on acquisition					102,432
Consideration paid in cash					76,716
Deferred payment					(4,767)
Cash from acquired companies					(6,236)
Consideration shown in Cashflow					65,713

In 2019 the Company finalized the purchase price allocation (PPA) relating to acquisitions done in 2018 resulting in fair value changes of 7.5 million, mainly relating to fair value recognition of other intangible assets.

32. Financial instruments

32.1 Capital risk management

The Company manages capital to ensure that affiliates within the consolidation 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 2018.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 23, 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.

Notes to the Consolidated Financial Statements

Net debt to EBITDA before special items ratio

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 before special items.

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

	31.12.2019	31.12.2018
Net debt	301,609	179,777
EBITDA before special items	149,622	114,772
Net debt/EBITDA before special items	2.0	1.6

32.2 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 37 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 but Össur has decided to amend its hedging policy and allow for active hedging of currency exposure that is not covered by the natural hedge in sales and costs by currency. 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.

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

32.4 Foreign currency risk management

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

Össur currently hedges approximately half of the estimated ISK costs in 2019. This is done with forward contracts where Össur sells EUR for ISK. At balance sheet date, Össur has twelve forward contracts open, one for each month of 2019. The fair value of the contracts is positive of USD 0.5 million at year end 2019.

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

	Liabilities		Assets	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
EUR	208,171	157,231	36,392	53,003
USD	170,490	136,322	93,710	70,808
ISK	29,118	14,275	12,285	6,703
SEK	27,414	10,619	13,260	14,180
GBP	5,115	2,137	7,368	6,253
Other	28,266	12,926	35,349	29,924
	468,576	333,510	198,365	180,871

Notes to the Consolidated Financial Statements

Foreign currency sensitivity analysis

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

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⁾	
	2019	2018	2019	2018
Net profit	3,709	4,567	(4,730)	(4,976)
Equity	576	5,178	(746)	(757)

(i) 19% (2018: 21%) of the Company's COGS and OPEX is in EUR against 24% (2018: 28%) of its sales causing an increase in profit if the USD decreases against the EUR.

(ii) 11% (2018: 12%) of the Company's COGS and OPEX is in ISK against 0.3% (2018: 0.4%) of its sales causing a decrease in profits if the USD decreases against the ISK.

The Company is hedging approximately 50% of its ISK exposure using forward currency contracts. This is not considered in the above calculations.

32.5 Interest rate risk management

The Company is exposed to interest rate risks as funds are borrowed at floating interest rates. Interest rate risk is managed by the Corporate Finance function and the use of interest rate swap contracts may be used to maintain an appropriate mix between fixed and floating rate borrowings. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring optimal hedging strategies are applied. Currently, all of the Company's borrowings bear floating interest rates. The Company did not have interest rate swap agreements outstanding during the year.

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

Notes to the Consolidated Financial Statements

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 32.4 million (2018: USD 2.9 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.

	Weighted average effective interest	Less than 1 year	1-5 years	5+ years	Total
31.12.2019					
Borrowings	1.9%	12,300	255,822	0	268,122
Lease liabilities	4.0%	20,401	67,155	39,826	127,382
Non-interest bearing liabilities	-	95,303	8,393	0	103,696
		128,004	331,370	39,826	499,200
31.12.2018					
Borrowings	2.1%	18,485	230,940	0	249,425
Non-interest bearing liabilities	-	91,871	5,287	0	97,158
		110,356	236,227	0	346,583

32.7 Credit risk management

The Company does not undertake 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 receivables. Refer to note 18 for assessment of expected credit loss (ECL).

32.8 Fair value of financial instruments

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.

	31.12.2019		31.12.2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:				
Borrowings	251,121	251,879	235,483	236,293

Notes to the Consolidated Financial Statements

33. Litigation

In November 2019, Vincent Systems GmbH (“Vincent Systems”) filed a patent infringement action against the Company in the US. Vincent Systems contends that the Company willfully infringes a US patent by selling certain Company’s products, including i-Digits and i-Limb prosthetic hands. Vincent Systems seeks monetary damages, injunctive relief, and recovery of its attorneys’ fees and costs.

The Company denies Vincent Systems’ infringement allegations and contends the patent is invalid. The Company and Vincent Systems have engaged in discussions to attempt to resolve the dispute at an early stage. If those efforts are unsuccessful, the Company intends to pursue the litigation vigorously. While the Company is confident in its positions on the merits, a specific outcome cannot be predicted with absolute certainty.

34. The Consolidation

Information about the main composition of the Company at the end of the reporting period is as follows:

Name of company	Place of registration and operation	Ownership %	Principal activity
Össur Americas Inc	USA	100%	Sales, R&D, distribution and services
Össur Australia PTY Ltd	Australia	100%	Sales, distribution and services
Össur Canada Inc	Canada	100%	Sales, distribution and services
Össur Deutschland GmbH	Germany	100%	Sales, distribution and services
Össur Europe BV	Netherlands	100%	Sales, distribution and services
Össur Hong Kong Ltd	Hong Kong	100%	Sales, distribution and services
Össur Iberia SA	Spain	100%	Sales, distribution and services
Össur Iceland ehf	Iceland	100%	R&D and manufacturer
Össur Mexico S. de R.L. de C.V.	Mexico	100%	Manufacturer
Össur Nordic AB	Sweden	100%	Sales, distribution and services
Össur Prosth. & Rehabilitation Co Ltd	China	100%	Sales, distribution and services
Össur South Africa PTY Ltd	South Africa	100%	Sales, distribution and services
Össur UK Ltd	UK	100%	Sales, distribution and services
Gibaud SAS	France	100%	Manufacturer, sales, R&D, distribution and services
TeamOlmed AB	Sweden	100%	Sales, distribution and services
Touch Bionics Ltd	UK	100%	Manufacturer and R&D

Touch Bionics Ltd, Össur UK Ltd and UK Holding Ltd. are claiming exemption from preparing individual audited accounts based on section 479A of the UK Companies Act 2006.

35. Insurance

	31.12.2019		31.12.2018	
	Insurance value	Book value	Insurance value	Book value
Fixed assets and inventories	233,914	180,934	178,520	162,982

The Company has purchased a Property Damage & Business Interruption insurance intended to compensate for Damages on owned property and temporary loss of income due to such loss. Additionally Össur has numerous insurances in place as are necessary to insure against the risks to its operations, including but not limited to product and professional liability insurance, product recall insurance, directors & officers liability and certain types of frauds towards the company.

Notes to the Consolidated Financial Statements

36. Adoption of new and revised standards

36.1 New and amended IFRS Standards that are effective for the current year

IFRS 16 Leases

General impact of application of IFRS 16 Leases

In the current year, the Company has adopted IFRS 16 Leases. IFRS 16 introduces new or amended requirements with respect to lease accounting. IFRS 16 introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease requirements and by requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. Details of these new requirements are described in note 37.8. The impact of the adoption of IFRS 16 on the Company's Consolidated Financial statements is described below.

The Company has applied IFRS 16 using the Modified Retrospective Approach, with no restatement of comparative information. The Company has elected to apply the practical expedient to grandfather the definition of a lease on transition, and thereby applying IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4. The cumulative effect of adopting IFRS 16 is recognized as an adjustment to the opening balance of retained earnings at 1 January 2019.

With the application of IFRS 16, the nature of expenses related to operating leases will now change because the Company will recognise a depreciation charge for right of use assets and interest expense on lease liabilities. Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease.

Notes to the Consolidated Financial Statements

The impact of the adoption of IFRS 16 on the Company's Annual Financial Statements is shown in the following section. Refer to 2019 Condensed Interim Financial statements for effects of implementation for each quarter.

Consolidated Income Statement and Comprehensive Income

All amounts in USD '000	2019			2018
	As reported	Impact of IFRS 16	Excluding IFRS 16	As reported
Net sales	686,264	0	686,264	612,876
Cost of goods sold	(247,614)	1,174	(248,788)	(226,072)
Gross profit	438,650	1,174	437,476	386,804
Other income / (expenses)	196	0	196	(4,102)
Sales and marketing expenses	(233,746)	587	(234,333)	(202,106)
Research and development expenses	(31,326)	353	(31,679)	(31,356)
General and administrative expenses	(76,050)	825	(76,875)	(70,324)
Earnings before interest and tax (EBIT)	97,724	2,939	94,785	78,916
Net financial income / (expenses)	(7,713)	(3,327)	(4,386)	(6,202)
Effects of associates	258	0	258	24,210
Earnings before tax (EBT)	90,269	(388)	90,657	96,924
Income tax	(21,395)	277	(21,672)	(17,101)
Net profit	68,874	(111)	68,985	79,823
Total comprehensive income	69,269	(111)	69,380	64,146
EBITDA	141,280	19,517	121,763	107,307
EBITDA margin	21%		18%	18%

Consolidated Balance Sheet

All amounts in USD '000	31.12.2019			31.12.2018
	As reported	Impact of IFRS 16	Excluding IFRS 16	As reported
Assets				
Right of use assets	98,218	98,218	0	0
Deferred tax assets	27,081	2,675	24,406	17,839
Other non-current assets	657,995	0	657,995	621,709
Non-current assets	783,294	100,893	682,401	639,548
Current assets	307,380	0	307,380	274,007
Total assets	1,090,674	100,893	989,781	913,555
Equity and liabilities				
Total equity	568,956	(7,792)	576,748	537,537
Lease liabilities	93,010	93,010	0	0
Other non-current liabilities	287,632	0	287,632	258,454
Non-current liabilities	380,642	93,010	287,632	258,454
Lease liabilities	16,089	16,089	0	0
Other current liabilities	124,987	(414)	125,401	117,564
Current liabilities	141,076	15,675	125,401	117,564
Total equity and liabilities	1,090,674	100,893	989,781	913,555

Notes to the Consolidated Financial Statements

Consolidated statement of Cash Flow

All amounts in USD '000	2019			2018
	As reported	Impact of IFRS 16	Excluding IFRS 16	As reported
Earnings before interests and tax (EBIT)	97,724	2,939	94,785	78,916
Depreciation, impairment and amortization	43,556	16,578	26,978	28,391
Other operation activities	(21,301)	0	(21,301)	(15,183)
Cash generated by operations	119,979	19,517	100,462	92,124
Interest received	1,533	0	1,533	2,145
Interest paid	(10,129)	(3,981)	(6,148)	(6,194)
Income tax paid	(16,104)	0	(16,104)	(18,635)
Net cash provided by operating activities	95,279	15,536	79,743	69,440
Cash flows to investing activities	(62,364)		(62,364)	(92,143)
Proceeds from long-term borrowings	55,202	0	55,202	55,608
Repayments of long-term borrowings	(21,580)	(15,536)	(6,044)	(30,056)
Other financing activities	(62,920)	0	(62,920)	18,819
Cash flows from / (to) financing activities	(29,298)	(15,536)	(13,762)	44,371
Net change in cash	3,617	0	3,617	21,668
Effects of exchange rate changes	(712)	0	(712)	(3,234)
Cash at 1 January	55,706	0	55,706	37,272
Cash at 31 December	58,611	0	58,611	55,706

36.2 New and revised IFRS standards in issue but not yet effective

At the date of authorisation of these Financial Statements, the Company has not applied the following new and revised IFRS standards that have been issued but are not yet effective:

- Amendments to IFRS 3 - Business Combination, Definition of a business;
- Amendments to IAS 1 - Presentation of Financial Statements & IAS 8 - Accounting Policies, Change in Accounting Estimates and Errors, Definition of 'Material'

Management of the Company do not expect that the adoption of the Standards listed above will have a material impact on the Financial Statements of the Company in future periods.

Notes to the Consolidated Financial Statements

37. Summary of Significant Accounting Policies

37.1 Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, additional Danish disclosure requirements for listed companies and additional requirements in the Icelandic Financial Statement Act no. 3/2006.

37.2 Basis of preparation

The Consolidated Financial Statements have been prepared under the historical cost basis except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability as market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these Consolidated Financial Statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

37.3 Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Notes to the Consolidated Financial Statements

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

37.4 Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests 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, 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. Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Notes to the Consolidated Financial Statements

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.

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 IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquire 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 acquire prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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

Notes to the Consolidated Financial Statements

37.5 Investments in associates

An associate is an entity over which the Company has significant influence. 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.

The requirements of IAS 36 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Company retains an interest in the former associate and the retained interest is a financial asset, the Company measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the company reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

Notes to the Consolidated Financial Statements

37.6 Goodwill

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.

37.7 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 and services

The Company sells Bracing and Support products and Prosthetics products both to the wholesale market and directly to customers through its own distribution channels. Sales related warranties serve as an assurance that the products sold comply with agreed upon specifications, those warranties are accounted for in accordance with IAS 37 Provisions. The customer has an option to purchase additional warranty and service checks separately which is treated as distinct service because the Company promises to provide the service to the customer in addition to the product and the standard warranty. That warranty is accounted for as a separate performance obligation.

For sales of Bracing and Support to the wholesale market, revenue is recognized when control of the goods has transferred, being when the goods have been shipped to the wholesaler's specific location (delivery). Following delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognized by the Company when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

For sales of goods to retail customers, revenue is recognized when control of the goods has transferred, being at the point the customer purchases the goods at the retail outlet. A receivable is recognized by the Company when the goods are delivered as this represent the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. Payment of the transaction price is due immediately at the point the customer purchases the goods for some of the transactions, for the rest a receivable is recognized.

Under the Company's standard contract terms, customers have a right of return within 30-90 days. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognized for those products expected to be returned.

The Company uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. It is considered highly unlikely that a significant reversal in the cumulative revenue recognized will occur given the consistent level of returns over previous years.

Notes to the Consolidated Financial Statements

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.

37.8 Right of use asset and lease liabilities

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The lease payments included in the measurement of the lease liability comprise fixed payments less any incentives, variable lease payments that depend on an index or rate, expected residual guarantees and the exercise price of purchase options if the Company expects to exercise the option.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Company remeasures the lease liability if the lease term has changed, when lease payments changes in an index or rate or when a lease contract is modified and the modification is not accounted for as a separate lease.

Right of use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right of use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has used this practical expedient.

Notes to the Consolidated Financial Statements

37.9 Foreign currencies

For the purpose of presenting the 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).

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.

Exchange differences are recognized in the Income Statement in the period they occur, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

37.10 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 22.

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.

37.11 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 Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Notes to the Consolidated Financial Statements

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, 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.

Notes to the Consolidated Financial Statements

37.12 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.

In 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.

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

Buildings & sites	25 - 50 years
Machinery and equipment	3 - 10 years
Fixtures and office equipment	3 - 10 years
Computer equipment	2 - 5 years

37.13 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.

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

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

Customer and distribution relationships	4 - 10 years
Patents	5 - 50 years
Trademarks	3 - infinitive
Software and other	2 - 10 years

Notes to the Consolidated Financial Statements

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.

37.14 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.

Notes to the Consolidated Financial Statements

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.

37.15 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.

37.16 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.

Restructurings

A restructuring provision is recognized when the Company has developed a detailed formal plan for the restructuring and has started to implement it or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Warranties

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

37.17 Financial instruments

Financial assets and financial liabilities are recognized in the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Notes to the Consolidated Financial Statements

Effective interest method

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

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

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that do not meet the criteria for being measured at amortized cost are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 37.2.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost and account receivables. The amount of expected credit loss is updated at each reporting date to reflect changes in credit risk from initial recognition of the respective financial instrument. The Company measures the collective allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL). The expected credit loss on trade receivables is estimated using a provision matrix by reference to past default experience, general economic conditions and an assessment of both the current as well as expected conditions, including time value of money where appropriate. Allowances are based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtor. The Company recognizes an allowance of 100% for all receivables more than twelve months past due as historical experience have indicated that these receivables are generally not recoverable. Receivables more than ninety days past due are assessed on an individual basis. As credit losses for receivables less than 90 days past due have historically been immaterial, the Company does not recognise an allowance for those receivables. As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Company's different customer segments.

Notes to the Consolidated Financial Statements

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made 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 is recognized in profit or loss.

Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss. When the Company exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

Notes to the Consolidated Financial Statements

37.18 Employee benefits

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

37.19 Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to currency risk. 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, 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 effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedge risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

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.

Notes to the Consolidated Financial Statements

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.

37.20 Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 37, management is required to make judgements, 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 13.

As described in note 37.12, the Company reviews the estimated useful lives of property, plant and equipment at the end of each balance sheet date.

