ÖSSUR®
LIFE WITHOUT LIMITATIONS

Annual report
2017


Ladies

INDEX

ÖSSUR
LIFE WITHOUT LIMITATIONS

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2017 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 2017.

Organic growth

5%

Growth in the year was driven by the prosthetics segment, which grew above estimated market growth, and high-end innovative products from both business segments. Local currency growth was 8% with the acquisitions made in the year 2016.

EBITDA margin

18%

EBITDA before special items grew by 10% in local currency and the margin was within the communicated financial guidance range. We accelerated our investments in R&D projects for high-end innovative products, such as bionic bracing, during the year. Even so, we grew our operating profit faster than sales with positive contribution from product mix, integration efforts and economies of scale.

Net profit growth

13%

Net profit amounted to USD 58 million in the year or 10% of sales. Diluted earnings per share amounted to 13.3 US cents. Good growth in profit can primarily be attributed to strong performance in sales.

NIBD/EBITDA

1.2x

Össur aims to maintain a healthy balance sheet with a level of net interest-bearing debt ratio of 1–2x to EBITDA. Össur has strong cash generation and as means to maintain the desired debt level, the Company acquired own shares for approximately USD 37 million during the year and paid out dividends in the amount of USD 7 million.

Sales by geography

Americas
44%
Organic growth: 1%
FTEs: ~1200

EMEA
49%
Organic growth: 7%
FTEs: ~1200

APAC
7%
Organic growth: 15%
FTEs: ~150

HQ FTEs: ~450

Sales by segments

Bracing and supports

Bracing and supports (B&S) sales amounted to USD 285 million and grew by 1% organically.

Growth in EMEA was good where the primary growth drivers were our high-end products, which include the Unloader One®. In the Americas, the Canadian market grew well and direct B&S sales in the US grew modestly. Growth in the Americas was however negatively impacted due to sales decline in own distribution companies. The nature of the operational challenges in our own distribution companies is mainly due to internal restructuring efforts. These distribution companies accounted for ~8% of our global B&S sales in 2017 and have had a negative impact on organic growth rates of about 1% on average in 2015-2017. This means that direct sales have been growing annually in line with the estimated 3-5% market growth during that period. The restructuring efforts are now mostly complete and we are expecting the distribution companies to have limited impact on growth in 2018. Growth in APAC was excellent with a good contribution from Australia, Japan, and China.

Over 10 new B&S products were introduced to the market in 2017. These include the Unloader One® Lite knee brace, which is a new addition to the growing OA solutions portfolio.

Prosthetics

Prosthetics sales amounted to USD 282 million and grew by 17% and 9% organically, both measured in local currency.

We continued to see good performance in prosthetics with growth above estimated market growth. Growth in EMEA was strong across all major regions with the RHEO KNEE® driving growth along with other high-end products. In a similar fashion, the RHEO KNEE® was the key organic growth driver in the Americas for prosthetics. There was excellent sales growth for prosthetics in APAC and are pleased to see our high-end products performing well in all regions. Performance in China was especially strong after adjusting the sales approach during 2016 and selling direct.

Sales of bionic products accounted for 21% of prosthetics component sales, compared to 24% in 2016. The decrease between years is attributed to additional mechanical products coming from the Medi Prosthetics acquisition and good performance in our high-end mechanical prosthetics solutions during the year.

Over 30 new prosthetic products were introduced to the market in 2017. These included new versions of the highly regarded RHEO KNEE® and powered thumb rotation as well as four new grips to accompany the i-Limb® Ultra hand.

Year in review

Innovative products, ground-breaking technology and successful events paved the way for yet another memorable year for Össur

January

- New corporate video released.
- i-limb® featured in UK Trade & Invest Campaign.
- Pro golfer Will McGirt becomes Unloader spokesperson.

February

- Touch Bionics receives two Scotland Life Sciences Awards.
- Össur voted most popular company in Iceland by business publication Frjáls Verslun.

March

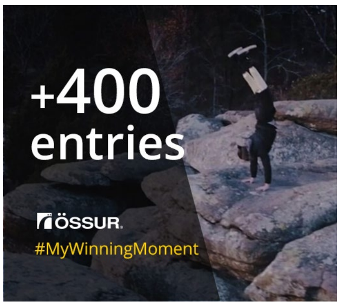
- Össur Ambassador event held in EMEA.

April

- Össur technology featured on DR2 in Denmark.

May

- Global ISPO Congress held in South Africa.
- Össur Ambassador Bebe Vio featured on the cover of Rolling Stone Magazine.



June

- Össur featured in NIB newsletter.
- Over 400 entries received in #MyWinningMoment contest.

July

- Össur Ambassador Paola Antonini featured in GQ Magazine.
- Team Össur members' Cheetah legs on exhibit at the Kennedy Center.
- Team Össur sprints to success at the IPC Para Athletics World Championships.

August

- Team Össur member Mohamed Lahna visits Össur Head Office – first amputee to complete the Norseman triathlon.
- Kim de Roy, EVP of R&D, interviewed in Bloomberg technology.

September

- National media coverage for the Unloader One in the UK.
- Össur hosts a Capital Markets Day in Copenhagen for the investor community.
- The new RHEO KNEE and Unloader One Lite products were introduced.
- Össur's #MyWinningMoment campaign was nominated for two Digital Communication Awards.

October

- IUVO, Comau and Össur sign an agreement to cooperate on the development of bionic bracing.
- Paralympic gold medalist Jonnie Peacock particpates in popular UK tv series Strictly Come Dancing (11M viewers per week).

December

- Össur voted one of Orange County's top workplaces in 2017.

Letter from the CEO

Organic sales growth amounted to 5% in 2017 and our EBITDA grew 8% organically when measured in local currency. Growth during the year was primarily driven by excellent performance in our prosthetics segment which grew above estimated market growth in addition to a stellar contribution from our high-end innovative products across our portfolio in both prosthetics and bracing & supports. We accelerated our investments in R&D projects for high-end innovative products, such as bionic bracing, during the year. Even so, we grew our operating profit faster than sales with positive contribution from product mix, integration efforts and economies of scale.

At the forefront of innovation

Össur continued to step into the spotlight during the past year as we pushed the boundaries on innovation even further. With every employee working towards the mission of improving people's mobility, we continued to develop new products for both the prosthetics and bracing & supports segments. For example, we introduced upgraded versions of our highly regarded RHEO KNEE® within prosthetics and launched a new osteoarthritis solution, Unloader One® Lite, within the bracing & supports segment. In total, we launched more than 30 prosthetic solutions and more than 10 bracing & supports solutions during the year.

We actively engaged in research projects throughout the year that encouraged creative development to drive the industry forward. For example, the recently established collaboration with Comau and IUVO to develop bionic bracing products to support people in various endeavors of their life. To be at the forefront of innovation, we strive to find new solutions to help our users live a life without limitations.

The economic value of prosthetics

We have an aging and more active population emerging. Forecasts estimate the age group of 65 and older to significantly increase in the coming years, and the population of elderly amputees is expected to follow similar trends. Still relatively few elderly amputees receive a prosthetic solution and even fewer a bionic solution. This is despite recent studies clearly demonstrating the economic benefit of bionic solutions and their proven capability to improve the quality of life for amputees. It is therefore not economical to withhold bionics from patients. This is an area where Össur aims to support industry developments in the future by providing effective, powered, intelligent and energy-efficient prosthetic solutions for low active amputees. In doing so, we pursue opportunities that add value for our customers; an effort that will continue to drive our success for many years to come.

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Delivering value

Össur's sales have grown at a 21% compounded annual growth rate since the initial stock exchange listing in 1999. This growth has been driven by a combination of organic and acquired growth, where the acquisitions of Touch Bionics and Medi Prosthetics represent the latest additions to the Össur business. Össur's profitability has grown at a similar rate with a continuous focus on operational improvements. Further opportunities to increase efficiency were identified during the year and Össur announced efficiency initiatives within the areas of Manufacturing, Distribution, and Sourcing. Work has already begun in these areas and we are progressing according to plan.

We had many accomplishments in the past year that helped Össur maintain its strong presence as an industry leader. With the intergration of our most recent acquisitions we are now able to provide a full product offering that includes the most technologically advanced prosthesis in the world. In addition, we have been able to return value to shareholders through dividends and share buybacks.

Inspiration

We have so many examples of triumph and success in our business that there is no shortage of inspiration. In 2017, Team Össur succeeded at the IPC Para Athletics World Championships winning 15 medals, and there are countless stories of our users pushing the boundaries of limitation. We are also very happy to have been voted one of Orange County's Top Workplaces as well as being named the most popular company in Iceland. Mid-year, our #MyWinningMoment campaign, which celebrates overcoming individual challenges, was nominated for the Digital Communications Award. This fantastic program shows the courage and tenacity our users embody as they face any obstacle in their path. It is namely because of our users that we find such great pride in everything we do.

Looking forward

At Össur, our passion for what we do makes us stand out. Guided by our mission to improve people's mobility, and our vision to be the leading company in non-invasive orthopaedics, Össur rises to any challenge that may emerge. Our drive for innovation enables us to provide premier solutions for all who face mobility challenges. We would like to thank our amazing employees, customers, and users, as well as our shareholders for making this possible. We look forward to continuing to work with all of you as we invest in our bright future.

Jon Sigurdsson
President and CEO

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 prosthetics and bracing & supports. 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 innovation 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 and since 2009 on Nasdaq Copenhagen. Össur has operations in over 25 countries and more than 3,000 employees.

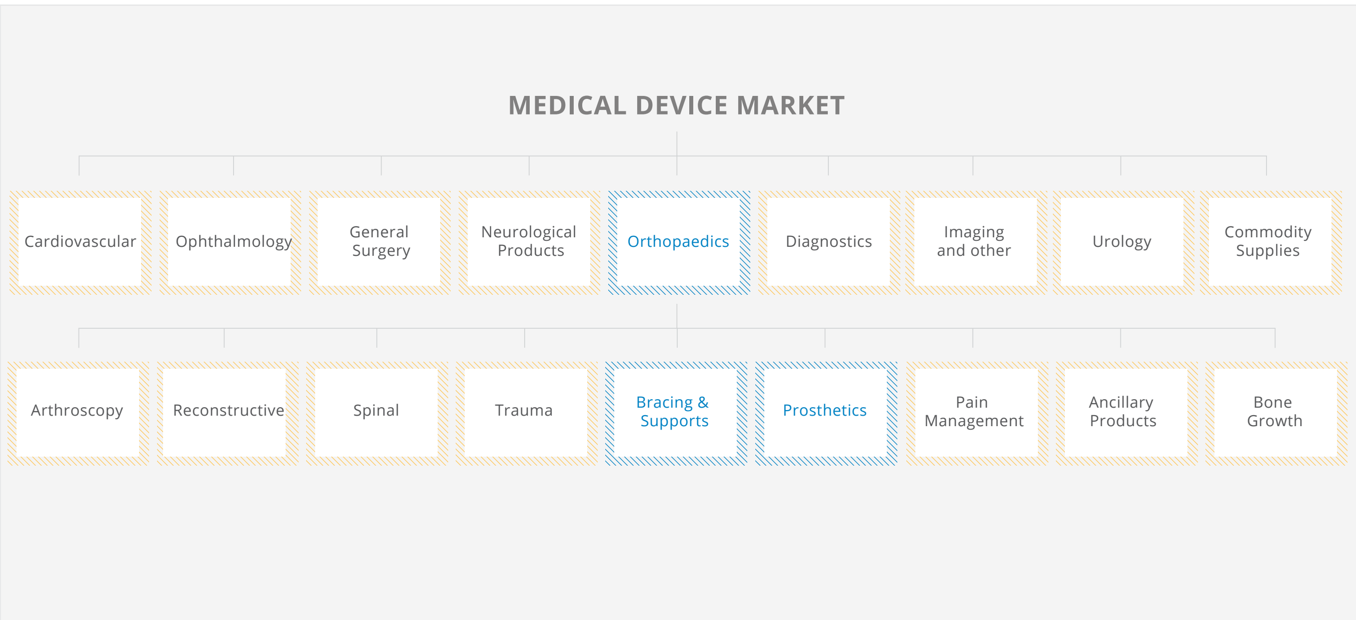
Our users are at the core of everything we do

Every year there are individuals who are born without a limb or lose a limb at different stages of their life due to vascular diseases, diabetes or trauma. 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. Össur's mission is to help these individuals regain their mobility by developing, producing, and providing them with prosthetic and bracing solutions.

In 2017 alone, our solutions helped millions of users improve their mobility, so they can live their life without limitations.

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 between 4-5% of Össur's sales is re-invested in research & development with roughly 150 full-time employees working on new innovative products for the benefit of our users. In 2017 we introduced more than 30 prosthetics products and more than 10 bracing & supports 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.

BRACING & SUPPORTS

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	Non surgical treatment by unloading affected joint with braces

PROSTHETICS

Sub-segment	User profile	Improving mobility
Mechanical solutions	People living with lower extremity amputation	Broad product offering of lower extremity prosthetics
Bionic solutions	People living with lower and upper extremity amputation	Advanced microprocessor controlled feet, knees, hands and fingers

Our products

Prosthetic solutions

For years Össur has helped people focus on new goals rather than limitations by offering comprehensive solutions that are designed with the needs of the user top of mind. Össur's prosthetics portfolio includes a full spectrum of premium lower and upper limb prosthetic components. The portfolio ranges from solutions to support less 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. The Össur Unloader® brand name has become synonymous with OA bracing, representing OA Solutions' technology as the industry standard, with more than 15 clinical studies demonstrating its efficacy. 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.

Bracing & supports: 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 enhance the healing process of bone and soft tissue injuries. Össur Injury Solutions are globally recognized, primarily under the brand names CTi®, Rebound®, Miami® and Form Fit®. Many Rebound® solutions furthermore come with the Functional Healing seal which identifies Össur Rebound products designed for indication-based protocols. It signifies a healing solution that helps enhance the body's natural healing process while maximizing mobility.

Solutions that make a difference

VALUE

1. Indication based innovation approach to develop technologically advanced products with high potential
2. Product development in collaboration with global key opinion leaders
3. High quality manufacturing processes leading to products with high reliability
4. Broad portfolio of products and solutions that meet individual needs
5. Top tier brand recognition based on surveys made by non-related parties
6. Strong patent portfolio and market access in both our business segments
7. Bionic prosthetic solutions compatible with mind-controlled technology
8. Bracing solutions with efficacy verified by clinical evidence
9. High quality services, partnerships, and clinical excellence as part of daily business
10. Superior knowledge in reimbursement and regulatory matters

Five year overview

USD m	2017	2016	2015	2014	2013
Net sales	569	521	483	509	436
Gross profit	355	328	303	323	270
Operating expenses (excl. other income)	280	256	226	237	210
EBITDA	97	94	97	104	75
EBITDA before special items	103	98	99	104	80
EBIT	75	72	77	86	60
Net profit	58	51	51	59	41
Sales growth					
Sales growth USD %	9	8	(5)	17	9
Organic growth in LCY %	5	4	5	5	2
Currency effect %	1	(1)	(10)	(1)	1
Acquired/divested business %	4	5	1	13	6
Balance Sheet					
Total assets	793	746	653	678	706
Equity	500	467	463	442	448
Net interest-bearing debt (NIBD)	121	119	58	93	108
Cash Flow					
Cash generated by operations	90	88	84	98	73
Free cash flow	55	42	42	68	49
Key ratios					
Gross profit margin %	62	63	63	63	62
EBIT margin %	13	14	16	17	14
EBITDA margin %	17	18	20	20	17
EBITDA margin before special items %	18	19	20	20	18
Equity ratio %	63	63	71	65	63
Net debt to EBITDA	1.2	1.2	0.6	0.9	1.3
Effective tax rate %	16	25	25	24	26
Return on equity %	12	11	11	13	10
CAPEX / Net sales %	3.4	4.7	4.9	3.3	3.9
Full time employees on average	2,948	2,710	2,420	2,214	1,765
Market					
Market value of equity	1,871	1,582	1,546	1,311	880
Number of shares - Millions	437	443	446	454	454
Diluted EPS - US cents	13.3	11.6	11.5	13.1	9.1
Diluted cash EPS - US cents	18.5	16.5	16.0	17.2	12.5

Performance in 2017

Highlights

- Sales amounted to USD 569 million, corresponding to 8% growth and 5% organic growth, both measured in local currency.
- Prosthetics grew 9% organically and above estimated market growth with an excellent contribution from high-end innovative solutions such as our bionic RHEO KNEE®. Growth in the B&S segment was 1% organic with continued growth in direct sales and a good contribution from high-end innovative products, but B&S growth was negatively impacted from the restructuring of own distribution companies in the US.
- Gross profit amounted to USD 355 million or 62% of sales. Gross profit improvements from product mix and scalability in the year were offset by temporary cost increases in certain smaller manufacturing locations and adverse currency movements.
- EBITDA before special items grew by 10% in local currency and amounted to USD 103 million or 18% of sales. Currency movements impacted the EBITDA margin negatively by about 70 basis points net of hedge. Positive trend in product mix, integration efforts, and good sales growth resulted in EBITDA growing faster than sales.
- Net profit grew by 13% and amounted to USD 58 million or 10% of sales.
- Cash generated by operations amounted to USD 90 million or 16% of sales.
- Össur acquired 9,182,226 of own shares for approximately USD 37 million during the year.
- Touch Bionics and Medi Prosthetics, which were acquired in 2016, were successfully integrated during the year.
- Össur announced efficiency initiatives in the areas of Manufacturing, Distribution, and Sourcing with expected savings of USD 10 million by the end of 2020.
- Össur hosted a Capital Markets Day in September. The presentation material from the event can be found on the Össur corporate website.
- Trading of Össur shares was concentrated on Nasdaq Copenhagen in December 2017 following Nasdaq Iceland's decision to accept Össur's request to cancel the trading of Össur shares on Nasdaq Iceland.

Sales performance

Sales amounted to USD 569 million, compared to USD 521 million in 2016, corresponding to 8% growth and 5% organic growth, both measured in local currency. Due to the appreciation of few major operational currencies against the USD, mainly the EUR, currency movements in 2017 impacted sales growth positively compared to 2016 by USD 4 million, which corresponds to a positive 80 basis points effect on USD growth.

Commentary on sales by segments can be found in Chapter 2.1. "Sales by segments".

SALES BY REGIONS

USD m	FY 2017	% of sales	USD growth	LCY growth	Organic growth
EMEA	281	49%	11%	11%	7%
Americas	246	44%	5%	4%	1%
APAC	41	7%	21%	17%	15%
Total	**569**	**100%**	**9%**	**8%**	**5%**

SALES BY SEGMENTS					
USD m	**FY 2017**	**% of sales**	**USD growth**	**LCY growth**	**Organic growth**
Bracing and supports	285	50%	2%	1%	1%
Prosthetics	282	50%	18%	17%	9%
Other	1	0%	-	-	-
Total	**569**	**100%**	**9%**	**8%**	**5%**

Gross profit

Gross profit amounted to USD 355 million or 62% of sales, compared to USD 328 million or 63% of sales in 2016. Within both prosthetics and bracing & supports there continues to be strong growth in high-end innovative products, which contribute positively to the gross profit margin. However, the product mix and scalability from a strong sales growth in the year were offset by temporary cost increases in certain smaller manufacturing locations and approximately 30 basis points negative impact from adverse currency movements.

Operational expenses

Operating expenses amounted to USD 280 million or 49% of sales compared to USD 256 million or 49% of sales in 2016. Operating expenses, excluding special items, grew by 7% and 4% organically, both measured in local currency. Scalability and synergies from integration efforts positively contributed to margin improvements during the year but were partly offset by additional investments in R&D projects for high-end products, e.g. bionic bracing and mind-controlled prosthetics.

On 25 September 2017 Össur announced efficiency initiatives in the areas of Manufacturing, Distribution, and Sourcing to further increase scalability and profitability. The program is on track as previously communicated. The latest update is regarding our West Coast distribution center in the US which will be moved to the manufacturing location in Mexico. This change will result in a simplification and internal efficiency in our global distribution process.

Össur expensed one-time costs of USD 5.6 million as special items in 2017. The USD 2.6 million one-time costs in Q2 were related to the Medi Prosthetics integration and the USD 3.0 million one-time costs in Q3 were related to the efficiency initiatives announced on 25 September 2017.

EBITDA

EBITDA before special items amounted to USD 103 million or 18% of sales, compared to USD 98 million or 19% of sales in 2016, which corresponds to 10% growth and 8% organic growth, both measured in local currency. Currency movements affected the EBITDA margin in 2017 negatively by approx. 70 basis points net of hedge.

Financial items, income, Tax and Net profit

Net financial expenses amounted to USD 6.2 million compared to USD 2.5 million in 2016. The change is mainly due to a USD 3 million negative net exchange rate difference due to currency movements that are impacting current assets and liabilities. Interest rate margins on long-term borrowings slightly improved in 2017 compared to last year.

Össur derives a significant part of its sales in the US. When the Tax Cuts & Jobs Act was signed in the US in December 2017, the federal tax rate was significantly reduced, effective as of 1 January 2018. France enacted a reduction of its corporate income tax rate in December 2017 as well. This resulted in a one-time accounting tax benefit in 2017 in the amount of USD 6 million which impacted the effective tax rate. It is stressed that the one-time benefit has no cash flow impact. Expectations for the effective tax rate for 2018 can be found in the outlook for 2018 section.

Net profit grew by 13% and amounted to USD 58 million or 10% of sales, compared to USD 51 million or 10% of sales in 2016. Diluted earnings per share in 2017 amounted to 13.3 US cents compared to 11.6 US cents in 2016.

Cash flow

Cash generated by operations amounted to USD 90 million or 16% of sales, compared to USD 88 million or 17% of sales in 2016.

Capital expenditures amounted to USD 19 million or 3.4% of sales, compared to USD 25 million or 4.7% of sales in 2016. The ratio is slightly below the guided parameter for the full year.

Capital structure, share buybacks and dividends

Net interest-bearing debt at year-end 2017 amounted to USD 121 million compared to USD 119 million at year-end 2016. The relative stable net debt is mostly due our share buyback program and changes in currency rates. Net interest-bearing debt to EBITDA corresponded to 1.2x at the end of 2017 compared to 1.2x at year-end 2016. The ratio is in line with the Company's Capital Structure and Dividend policy to maintain a healthy balance sheet and a level of net interest bearing debt of 1-2x to EBITDA.

On 15 August 2017, Össur initiated a new share buyback program, which replaced the share buyback program that was completed on 11 August 2017. Since the beginning of 2017, Össur has purchased 9,182,226 of own shares for approximately USD 37 million. 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. At year-end 2017, Össur held 9,079,662 treasury shares.

Sales	EBITDA	Net Profit
569 USD m	103 USD m	58 USD m

Outlook for 2018

FINANCIAL GUIDANCE FOR 2018	Guidance FY 2018	Actual FY 2017	Guidance FY 2017
Sales growth, LCY	4-5%	8%	7-8%
Sales growth, organic	4-5%	5%	4-5%
EBITDA margin (before special items)	~19%	18%	18-19%
CAPEX as % of sales	~4%	3%	~4%
Effective tax rate	23-24%	16%	~26%

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

Organic sales growth is expected to be in the range of 4-5%. In prosthetics, we expect to see a continued good performance in key markets and high-end products, with growth at or above estimated market growth. In B&S, growth in the EMEA and APAC regions is expected to be good and the same goes for the expected growth contribution from our high-end B&S products. Direct B&S sales in the Americas are expected to grow in line with the market as with previous years. With the restructuring of our own distribution companies in the US finalized in 2017, we expect the distribution companies to have a limited impact on growth in 2018. B&S sales are therefore expected to grow in line with the market in 2018.

EBITDA margin before special items is expected to be around 19% of sales. The EBITDA margin is expected to improve compared to 2017 due to favorable developments in product mix, scalability in the underlying business, savings from efficiency initiatives, and synergies from the integration of Touch Bionics and Medi Prosthetics. At current foreign exchange rates, keeping all other factors constant, the EBITDA margin will be slightly negatively impacted in 2018 compared to 2017. Furthermore, at current foreign exchange rates, Össur's hedging agreements will have an insignificant impact on the EBITDA margin.

It should be noted that quarter one is seasonally the weakest quarter of the year in terms of sales and profitability.

Capital expenditures (CAPEX) are expected to be around 4% of sales. Key CAPEX items include maintenance CAPEX in manufacturing in addition to expected investments related to the efficiency initiatives announced in September 2017. Other main CAPEX items include investments in computer equipment, software, and fixtures.

The Tax Cuts & Jobs Act will have a favorable impact on Össur's effective tax rate going forward. Based on the current mix of taxable income, the expectation is that our 2018 effective tax rate will be in the range of 23-24%. The ultimate impact of the changes in the tax environment is however subject to various provisions, with further guidance and clarifications expected to be issued by the US tax authorities during 2018.

Markets

Aging and more active population

The global population of 65 and older is increasing and will underpin market growth as an aging society brings an increase in the frequency of vascular diseases and diabetes, which are the two main causes of amputation. These individuals will also have an increased amount of fractures, joint instability and joint afflictions such as osteoarthritis, which increases the demand for different forms of bracing and supports products.

Stroke, diabetes and OA on the rise

With the growing number of people afflicted by diabetes and vascular diseases, the demand for prosthetics is expected to increase. Osteoarthritis is also expected to increase in correlation with, for example obesity, resulting in demand for bracing & supports products.

Healthcare expenditure

Healthcare providers are constrained by budgets and, accordingly, they demand cost effective solutions without compromising quality. This has led to substantial investment in demonstrating and providing functional, clinical, and economical outcomes to potential payers. The demand for lower healthcare expenses creates opportunities for lower-cost bracing as alternatives to high-cost surgery.

Changing healthcare requirements

Two vital requirements for any market player in the orthopaedics industry are the ability to adapt to changing healthcare requirements and tailoring product offerings to meet the prevailing regulatory system.

Industry trends are creating opportunities

Technology development

New technologies and technological combinations, as well as new materials, continuously yield improved products. Such technological advances lead to total market growth as demand is created for more technically advanced and expensive solutions, such as mind-controlled prosthetics and powered bionic bracing.

Consolidation in patient care

We are seeing an increase in the mergers of healthcare solutions and product providers with increasing cost pressures and the need for scale. This trend creates opportunities for forward integration in the healthcare industry.

From volume to value/ premium

The demand for higher quality products creates opportunities for technology trade-up in our business.

Improved treatment options

Surgery, wound care and early accessible pain medication provide alternatives to bracing and prevent amputations but also encourages higher value customer service which is one of Össur’s key competencies.

Our markets

Össur is the second largest player in both markets

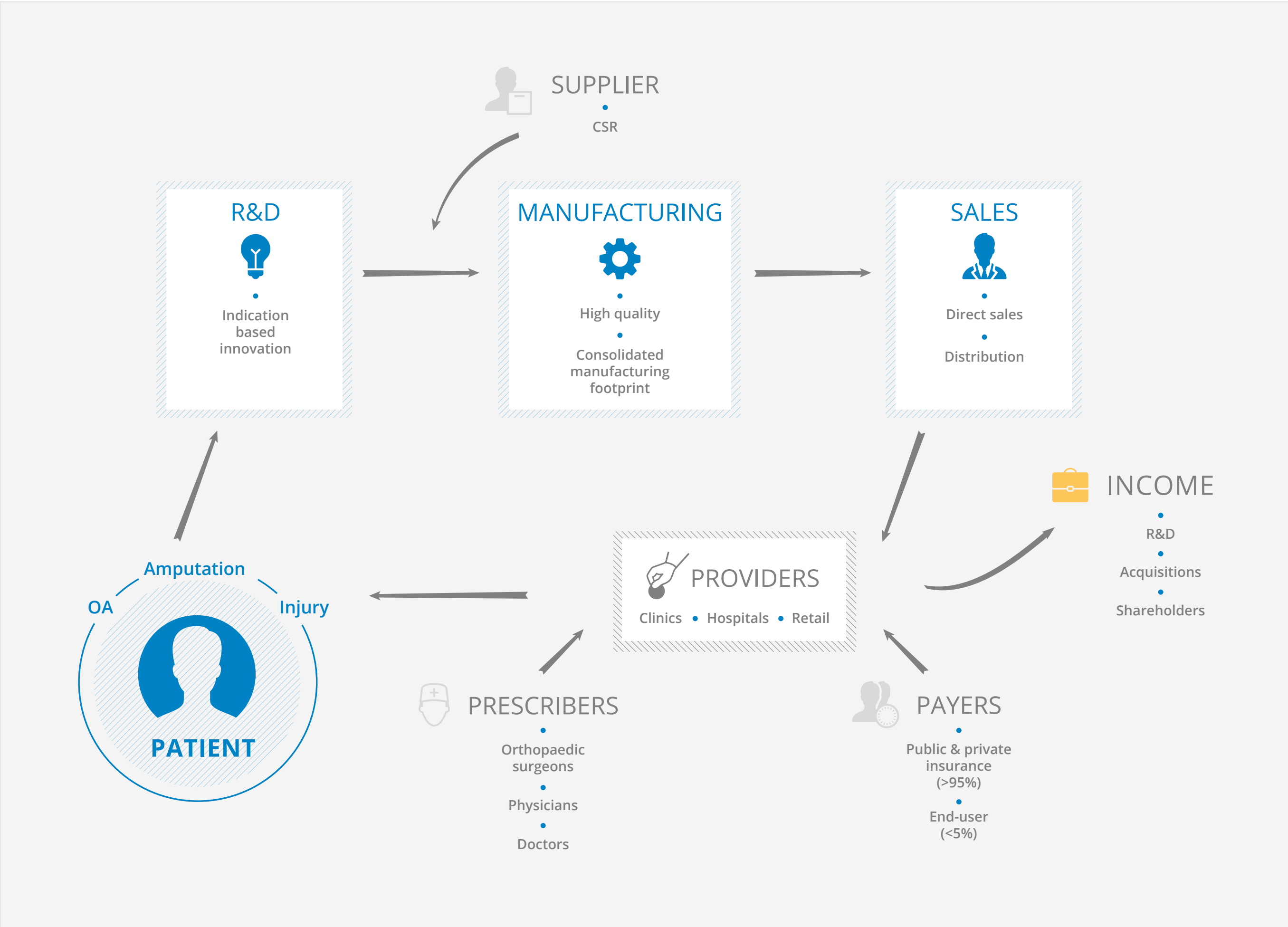
	MARKET SIZE	MARKET SHARE	MARKET GROWTH	PRIMARY SALES CHANNEL
Bracing & supports	USD billion **2.7-3.0**	6-8% #2 ÖSSUR	**3-5%** Volume growth ↑ Moderate pricing pressure ↘ Positive product mix* ↑	**Hospitals O&P** Surgery centers**
Prosthetics	USD billion **1.2-1.3**	21-22% #2 ÖSSUR	**3-5%** Volume growth ↗ Relatively stable pricing → Positive product mix* ↑	**Orthotic & Prosthetic clinics (O&P)**

Source: Össur management estimates
* Increased penetration of high-end innovative products
** Orthotic & Prosthetic clinics

Business model

Össur's business model in brief

Össur manufactures a wide range of prosthetics and bracing solutions with high standards of quality and excellence. These high-end products are developed with an indication based innovation approach to solve the needs of our end-users. The products are delivered to the end-users through our customers (healthcare providers) who specialize in assisting individuals who suffer from movement impairment. The end-users are referred to these healthcare providers by prescribers and the products are in more than 95% of the cases reimbursed by public or private insurance (payers). With the profits made, Össur reinvests significantly to further advance products and technologies for the benefit of all stakeholders.



The end-users

The end-users are at the core of everything we do as they drive us to continuously innovate through our entire business model. Our end-users include lower and upper extremity amputees who have lost a limb due to, for example, vascular diseases including diabetes, trauma, cancer, and congenital diseases. We also help 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, we gain a better understanding of their needs and challenges. In turn, we help them to improve their mobility by providing new technologically advanced products to achieve their goals. Our involvement with the end-user is not limited to research and development because we also aim to provide them with quality services, directly through clinics operated by Össur or indirectly through our customer service programs.

The End-User

>500,000 new lower limb amputees per year	**~75%** of amputations are due to vascular related diseases
65 is the average age of the amputee population	**30-40%** of new leg amputees are fitted with prosthetic solutions

Source: Össur Managament Estimates

Research & Development

Össur's research & development approach is indication based, meaning that only products that have medical indication and are clinically validated are brought to market. The aim is to deliver cost effective medical solutions that provide value for patients 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.

INDICATION BASED INNOVATION APPROACH

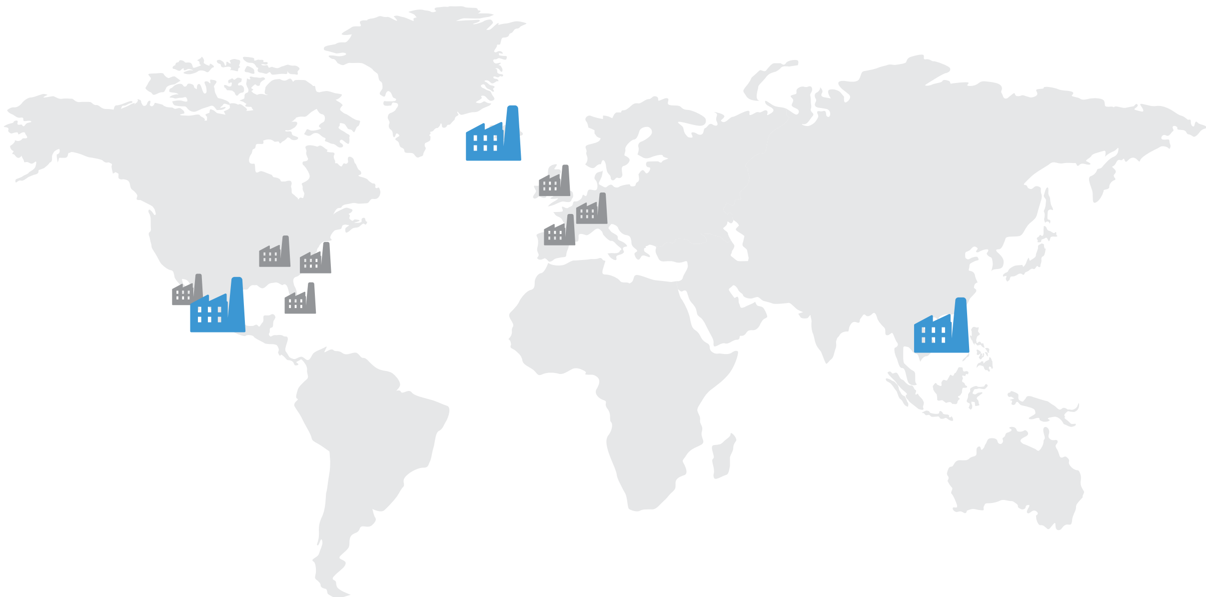
1. Assess incidence treatable with prosthetics and bracing
2. Select high potential indication
3. Develop products and solutions for end-users
4. Provide medical evidence for the efficacy of the products
5. Enable cost savings and value creation for the patient and healthcare system

Össur furthermore 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 patients in need of improved mobility.

Manufacturing & Quality

Össur is constantly striving for increased efficiency which includes maintaining a strong global manufacturing function. Manufacturing of advanced prosthetic solutions, including bionics, takes place in Iceland. Manufacturing of mainstream prosthetics solutions, components and premium bracing solutions mostly takes place in Mexico. We outsource the manufacturing of soft goods within our bracing segment to China. At Össur we continuously strive for profitability improvements, which includes further growth of the Mexico manufacturing facility and optimization of the manufacturing footprint.

As a healthcare company, Össur complies with various quality requirements and the company has had a certified quality system in place since 1993. We place great emphasis on quality, and being a manufacturer of medical device products, it is highly important that quality is an intrinsic part of our processes. Össur is currently certified with ISO9001:2008, ISO13485:2003/2012 and ISO14001:2015, and is currently in the process of implementing updated versions of the 13485 and 9001 standards.



Sales & Marketing

Össur operates within a highly specialized industry. Össur's primary customers are specialized healthcare providers who provide and fit individuals with Össur products. Various public and private insurance schemes generally reimburse the products.

Össur sells its products through its own direct sales network as well as distributors. Össur has developed a strategic partnership service with providers to assist them with activities such as patient documentation and reimbursement. As a result, the Company has better access to the key stakeholders: payers, providers, prescribers and finally the patient (end-user).

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 orthopaedic and prosthetic (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 plans or insurance companies with over 95% of Össur's sales 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 (e.g. at a pharmacy).

Innovation

Össur is a pioneer of advanced technology and our brand recognition is based on innovative and scientifically-proven solutions that deliver effective clinical outcomes.

Össur's proprietary technologies and products are protected with various types of intellectual property (IP), such as patents, design registrations and trade secrets. The IP portfolio is well diversified and representative of the business areas in which Össur operates.

At year end 2017, Össur had more than 1,300 granted patents and about 400 pending patent applications

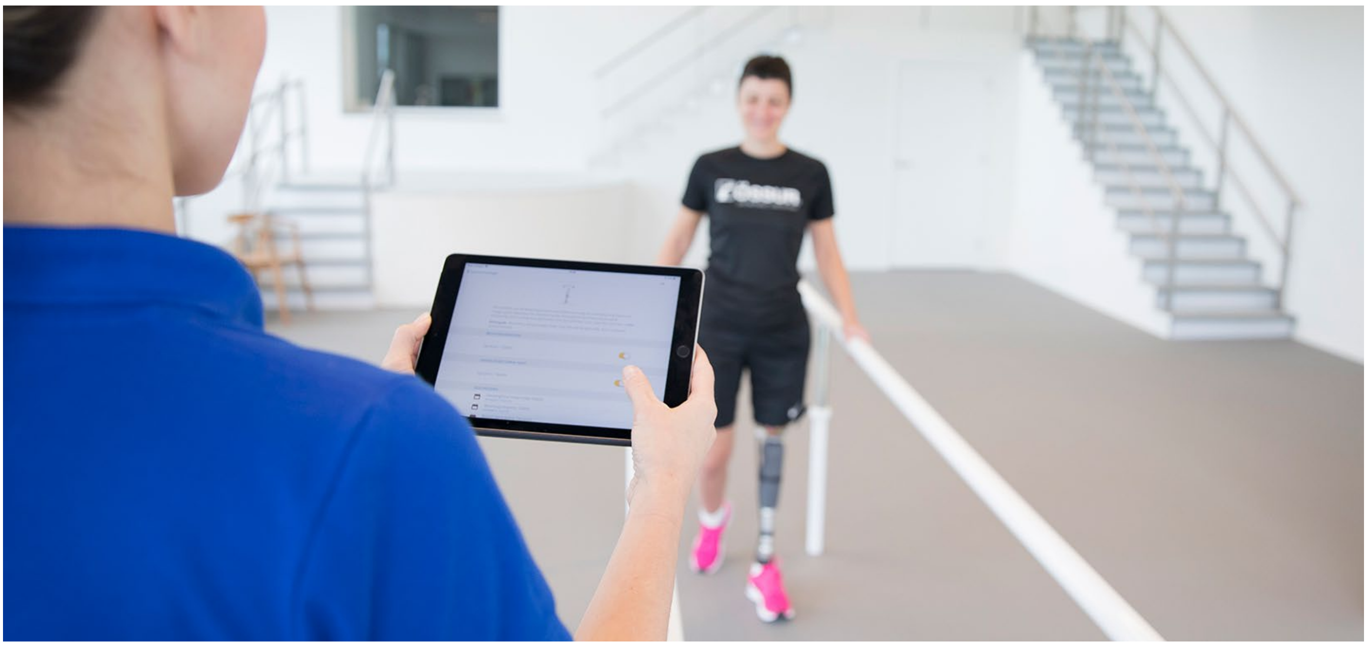
Prosthetics

Össur has established a reputation as a provider of ground breaking technological innovation in the field of prosthetics. In recent years, our innovation efforts have gone beyond pure technology advancements and now aim to provide value to all stakeholders when it comes to treatment of amputees. User interface and smart apps are offering the opportunity to assist with training and provide feedback to our users on the effectiveness of the prosthetic solution.

Modularity is a key element in prosthetic solutions offered by Össur. Modularity means that basic features and components are shared across a family of products, allowing users to customize their prosthesis if they would like to add specific modules. For example, the family of Pro-Flex® feet, one of our high-end product lines, shares the same carbon fiber base plate, and the combination of additional blades and other mechanical components result in a unique function in line with each user profile's needs.

Modularity enables efficiency in stock keeping and faster time to market for new solutions

Modular design allows modules to be reused and assembled in multiple ways. That increases production and stock keeping efficiency and, at the same time, increases the level of customization for users. Moreover, time to market for a new solution is faster when leveraging existing modules and proven technologies. This design approach results in clear benefits for the stakeholders involved; the provider, the end-users and Össur.



Bracing and supports

ACUTE INJURY INDICATIONS		PROPHYLACTIC	CHRONIC INDICATIONS		
1 Post surgical	2 Functional Healing	3 Protection	4 Knee pain relief	5 Mild to moderate OA	6 Moderate to severe OA

Continuum of care. This is what Össur's indication based product design for B&S is focused on.

Mobility impairments can range from acute injuries, where users can be fitted with braces that supplement the rehabilitation process, to chronic indications such as osteoarthritis (OA) that can be treated with an unloading brace. The continuum of care for knee ligament injury is a good example of a comprehensive product line. The process is illustrated above and further detailed below.

1. The immediate post-operative treatment for knee ligament injury consists of immobilization of the knee joint followed by progressive and controlled increase of the range of motion. This part of the treatment protocol is addressed with the Rebound® Post-Op Knee brace.
2. As healing occurs, a rehabilitation process with the Rebound® ACL functional healing brace begins. This brace is designed to accelerate the recovery from surgery.
3. Individuals who suffer this type of knee injury are often eager to return to pre-injury activities, such as skiing, basketball, or football that would put strain on the knee joint. The CTi®, which stabilizes the knee joint and protects the knee during these type of low to high impact activities, would be suitable.
4. Patients with a history of ACL rupture are at high risk of developing knee OA later in life. For early symptoms of OA, a new brace based on 3D knitting technology will be launched in 2018, that provides pain relief in the knee. Grounded in Össur's R&D expertise as the leading provider of OA solutions and Gibaud's over 100 years of textile experience, this is the first functional state of the art 3D knitted OA brace.
5. If the condition progresses to mild or moderate OA, the Unloader One® Lite brace is a sleek, low profile brace that unloads the knee by means of the clinically proven Dynamic Force System.
6. If the OA condition gets more severe, the Unloader One®is a comfortable, lightweight brace that provides excellent suspension and unloading leverage, helping to reduce pain, improve function and decrease the use of pain medication, as supported by clinical research evidence.

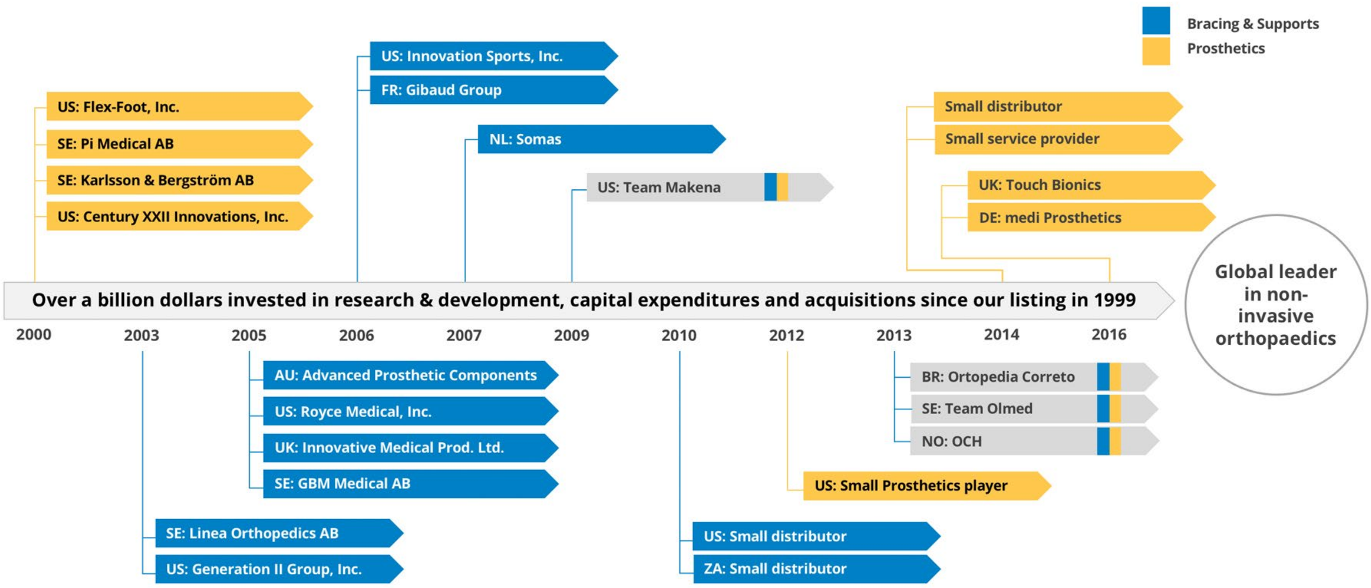
For early symptoms of OA, a new brace based on 3D knitting technology will be launched in 2018, that provides pain relief in the knee

Össur's R&D will continue to strive towards providing clinically proven non-invasive OA solutions to all major indications, with associated health economic benefits to the users and the health care system, in addition to validated functional healing solutions to enhance the body's natural healing process while maintaining maximum mobility.

Acquisitions

Since 1999, Össur has acquired more than 20 companies. In 2000, Össur made acquisitions that allowed the Company to become a global player in the field of prosthetics and the second largest player in the segment in the world. In the period from 2003-2007, Össur acquired several players operating in bracing and supports, allowing Össur to become the second largest player in that segment today. In the following years Össur made various acquisitions within both business segments, most recently Touch Bionics and Medi Prosthetics in 2016. The acquisitions are in line with Össur's overall acquisition strategy and ambition of becoming a top player in non-invasive orthopaedics, specializing in prosthetics and bracing and supports.

In 2013, Össur acquired three O&P clinics with the objective of better understanding the end-users needs. Össur is furthermore able to provide insights and assist providers with operational aspects such as patient treatment, custom manufacturing, and process optimization. Even though Össur focuses on strategic partnerships with providers, we will continue to explore the possibilities of forward integration should attractive opportunities arise.



Strategy

Össur's vision is to be the leading company in the non-invasive orthopaedic market. Össur's business improves people's mobility through innovative technologies within the fields of bracing & supports and prosthetics. Össur will continue to generate value for individuals and healthcare systems by focusing the business strategy on successful product and concept innovation, operational efficiency, and sustainable growth.

Main focus areas:

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.

Growth

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.

Efficiency

Do 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.

Good progress in our strategic focus areas in 2017

- Numerous high-end products developed in both prosthetics and bracing & supports
- Partnership with IUVO/COMAU to develop wearable bionic bracing
- Over 100 patents granted
- Over 30 collaborative research studies ongoing
- 16 peer reviewed publications by Össur research research partners

- 5% organic sales growth
- Over 40 new product solutions introduced to the market
- High-end innovative products such as RHEO KNEE® and Unloader One® showed excellent performance during the year
- Touch Bionics and Medi Prosthetics now a full part of Össur's global prosthetic offering
- Good progress with direct sales model in China

- Successful integration of Medi Prosthetics and Touch Bionics
- Efficiency initiatives launched in September 2017 progressing well
- Preparations begun to move part of the feet manufacturing and assembly from Iceland to Mexico manufacturing plant
- West Coast distribution center in the US to be moved to Mexico manufacturing plant in 2018
- Restructuring of own distribution companies finalized by year-end 2017

LIFE WITHOUT LIMITATIONS

VALUES

HONESTY

Stay True

FRUGALITY

Make Every Step Count

COURAGE

Aim Higher

Our People

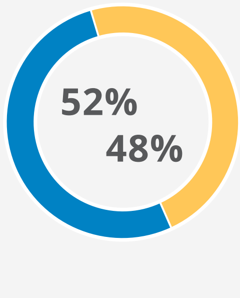
At Össur we nurture a spirit of innovation; we offer an open and vibrant environment where each employee can achieve his or her full potential. We live by a set of values that are the foundation for our strategy and success. Our core values are Honesty, Frugality, and Courage; and these values guide 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 over 3,000 employees working in over 25 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. While we work hard, we also have fun. Our employees' passion, drive, and capabilities to help our customers are our greatest assets.

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. If you are interested in joining our team you can view and apply for an open position on our applicant portal.

GENDER RATIO IN ÖSSUR



Values

Össur's core values ensure successful cooperation and partnerships, and are the foundation for our strategy and success.

Honesty

Stay True

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

Frugality

Make Every Step Count

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

Courage

Aim Higher

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

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 its given assumptions for the description of the risk is correct. Furthermore, additional risks and uncertainties which are listed in the next section, 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.

1 CHANGES IN REIMBURSEMENT

Description

Most of Össur's products and services are reimbursed by third-party payers, including both 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.

2 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 the Company's 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.

3 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.

4 INDUSTRY CONSOLIDATION AND FORWARD INTEGRATION

Description

Major shifts in Össur's market place 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

Össur is exposed to a range of other risks that have not been discussed in the previous section. Below is a list of other risks that Össur considers relevant but they are not listed in order of priority and the list is not exhaustive.

Össur's assumptions regarding market trends may prove incorrect.

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

Össur is subject to risks related to its international operations.

Headquartered in Reykjavík, Iceland, Össur has significant operations in the U.S. and Europe, as well as operations in Asia, Australia, Africa and South-America. Össur's business and operations are therefore subject to various risks inherent to international operations. Such risks include, among others, recessionary trends, inflation, instability of financial markets, exposure to different legal standards and enforcement mechanisms, trade barriers, rules regarding the origins of products, labor unrest, foreign exchange controls, human rights, corruption and political and social instability.

Product liability claims could adversely impact Össur's financial conditions,operations and reputation.

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

Össur's business is subject to healthcare industry reforms and legislative and regulatory changes.

Most of Össur's products and services are reimbursed by third-party payers, including both government healthcare programs and private health insurance plans. All third-party payers have developed and continue to develop increasingly sophisticated or aggressive methods of controlling healthcare costs, including review of claims, selective contracting and competitive bidding. These cost-control methods also potentially limit, or even eliminate the coverage and the amount of payment for which third-party payers may be willing to pay for medical products and services. As such, the continuing efforts of both governmental and private payers of healthcare to contain or reduce costs could lead to patients being unable to obtain approval for payment from these third-party payers. If that were to occur, sales of Össur's products and services may decline significantly and its customers may reduce or eliminate purchases. Reviews of claims may lead to repayment of prior sales. Future legislative or regulatory initiatives directed at reducing costs could be introduced. In addition, changing healthcare trends such as increasing premiums or deductibles for patients may have an adverse effect on Össur's business. The Company cannot predict the impact of future legislative or regulatory initiatives on its business.

O&P clinics depend on publicly and/or privately funded patients.

Insurance coverage varies greatly between countries and considerable sales and profit in Össur's O&P clinics are directly dependent on government contracts and tender business. Government contracts are subject to policy changes and subsequent loss in sales and profit. Tender contracts for O&P clinical services are regularly renewed and can be lost to competitors with a direct negative impact on the business.

Össur is required to comply with regulatory requirements and receive regulatory clearance and approval for its products or operations.

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 regulation can restrict virtually all aspects of a medical device's design and testing, manufacture, safety, labeling, storage, recordkeeping, reporting, clearance and approval, promotion, distribution and services. Failure to comply with the regulatory requirements of the applicable authority may subject a company to administrative or judicially imposed sanctions ranging from warning letters to criminal penalties or product withdrawal. Össur's failure to comply with regulatory requirements or receive regulatory clearance and approval for its products or operations, including healthcare fraud and abuse laws and regulations, would adversely affect Össur's sales and potential for future growth.

Össur is exposed to litigation from international investors.

Össur has an international shareholder base and is therefore exposed to risk of litigation from international investors.

Össur needs to attract and retain qualified and competent human resources.

Össur continuously works to attract and retain qualified and competent employees to maintain Össur's innovative edge and financial success. Failing to attract and retain key employees, managers and experts, or not developing them adequately, puts the Company at risk.

Össur is exposed to employee litigation, regulatory sanctions and strikes.

Össur is exposed to risk of litigation and regulatory sanctions for employment practices. The Company mitigates these risks by adhering to relevant policies and procedures, educating managers on best practices, monitoring changes to employment legislation and carrying insurance. However, the Company cannot guarantee that it will not be found liable in the future or that insurance coverage is sufficient or will continue to be available on commercially reasonable terms. Össur is also exposed to risk related to strikes.

Risk relating to acquisitions.

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

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

As a global business Össur is exposed to various risk factors originating in the international financial markets, among which are liquidity risk, interest rate risk, foreign exchange risk, credit risk and counterparty risk on cash held with financial institutions. These risk factors are managed according to internal rules that are outlined in the Company's treasury policy. Össur's functional and reporting currency is the U.S. dollar, hence fluctuations in local currencies can have an impact on the operations of the Company. Össur did not utilize derivatives or other financial instruments for hedging risk to currency fluctuations in 2016. However, the hedging policy was amended for 2017 to allow for active hedging of currency exposure that is not covered by the natural hedge in sales and costs by currency. In 2017 Össur entered into forward contract covering approximately half of the estimated ISK costs in 2017. Fluctuation in the exchange rates between the U.S. dollar, Euro, Icelandic krona and other currencies where Össur operates can therefore still have an impact on the financial condition and results of Össur's operations, even with the aforementioned hedge.

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

Össur is committed to complying with tax rules and paying all legally required taxes. At the same time, the Company has a responsibility to the shareholders to legally minimize costs and maximize earnings. Össur's tax strategy is to strive for optimizing taxes. The goal is to balance benefits against risks and costs while at the same time meeting reporting obligations, compliance obligations and corporate social responsibilities. Össur recognizes that some areas are not free from doubt and that differing legal interpretations may be possible, meaning that from time to time, tax authorities may not share or question Össur's interpretation. Also, relevant laws and regulations may change, resulting in higher taxes or requiring the company to change the tax and legal structure.

Össur is dependent on IT systems.

Össur's business is supported by several systems. The systems that are classified as mission critical are the ERP, warehouse, phone and email systems, as well as infrastructure like servers, networks, databases and storage systems. Failure in these systems can have a serious impact on the business, such as reduced or lost ability to receive orders, complete deliveries or manufacture products. To improve business continuity, Össur consolidated its IT systems into two reliable datacenters in EMEA and the U.S. that both serve as primary and disaster recovery sites where mission critical systems and data is replicated between centers.

Össur's activities are subject to privacy laws, which could have an impact on its operations.

Data privacy laws and regulations, including the Health Insurance Portability and Accountability Act in the U.S. regulate the transmission, maintenance, use and disclosure of protected health information. There are costs and administrative burdens associated with ongoing compliance with these data privacy laws and any failure to comply with current and applicable future requirements could adversely affect Össur's profitability.

Össur may be adversely affected by developments in medicine.

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

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

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

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

Össur relies on a combination of patents, trademarks, trade secrets and non-disclosure and non-competition agreements to protect its intellectual property, and will continue to do so. While Össur intends to defend itself against any threats to its intellectual property, there can be no assurance that these patents, trademarks, trade secrets or other agreements will adequately protect Össur. Although Össur's product design process has mechanisms in place to create, to the best possible extent, IPR freedom for the commercial exploitation of new products, the Company may be exposed to accusations of intellectual property rights infringement.

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

Third-party agents and distributors sell a portion of Össur's products. The Company's largest wholesale customer accounted for 5% of the Company's net sales at yearend 2016. Other distributors accounted for less than 2% of net sales for the same period. These agents and distributors are not employees of Össur and Össur may be unable to influence their actions and performance.

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

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

Össur may not maintain and increase its position as a market leader in non-invasive orthopaedics.

Össur's aim is to play a leading role in the likely continuance of consolidation in its markets. Össur's success is subject to multiple factors both internal and external. As for external factors, the risk remains that competitors may accelerate the consolidation of the market, and strengthen their own position, at the expense of other participants like Össur. Additionally, competition from emerging markets or new competitors could undermine Össur's market position. Össur also positions most of its products and services in the high-end market. Failing to provide sufficient evidence for higher value products and services to payers, customers and patients might result in a price shift or loss of business affecting the overall business of Össur. Össur also maintains its market position by relying upon a strong brand image and reputation, which creates a risk that the brand's position could be adversely affected by the actions of Össur's employees or brand ambassadors.

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

Össur's production and distribution facilities may be adversely affected by man-made or natural disasters. Össur has worked on certain risk ranking programs in all its main manufacturing and distribution facilities, and successfully reduced the level of risk and increased awareness among employees. However, a disruption of Össur's production facilities could adversely affect the Company's production output, which, in turn, would impair the Company's ability to fulfill customer orders. This could lead to a decline in sales and increased costs due to necessary shift in production within the Company and the possible need to outsource some production. The Company maintains insurance to cover such losses. No assurance can be given, however, that insurance payments would be sufficient to cover the full loss resulting from a disruption in Össur's production or that Össur's insurance would cover the event that causes the disruption.

Össur is dependent on certain critical product suppliers

Össur is dependent on suppliers that manufacture products for the Company. Failure to deliver products could adversely affect the financial results of the Company. To mitigate this risk Össur audits its critical suppliers on a regular basis and carries safety stock of all products.

Össur is dependent on certain critical raw materials.

Össur's products require silicone, carbon fibers, metals and other raw materials. Failure of supply of critical raw materials could adversely affect the financial results of the Company. To mitigate this risk Össur carefully selects suppliers of critical raw materials and carries safety stock of the raw materials.

Shareholder information

Össur shares were listed on Nasdaq in Iceland in 1999 and on Nasdaq Copenhagen in 2009. In December 2017, the trading of Össur shares was concentrated on Nasdaq Copenhagen following Nasdaq Iceland's decision to accept Össur's request to cancel the trading of Össur shares on Nasdaq Iceland. By concentrating the trading of Össur shares on Nasdaq Copenhagen, trading liquidity of Össur shares will increase with the expectation that price formation will be more effective for the benefit of all shareholders.

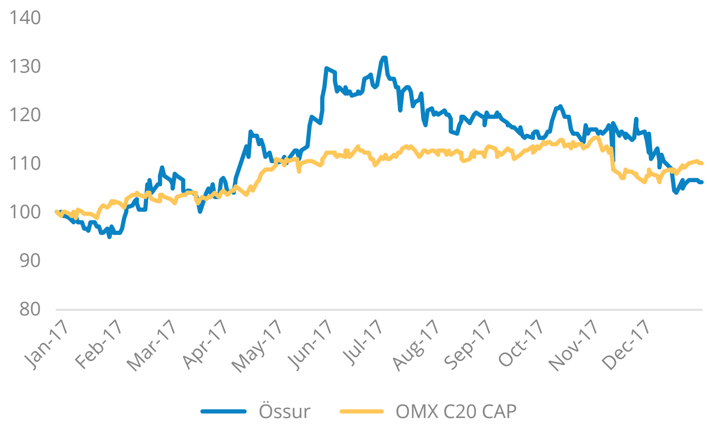
KEY INFORMATION TABLE

Market	ISIN	Ticker	Industry	Nr. of shares
CPH (DKK)	**IS0000000040**	**OSSR**	**Health Care**	**437,162,725**

Stock performance

Össur's share price increased by 6% in 2017, from DKK 25.2 per share at yearend 2016 to DKK 26.6 per share at yearend 2017. The rise in share price increased Össur's market capitalization from DKK 11.1 billion to DKK 11.6 billion corresponding to USD 1.9 billion at year-end 2017. Össur was the 38th largest company listed on Nasdaq Copenhagen when measured in terms of market value at year-end 2017.

SHARE PRICE DEVELOPMENT INDEXED

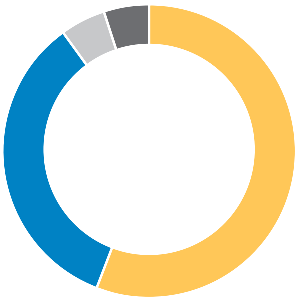


Over the past five years, Össur's stock has generated a compounded average annual return to shareholders of 29%.

Shareholders

The share capital of Össur is ISK 437,162,725 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 47.6% of the total shares and 48.6% of the voting rights at yearend 2017. It should however be noted that on 4 January 2018, WDI announced that its ownership had exceeded 50% and according to their announcement, WDI's intention is to hold between 50-60% of Össur's shares going forward. WDI is wholly owned by the Oticon Foundation, and 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 minority holdings in Jeudan A/S and Vitrolife AB.

At year-end, Össur had more than 4,000 shareholders of whom ~90% were Danish and Icelandic shareholders. The remaining ~10% of the shares are held by investors residing in other countries.



Shareholdings by country as of 31.12.2017

- **Denmark** 56%
- **Iceland** 32%
- **U.K** 6%
- **Others** 6%

Share buyback program

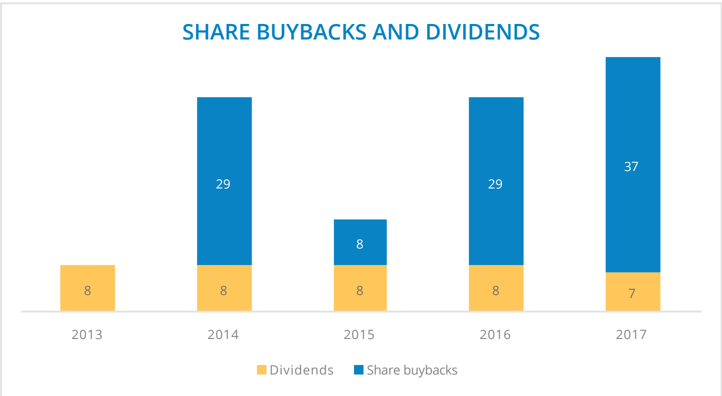
During 2017, Össur purchased 9,182,226 of own shares (approx. 2% of outstanding shares). The total purchase price was DKK 250 million (USD 37 million). The purpose of the share buy-back programs was to adjust the capital structure in line with a desired capital level of 1-2x net interest-bearing debt to EBITDA set out in Össur's Capital Structure and Dividend Policy. At yearend 2017, treasury shares totaled 9,079,662.

The Board of Directors will propose to the Annual General Meeting in 2018 to reduce the share capital by ISK 6,354,662 by way of cancelling 6,354,662 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 430,808,063.

Dividends

The Board of Directors will propose to the Annual General Meeting in 2018 that the Company pays a cash dividend of DKK 0.13 per share for 2017, equivalent to 16% of net profit in 2017, compared to DKK 0.12 per share for 2016.

Since 2013, Össur has paid out USD 142 million to shareholders in the form of share buybacks and dividends



Annual General Meeting

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 8 March 2018.

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 developments. Five sell-side equity analysts currently cover Össur.

Visit our website for financial reports, presentations, financial calendar, information on Össur and other downloads: ossur.com/corporate/investor-relations

Contact Investor Relations

David Hreidarsson

Investor Relations Manager

Tel.: +354 515 1380

e-mail: dhreidarsson@ossur.com

Corporate Governance

This statutory statement on corporate governance is made in accordance with Article 66 (c) of the Icelandic Financial Statements Act No. 3/2006 as amended. This statement has been approved by the Board of Directors and is published in the Annual Report and on the Company's website. This statement covers the financial year that ended on 31 December 2017.

This statement includes information on the following items:

- A reference to the corporate governance recommendations the Company follows and how the Company addresses the recommendations, including any deviations and explanations thereto.
- A description of the main aspects of the Company's internal controls and risk management systems in connection with preparation of financial statements.
- A description of the Company's organizational structure and the role of each function.
- A description of the Company's diversity policy relating to the Board of Directors and the CEO, the aim of the policy and execution.

1 Corporate Governance

The Company has chosen to follow the Danish Recommendations on Corporate Governance because the Company's shares are traded on Nasdaq Copenhagen and it is recommended in the explanations to clause 4.1 of Nasdaq Copenhagen's rules for issuers of shares to apply the Danish Recommendations if foreign companies are not subject to other rules. Applying the Danish Recommendations will also make it easier for investors on the Danish market to assess the Company's corporate governance practices.

This Corporate Governance Statement is prepared in accordance with the Danish Recommendations on Corporate Governance, issued by the Corporate Governance Committee in May 2013 and updated in November 2014, available on the Committee's website: www.corporategovernance.dk.

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

- The CEO is responsible for the execution of the Company's equal opportunities plan. The plan is not discussed annually within the Board of Directors.
- The Company's Articles of Association do not include a provision on a fixed retirement age for members of the Board of Directors. In the Board's opinion, age is irrelevant as long as the contribution of the respective member of the Board is considered valuable.
- The majority of the Board of Directors (3 of 5) is considered dependent. Two of the members of the Board represent the interest of the Company's controlling shareholder. One member has been on the Board for 19 years. The two other members of the Board are considered independent. In the Board's opinion it is normal and understandable that two out of five members of the Board represent the controlling shareholder. It is also the Board's opinion that its longest serving member is in fact acting independently of special interest and his skills and experience, including his medical expertise and knowledge of the US healthcare system, are valuable to the Board and ensures diversity within it.

- No nomination committee has been established and a remuneration committee was abolished in 2010 and the Company has not had such a committee since then. In the Board of Directors' opinion such committees are not necessary considering the size of the Board and the balanced and relevant expertise and experience of the current members of the Board. The Board has the role and responsibilities such committees would otherwise have.
- The Remuneration Policy does not include criteria that ensures that vesting period for variable components of remuneration agreements are longer than one calendar year. Bonuses for short-term performance may be paid quarterly, semi-annually, or annually. The Company believes it is important to have certain flexibility to pay out such bonuses. However, the Remuneration Policy states that if bonus payments have clearly been based on false, misleading, or insufficient data, such payments shall be repaid to the extent correct data shows that no or lower bonus would have been paid.

2 Main aspects of internal controls and risk management systems regarding preparation of financial statementsw

Internal controls

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

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

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

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

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

The responsibility for maintaining sufficient and effective internal controls and risk management regarding financial reporting lies with the CEO.

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

External Auditors

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

3 Organizational structure and the role of each function

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

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

Shareholders' Meetings

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

The Company's controlling shareholder, William Demant Invest A/S, held 47.6% of the shares and 48.6% of the voting rights at year-end 2017.

The Board of Directors

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

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

- Appoint a CEO to manage the Company's daily operations, decide on the salary and terms of employment, establish terms of reference and supervise the CEO's work.
- Supervise the Company's activities and ensure that the Company's organization and operations are in good and proper order.
- Establish goals for the Company in accordance with the Company's objectives pursuant to the Articles of Association, and formulate the policy and strategy required to achieve these goals.
- Ensure adequate surveillance of the accounting and financial management of the Company.
- Evaluate the Company's capital structure each year.

The Audit Committee

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

The Chief Executive Officer

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

The principal duties of the CEO are as follows:

- The CEO is responsible for daily operations and is obliged to follow the Board's policy and directions, within the limits provided for by the Articles of Association and law. The daily operations do not include measures that are unusual or extraordinary. The CEO may only take such measures if specially authorized by the Board, unless it is impossible to wait for the Board's decision without substantial disadvantage to the Company's operations. In such an event the CEO shall inform the Board of his measures, without delay. If the Board has granted the CEO an authority to sign on behalf of the Company and/or granted him with powers of procuration, such authorizations are not limited by the foregoing.
- The CEO shall decide on directorship in the Company's subsidiaries and associates on behalf of the Company.
- The CEO is responsible for the work and results of the Executive Management.
- The CEO shall ensure that the Company's consolidated financial statements are prepared in accordance with law and accepted practices and the Company's assets are handled in a secure manner.

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

Further information on the Board of Directors, the Audit Committee and the CEO can be found in the chapter relating to the Executive Management and Board of Directors and on the Company's website.on the Company's website.

4 Diversity policy

As with the Board and the CEO, the Company follows the provisions on gender equality set out in the Icelandic Companies Act No. 2/1995 as amended. The Board is composed of 3 men and 2 women. When nominating candidates to the Board, the Board shall, in accordance with the Board's Rules of Procedure, take into consideration the legal requirements as well as the composition of the Board and what kind of experience, knowledge, expertise and other qualities the candidate should possess. The Board applies similar criteria for the CEO.

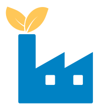
Össur also has Equal Opportunities Plan in place. The purpose of Össur's Equal Opportunities Plan is to ensure equal opportunities and equality of women and men within the Company. The goal is to utilize the skills, strengths and knowledge of employees in full, without gender-based discrimination. With this plan, the management and employees are at the same time reminded of the importance of everyone being able to reach their full potential regardless of sex, religion, opinion, nationality, race, sexual orientation, age or position, and to utilize equally the wealth inherent in the education, experience and attitudes of women and men.

The Equal Opportunities Plan is prepared in accordance with Icelandic Act No. 10/2008 on the Equal Position and Equal Rights of Women and Men. Reporting on the progress and objectives of the Equal Opportunities Plan is made in Össur's Corporate Social Responsibility report that is published on the Company's website.

Corporate Social Responsibility

Össur takes its responsibility to improve people's mobility seriously. Össur strives to change the perception of people with disabilities by providing products that help users to live lives without limitations.

Össur is a signatory of the UN Global Compact and of the UN Women's Empowerment Principle.



Environment

Key focus is on CO_2 emission, waste management and sustainable product design

Labor Practices

Key focus is on equal opportunities, safe workplace and employee participation

Human Rights

Key focus is on social compliance auditing of product suppliers

Anti-Corruption

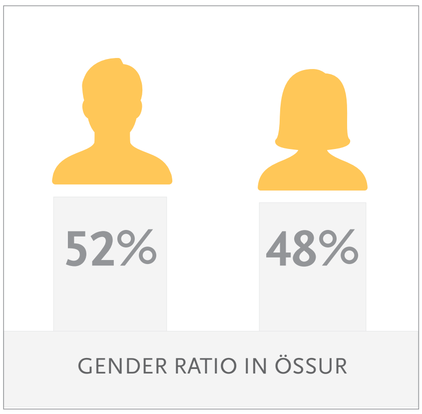
Key focus is on screening of distributors and education of key employees

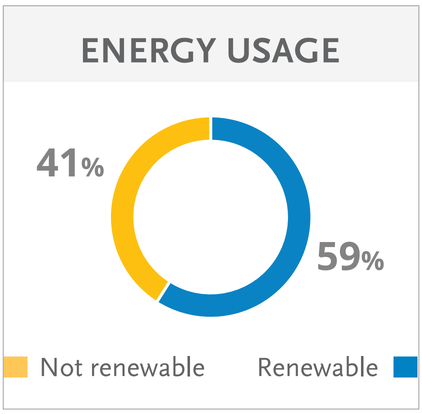
ESG Measurements

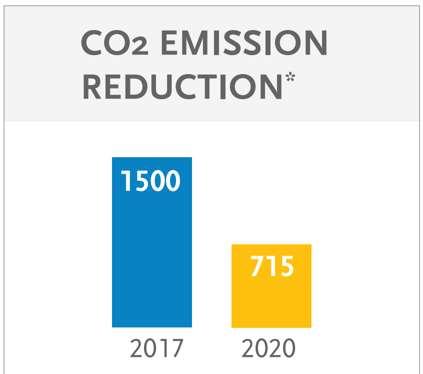
In March 2017 Nasdaq's Nordic and Baltic exchanges issued voluntary guidelines for ESG disclosure to support companies listed on these exchanges. The Nasdaq ESG (Environment, Social and Corporate Governance) Reporting Guide can be found on Nasdaq's website http://business.nasdaq.com/esg-guide/

Environment

Össur has an environmental management system in place and all its main locations are certified in accordance with ISO 14001:2015. Further details on Össur's environmental strategy and main initiatives can be found in the CSR report.







*Applies to the Head Office and manufacturing in Iceland.

ENVIRONMENTAL METRICS

Environmental Metrics	2017	2016	2015
E1 Direct & Indirect GHG Emissions (Össur Iceland only)			
Scope 1 (tons CO_2e)	43	41	38
Scope 2 (tons CO_2e)	49	47	51
Scope 3 (tons CO_2e)	730	670	1,390
E2 Carbon Intensity			
Kg CO_2e/item manifactured	1.0	0.8	1.5
E3 Direct & Indirect Energy Consumption			
Renewable Energy consumption (GJ)	30,090	27,690	27,710
Non-Renewable Energy consumption (GJ)	20,650	19,600	14,650
Renewable Energy generation (GJ)	600	0	0
E4 Energy Intensity			
Energy consumed per FTE (GJ/Employee)	44	44	43
E5 Primary Energy Source			
Coal (GJ)	620	870	680
Natural Gas (GJ)	920	1,310	850
Liquid Gas (GJ)	920	1,460	1,000
Oil (GJ)	18,120	15,860	12,050
Hydro and Geothermal (GJ)	28,910	26,390	26,740
Solar (GJ)	780	320	0
Wind (GJ)	410	990	400
Nuclear (GJ)	70	100	70
E6 Renewable Energy Intensity			
Renewable energy / Non-renewable energy	1.5	1.4	1.9
E7 Water Management			
Cold water consumed (m3)	80,000	112,000	
E8 Waste Management			
Waste recycled (tons)	360	380	300
Waste not recycled (tons)	360	520	440
Hazardous waste (tons)	130	150	150
Waste Intensity (kg/employee)	740	990	900
E9 Environmental Policy			
Does your company publish and follow an EP: Yes, No? If yes, the location of relevant public information should be declared.	Yes, see Össur website		
E10 Environmental Impacts			
Did your company bear any legal/regulatory responsibility for an environmental impact: Yes/No? If yes, the location of relevant public information should be declared.	No	No	No

THE GLOBAL COMPACT
WE SUPPORT

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.

Social

Here 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	**Measurement**	**Comments**
S1 CEO Pay Ratio	25	
S2 Gender Pay Ratio	Audits: equal pay for equal responsibility	Össur Headquarters is audited in accordance with the ISO standard on Equal pay for Equal responsibility ISO 85:2012 and Össur Americas complies with the Equal Pay Act in the USA
S3 Employee Turnover Ratio	13%	Excluding Mexico
S4 Gender Diversity	Male 52%, Female 48%	Historically Össur has had good balance beetwen male and female employees
S5 Temporary Worker Ratio	2.7	
S6 Non-Discrimination Policy	In Place	Össur Policies
S7 Injury rate	1.3	
S8 Global Health and Safety policy	In Place	Össur Policies
S9 Child & Forced Labor Policy	In Place	Össur Policies
S10 Human Rights Policy	In Place	Össur Policies
S11 Human Rights Violations	None	No Human rights violations were reported in 2017
S12 Board Diversity	Men 60%, Women 40%	No employees have a seat on the Board

Management

33%

Female
in management
positions

Incident Rate

1.3

Incident rate
pr. 100 employee
2017

Employee Satisfaction

4.4 of 5

Global Score
in a
Workplace Audit

Corporate Governance

Össur has various initiatives in place regarding fair operating practices such as regarding human rights and anti-corruption and bribery. Further details and progress on these initiatives can be found in Össur's CSR Report.

In respect of Corporate Governance reporting Össur complies with the Danish Recommendations on Corporate Governance. Further details on the Company's Corporate Governance Reporting can be found in the Corporate Governance Statement on page 42 and on Össur's web site: ossur.com/corporate/investor-relations/corporate-governance.

GOVERNANCE METRICS

Governance Metrics	Measurement/Status	Comments
G1 Board Separation of Powers	In Place	The CEO does not have a seat on the Board, act as Chairman or lead Committees
G2 Board - transparent practices	In Place	BOD Rules
G3 Incentivized pay	No	Remuneration Policy does not include ESG Strategy
G4 Fair Labor practices	In Place	Össur Policies
G5 Supplier Code of Conduct	In Place	Össur Policies
G6 Ethics - Code of Conduct	In Place	Össur Policies
G7 Anti-Corruption and Bribery	In Place	Össur Policies
G8 Tax transparency	In Place	Össur Policies
G10 Other Framework Disclosures	In Place	UN Global Compact, UN Women, Carbon Disclosure Project, Festa Declaration of Climate Issues
G11 External Validation & Assurance	No	

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

Past 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

660,708 (incl. related parties)

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 Technical University in Copenhagen (DTU).

Board positions

Federation of Icelandic Industries

Past 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.

Past 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.

Past experience

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

Shares held in Össur

14,100

Kim de Roy

EVP of Research and Development

Born in 1977

Education

Master's degree in Rehabilitation Sciences from the University of Leaven in Belgium.

Master's degree in Physiotherapy and Education from the University of Leaven in Belgium.

Bachelor degree in Orthotics and Prosthetics.

Past experience

Kim joined Össur in 2002 and spent 5 years in R&D working on various development projects in both prosthetics and bracing & supports. He subsequently held several leadership positions in Sales, Marketing and Education in EMEA. Kim led Global Marketing & Education for prosthetics, as well as the prosthetics sales in the Americas for five years. Prior to joining Össur, Kim worked for RSScan International in Belgium for 3 years.

Shares held in Össur

67,500

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.

Past 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

Past 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

Board of Directors

Niels Jacobsen
Chairman of the Board of Directors

Born in 1957

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)

Past 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

192,105 (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

Education

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

Past 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

619,539 (incl. related parties). Dr. Ragnarsson holds no 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

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)

Past 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

Education

Doctorate in Industrial Relations from the London School of Economics

Past 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 Eggertsdottir

Memer of the Board of Directors

Born in 1951

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)

Past 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.

Össur hf.

Consolidated Financial Statements

31 December 2017

Össur hf.
Grjothals 5
110 Reykjavik
Iceland

Össur hf.

Consolidated Financial Statements

31 December 2017

Table of Contents

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 2017. 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 2017 progress report, available on the Company's website: www.ossur.com/CSR.

The total sales of the Company amounted to USD 568.6 million (2016: USD 520.8 million) and increased by 9% from the preceding year. Organic local currency sales growth was 5%. Net profit amounted to USD 57.7 million (2016: USD 51.0 million). Diluted Earnings per Share amounted to US cents 13.3 (2016: US cents 11.6). Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to USD 97.4 million (2016: USD 93.9 million).

The total assets of the Company amounted to USD 793 million at year end, liabilities were USD 292.6 million and equity was USD 500.4 million. The equity ratio at year end was 63%, same as in the preceding year.

The Company employed on average 2,948 employees in 2017 (2016: 2,710) and 2,990 at year end (2016: 2,799).

Össur is listed on the NASDAQ Copenhagen Stock Exchange. The market value of the Company at year end was USD 1,871 million and the share price in DKK increased by 6% during the year. At year end, shareholders in Össur numbered 2,550 compared to 4,014 at the beginning of the year. The decrease is due to the concentration of trading in Nasdaq Copenhagen when about 1,600 shareholders that held shares listed in Iceland were consolidated in the nominee account Clear Stream Banking. The ten largest shareholders and their ownership percentage are: William Demant Invest A/S - 47.6%, Clear Stream Banking - 23.8%, JP Morgan Chase Bank - 5.6%, Arbejdsmarkedets Tillægspension (ATP) - 5.0%, Arion Bank - 3.3%, Landsbankinn Bank - 3.1%, SEB Stockholm - 2.4%, Össur hf. - 2.1%, BNP Paritabs Securities Services - 0.7% and Deutsche Bank - 0.5%. William Demant Invest A/S (WDI) ownership in Össur exceeded 50% in January 2018. According to WDI's announcement, their current intention is to hold 50-60% of Össur's shares going forward and WDI has no intention of taking over Össur or delisting Össur's shares from Nasdaq Copenhagen. Furthermore, WDI has no intention of making changes to Össur's strategy, management, or operations.

A "Safe Harbor" share buyback program initiated on Nasdaq Copenhagen on 1 December 2016 ended on 14 August 2017. Össur acquired in total 2,159,883 shares under the program at the average price of DKK 29.26. On 15 August 2017 Össur initiated a new share buy-back program. The program is managed by Nordea, which make its trading decisions independently and without influence by the Company regarding the timing of the purchases. Transactions do not require clearance from the compliance officer and can be made at any time. The Company's purchases under the program are announced every Monday for the previous week. At yearend Össur had acquired 963,054 shares under the program. 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. There were no share options contracts exercised during the year.

Statement by the Board of Directors and President and CEO

In its procedures, the Board of Directors complies with the Articles of Association of the Company, the Board of Directors' Rules of Procedure and follows the Danish Recommendations for Corporate Governance issued by the Danish Committee on Corporate Governance. The Rules of Procedure address issues such as allocation of responsibilities and power of decision within the Board, independency issues, confidentiality etc. An Audit Committee is present within the Board. 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 and therefore complies with Icelandic law on gender ratio which came in effect on the 1st of September 2013. No Össur employee sits on the Board of Directors.

The Board of Directors will propose to the Annual General Meeting in 2018 that the Company pays a cash dividend of DKK 0.13 per share for 2017, corresponding to approx. USD 9.1 million or 16% of net profit in 2017. Regarding changes in the equity of the Company, the Board refers to the Notes attached to the Consolidated Financial Statements. The Board of Directors will propose to the Annual General Meeting in 2018 to reduce the share capital by ISK 6,354,662 by way of cancelling 6,354,662 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 430,808,063.

The Board of Directors and President and CEO of Össur hf. hereby confirm the Consolidated Financial Statements of Össur for the year 2017 with their signatures.

Reykjavík, 5 February 2018

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, 2017, 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's financial position at December 31, 2017, 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 Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and Icelandic Institute of State Authorized Public Accountants, Code of Ethics (FLE) and we have fulfilled our other ethical responsibilities in accordance with the IESBA and the FLE 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 and other indefinite useful life intangible assets

Book value of goodwill and other indefinite useful life intangible assets at year end amounted to USD 414.7 million. The current year increase in the goodwill balance is USD 20.5 million, primarily due to change in purchase price allocation that was provisionally finalized in 2016 and net exchange rate difference.

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 and intangible assets 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 and intangible assets 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 and other indefinite intangible assets 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 and other indefinite useful life intangible assets. 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, understood variances between the forecast and actual results for the year ended 31 December 2017 and compared the forecast growth trends to historic trends;
• Comparing the long-term growth rates for each CGU to external market data;
• Access the appropriateness of the sensitivities applied by management to the impairment testing model including considering whether the scenarios represented reasonably possible changes in key assumptions. Performed further sensitivities 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 11 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 comprises the Company announcement for Q4 and full year result 2017 as well as Statement by the Board of Directors and President and CEO. Our opinion on the Consolidated 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 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 and President and CEO includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the Consolidated 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Company 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, 5 February 2018

Deloitte ehf.

Þorsteinn Pétur Guðjónsson

State Authorized Public Accountant

Signý Magnúsdóttir

State Authorized Public Accountant

Consolidated Income Statement 2017 and 2016

All amounts in USD '000	Notes	2017	2016
Net sales	2	568,621	520,748
Cost of goods sold		(213,832)	(192,310)
Gross profit		**354,789**	**328,438**
Other income / (expenses)		(39)	150
Sales and marketing expenses		(187,348)	(175,156)
Research and development expenses		(28,910)	(23,166)
General and administrative expenses		(63,672)	(58,095)
Earnings before interest and tax (EBIT)		**74,820**	**72,171**
Financial income		850	1,001
Financial expenses		(3,998)	(3,797)
Net exchange rate difference		(3,087)	315
Net financial income / (expenses)	7	(6,235)	(2,481)
Share in net profit / (loss) of associated companies	14	157	(1,273)
Earnings before tax (EBT)		**68,742**	**68,417**
Income tax	8	(11,081)	(17,419)
Net profit		**57,661**	**50,998**
Attributable to:			
Owners of the Company		57,645	51,029
Non-controlling interests		16	(31)
		57,661	**50,998**
Earnings per share	9		
Basic earnings per share (US cent)		13.4	11.6
Diluted earnings per share (US cent)		13.3	11.6

Consolidated Statement of Comprehensive Income 2017 and 2016

All amounts in USD '000	Notes	2017	2016
Net profit		57,661	50,998
Items that may be reclassified subsequently to profit or loss:			
Change in cash flow hedges		(801)	44
Exchange differences on translating foreign operations		18,470	(12,028)
Income tax relating to components			
of other comprehensive income		847	314
Other comprehensive income, net of income tax		**18,516**	**(11,670)**
Total comprehensive income		**76,177**	**39,328**
Attributable to:			
Owners of the Company		76,161	39,359
Non-controlling interests		16	(31)
		76,177	**39,328**

Consolidated Balance Sheet 31 December 2017 and 31 December 2016

Assets

All amounts in USD '000	Notes	31.12.2017	31.12.2016
Property, plant and equipment	10	55,981	52,837
Goodwill	11	414,663	394,123
Other intangible assets	12	45,013	45,592
Investment in associates	14	14,740	12,912
Other financial assets	15	7,119	6,464
Deferred tax assets	23	23,322	23,739
Non-current assets		**560,838**	**535,667**
Inventories	16	82,291	75,296
Accounts receivables	17	93,058	82,109
Other assets	18	19,577	18,233
Bank balances and cash	19	37,272	35,091
Current assets		**232,198**	**210,729**
Total assets		**793,036**	**746,396**

Consolidated Balance Sheet 31 December 2017 and 31 December 2016

Equity and liabilities

All amounts in USD '000	Notes	31.12.2017	31.12.2016
Issued capital and share premium	20	113,524	149,606
Reserves		(32,936)	(52,867)
Retained earnings		419,334	369,689
Equity attributable to owners of the Company		499,922	466,428
Non-controlling interest		539	763
Total equity		**500,461**	**467,191**
Borrowings	22	133,487	130,095
Deferred tax liabilities	23	22,308	28,626
Provisions	24	6,716	6,519
Other financial liabilities	25	3,222	0
Non-current liabilities		**165,733**	**165,240**
Borrowings	22	25,198	24,430
Accounts payable		23,448	17,810
Taxes payable		10,116	8,152
Provisions	24	4,314	5,741
Accrued salaries and related expenses		35,185	30,844
Other liabilities	27	28,581	26,988
Current liabilities		**126,842**	**113,965**
Total equity and liabilities		**793,036**	**746,396**

Consolidated Statement of Cash Flow 2017 and 2016

All amounts in USD '000	Notes	2017	2016
Earnings before interests and tax (EBIT)		74,820	72,171
Depreciation and amortization	10, 12	22,555	21,697
Loss on disposal of assets		72	57
Change in provisions		(875)	1,481
Change in inventories		(2,894)	(6,438)
Change in receivables		(5,628)	(2,724)
Change in payables		1,691	1,487
Cash generated by operations		**89,741**	**87,731**
Interest received		1,742	753
Interest paid		(4,637)	(3,216)
Income tax paid		(12,962)	(18,956)
Net cash provided by operating activities		**73,884**	**66,312**
Purchase of fixed and intangible assets	10, 12	(19,152)	(24,583)
Proceeds from sale of fixed assets		34	71
Acquisition of subsidiaries		(667)	(51,552)
Changes in financial assets		343	(10,880)
Cash flows (to) / from investing activities		**(19,442)**	**(86,944)**
Proceeds from long-term borrowings		774	53,357
Repayments of long-term borrowings		(25,610)	(7,490)
Changes in revolving credit facility		13,292	21,898
Payment of dividends		(7,340)	(7,813)
Increase in subsidiaries that does not affect control		(1,419)	(302)
Change in treasury shares		(36,083)	(27,750)
Cash flows (to) / from financing activities		**(56,386)**	**31,900**
Net change in cash		(1,944)	11,268
Effects of exchange rate changes on:			
Balance of cash held in foreign currencies		2,837	673
Other items held in foreign currencies		1,288	(2,557)
Cash at beginning of period		35,091	25,707
Cash at end of period		**37,272**	**35,091**

Consolidated Statement of Changes in Equity 2017 and 2016

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 2016	**4,986**	**169,538**	**1,267**	**856**	**51**	**(44,068)**	**329,312**	**461,942**	**1,085**	**463,027**
Net profit							51,029	**51,029**	(31)	**50,998**
Change in cash flow hedges					32			**32**		**32**
Translation difference of shares in foreign operations						(11,702)		**(11,702)**		**(11,702)**
Total comprehensive income for the period	0	0	0	0	32	(11,702)	51,029	**39,359**	(31)	**39,328**
Payment of dividends							(7,813)	**(7,813)**		**(7,813)**
Share option charge for the period				1,096				**1,096**		**1,096**
Share option vested during the period	11	4,361		(399)			(2,807)	**1,166**		**1,166**
Change in Non-controlling interests							(32)	**(32)**	(670)	**(702)**
Non controlling interest arising on acquisition								**0**	380	**380**
Purchase of treasury shares	(64)	(29,226)						**(29,290)**		**(29,290)**
Balance at 31 December 2016	**4,933**	**144,673**	**1,267**	**1,553**	**83**	**(55,770)**	**369,689**	**466,428**	**763**	**467,191**
Net profit							57,645	**57,645**	16	**57,661**
Change in cash flow hedges					(801)			**(801)**		**(801)**
Translation difference of shares in foreign operations						19,317		**19,317**		**19,317**
Total comprehensive income for the period	0	0	0	0	(801)	19,317	57,645	**76,161**	16	**76,177**
Payment of dividends							(7,340)	**(7,340)**		**(7,340)**
Share option charge for the period				1,415				**1,415**		**1,415**
Change in non-controlling interests							(685)	**(685)**	(239)	**(924)**
Sale of treasury shares		510					25	**535**		**535**
Purchase of treasury shares	(84)	(36,508)						**(36,592)**		**(36,592)**
Balance at 31 December 2017	**4,849**	**108,675**	**1,267**	**2,968**	**(718)**	**(36,453)**	**419,334**	**499,922**	**539**	**500,461**

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 Company has transferred its accumulated unrealised share in profit of its subsidiaries and associates from 1 January 2016 to a restricted retained earnings account. Unrealiased share is the amount of profit in subsidiaries and associates net of received or declared dividend payments. The amount of restricted retained earnings is USD 124 million at year end (2016: USD 89 million).

Notes to the Consolidated Financial Statements

1. Quarterly statements

		Unaudited			
	Full year 2017	**Q4 2017**	**Q3 2017**	**Q2 2017**	**Q1 2017**
Net sales	568,621	153,791	138,899	144,925	131,006
Cost of goods sold	(213,832)	(56,909)	(51,832)	(55,774)	(49,317)
Gross profit	354,789	96,882	87,067	89,151	81,689
Gross profit margin	62%	63%	63%	62%	62%
Other income / (expenses)	(39)	(10)	(21)	(41)	33
Sales and marketing expenses	(187,348)	(49,696)	(45,762)	(46,879)	(45,011)
Research and development expenses	(28,910)	(7,006)	(7,667)	(7,383)	(6,854)
General and administrative expenses	(63,672)	(15,623)	(17,298)	(15,889)	(14,862)
EBIT	74,820	24,547	16,319	18,959	14,995
Net financial income / (expenses)	(3,148)	(620)	(964)	(741)	(823)
Net exchange rate difference	(3,087)	(1,603)	(461)	(640)	(383)
Share in profit / (loss) of associated companies	157	(31)	88	86	14
EBT	68,742	22,293	14,982	17,664	13,803
Income tax	(11,081)	843	(3,835)	(4,455)	(3,634)
Net profit	**57,661**	**23,136**	**11,147**	**13,209**	**10,169**
EBITDA	97,375	30,438	22,066	24,440	20,431
EBITDA margin	17%	20%	16%	17%	16%
EBITDA before special items	102,955	30,438	25,066	27,020	20,431
EBITDA margin before special items	18%	20%	18%	19%	16%

EBITDA is calculated as earnings before interest, taxes, depreciation, 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 Group'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.

2. Net sales

	2017	**2016**
Specified according to geographical segments:		
EMEA	281,075	252,362
Americas	246,343	234,287
APAC	41,203	34,099
	568,621	**520,748**
Specified according to product lines:		
Bracing and Supports	285,423	279,692
Prosthetics	282,380	240,003
Other products	818	1,053
	568,621	**520,748**

Notes to the Consolidated Financial Statements

3. 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).

2017	**Americas**	**EMEA**	**APAC**	**Eliminations**	**Consolidated**
Sales					
External sales	246,343	281,075	41,203	0	568,621
Inter-segment sales	69,559	347,601	6,059	(423,219)	0
Total sales	315,902	628,676	47,262	(423,219)	568,621
Results					
Segment results	30,355	38,743	5,722	0	74,820
Net financial income / (expenses)					(6,235)
Share in net profit of associated companies					157
EBT					68,742
Income tax					(11,081)
Net profit					**57,661**
Balance sheet 31.12.2017					
Assets					
Segment assets	366,162	387,623	39,251	0	793,036
Liabilities					
Segment liabilities	68,478	219,391	4,706	0	292,575
Other information 2017					
Capital additions	5,900	12,731	521	0	19,152
Depreciation and amortization	7,374	14,662	519	0	22,555

Sales of approximately USD 27 million (2016: USD 23 million) arose from sales to the Company's largest customer.

2016	**Americas**	**EMEA**	**APAC**	**Eliminations**	**Consolidated**
Sales					
External sales	234,287	252,362	34,099	0	520,748
Inter-segment sales	59,390	244,551	854	(304,795)	0
Total sales	293,677	496,913	34,953	(304,795)	520,748
Results					
Segment results	31,669	35,274	5,228	0	72,171
Net financial income/(expenses)					(2,481)
Share in net profit of associated companies					(1,273)
EBT					68,417
Income tax					(17,419)
Net profit					**50,998**
Balance sheet 31.12.2016					
Assets					
Segment assets	355,293	359,782	31,321	0	746,396
Liabilities					
Segment liabilities	83,001	191,963	4,241	0	279,205
Other information 2016					
Capital additions	10,041	13,959	583	0	24,583
Depreciation and amortization	7,215	14,012	470	0	21,697

Notes to the Consolidated Financial Statements

4. Sales and expenses split by main currencies

	2017		
	LCY	USD	%
Sales			
USD	230,821	230,821	41%
EUR	141,606	159,830	28%
ISK	216,389	2,027	0%
Nordic curr. (SEK, NOK, DKK)		81,539	14%
Other (GBP, AUD, CAD & Other)		94,404	17%
		568,621	**100%**
COGS and OPEX			
USD	194,442	194,442	39%
EUR	97,428	110,008	22%
ISK	5,990,569	56,096	11%
Nordic curr. (SEK, NOK, DKK)		74,769	15%
Other (GBP, MXN, CAD & Other)		58,486	12%
		493,801	**100%**

	2016		
	LCY	USD	%
Sales			
USD	223,043	223,043	43%
EUR	127,566	141,117	27%
ISK	223,511	1,862	1%
Nordic curr. (SEK, NOK, DKK)		74,633	14%
Other (GBP, AUD, CAD & Other)		80,093	15%
		520,748	**100%**
COGS and OPEX			
USD	182,233	182,233	40%
EUR	87,803	97,843	22%
ISK	5,797,617	47,907	11%
Nordic curr. (SEK, NOK, DKK)		68,618	15%
Other (GBP, MXN, CAD & Other)		51,976	12%
		448,577	**100%**

LCY amounts are translated at average exchange rates for relevant periods.

Forward exchange contracts are not considered in this note. See further information on forward exchange contracts in note 30.4.

Currency split of newly acquired companies is derived by using best available information at each time.

5. Salaries

	2017	2016
Salaries	186,920	160,874
Salary-related expenses	37,933	32,645
	224,853	**193,519**

Included in salary-related expense are pension related expenses amounting to USD 11.0 million (2016: USD 8.4 million).

Full time employees (FTE) on average	2,948	2,710
Full time employees at period end	2,990	2,799

Notes to the Consolidated Financial Statements

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

	2017	2016
Cost of goods sold	67,453	54,967
Sales and marketing expenses	103,643	94,883
Research and development expenses	19,328	13,204
General and administrative expenses	34,429	30,465
	224,853	**193,519**

Management salaries and benefits

	Salaries		Shares owned (ii)	
Board of Directors:	**2017**	**2016**	**2017**	**2016**
Niels Jacobsen - Chairman of the Board(i)	91	89	208,237,072	188,154,919
Kristján Tómas Ragnarsson - Vice Chairman	55	53	619,539	619,539
Arne Boye Nielsen	37	36	0	0
Guðbjörg Edda Eggertsdóttir	37	36	26,318	26,318
Svafa Grönfeldt	37	36	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 192,105 shares.
(ii) Shares owned are displayed in total number of owned shares, not rounded to the nearest thousand.

2017	**Fixed base salary**	**Cash based incentive**	**Pension**	**Other benefits**	**Share based incentive**	**Total remuneration**
Executive Management:						
Jón Sigurðsson President and CEO(i)	992	594	0	153	349	2,088
Executive management (8 people) (ii	2,131	424	189	219	691	3,654
	3,122	**1,019**	**189**	**372**	**1,041**	**5,742**

2016	**Fixed base salary**	**Cash based incentive**	**Pension**	**Other benefits**	**Share based incentive**	**Total remuneration**
Executive Management:						
Jón Sigurðsson President and CEO(i)	949	466	0	154	292	1,861
Executive management (6 people) (ii	1,914	370	134	169	465	3,052
	2,863	**836**	**134**	**324**	**757**	**4,913**

(i) Shares owned by Jón Sigurðsson 660,708 (2016: 608,708)
(ii) Shares owned by members of executive management 981,609 (2016: 895,929). The executive management team consists of six persons at each time, two executive positions changed during the year.

6. Fees to auditors

	2017	2016
Audit of Financial Statements	1,153	967
Other services	394	351
	1,547	**1,318**

Notes to the Consolidated Financial Statements

7. Financial income / (expenses)

	2017	2016
Interests on bank deposits	367	635
Other financial income	483	366
Financial income	**850**	**1,001**
Interests on loans	(3,196)	(2,731)
Other financial expenses	(802)	(1,066)
Financial expenses	**(3,998)**	**(3,797)**
Net exchange rate differences	(3,087)	315
Net financial income / (expenses)	**(6,235)**	**(2,481)**

8. Income tax

	2017	2016
Current tax expenses	(15,821)	(16,603)
Deferred tax expenses	4,740	(816)
	(11,081)	**(17,419)**

	2017		2016	
	Amount	**%**	**Amount**	**%**
Profit before taxes	68,742		68,417	
Income tax calculated at 20%	(13,748)	20%	(13,683)	20%
Effect of different tax rates of other jurisdictions	(3,107)	5%	(2,650)	4%
Effect of non-deductible expenses / nontaxable income	380	(1%)	(119)	0%
Effect of change in tax rate	5,616	(8%)	(175)	0%
Other effects	(222)	0%	(792)	1%
	(11,081)	**16%**	**(17,419)**	**25%**

The 20% tax rate used for 2017 and 2016 in the above tax rate reconciliation is the statutory corporate income tax rate applicable to entities subject to tax in Iceland.

Deferred tax:	**2017**	**2016**
Origination and reversal of temporary differences	(876)	(663)
Losses (recognized) and utilized	0	22
Effect of changes in tax rate	5,616	(175)
	4,740	**(816)**

Notes to the Consolidated Financial Statements

Deferred tax recognised in the Consolidated Income Statement:

2017	1.1.2017	Recognized in Income statement	Recognized directly in equity (OCI)	Acquisitions / disposals	Exc. rate difference	31.12.2017
Goodwill	(6,727)	1,689			(42)	(5,080)
Intangible assets	(5,033)	568			(598)	(5,063)
Property, plant and equipment	(3,342)	385			33	(2,924)
Tax loss carry forward	5,689	(4,863)	1,543	309	105	2,783
Inventories	3,623	449		195	46	4,313
Provisions	1,404	191			21	1,616
Current liabilities	(914)	4,381			51	3,518
Receivables	384	657		360	(2)	1,399
Other	29	1,283	(1,010)		150	452
Total	**(4,887)**	**4,740**	**533**	**864**	**(236)**	**1,014**

2016	1.1.2016	Recognized in Income statement	Recognized directly in equity (OCI)	Acquisitions / disposals	Exc. rate difference	31.12.2016
Goodwill	(1,443)	(5,316)			32	(6,727)
Intangible assets	(4,495)	2,126		(2,743)	79	(5,033)
Property, plant and equipment	(3,333)	(40)			31	(3,342)
Tax loss carry forward	1,789	2,607		1,294		5,689
Inventories	2,034	1,125		464		3,623
Provisions	880	526			(2)	1,404
Current liabilities	901	(1,868)			53	(914)
Receivables	(86)	296		173	1	384
Other	128	(272)	190		(17)	29
Total	**(3,626)**	**(816)**	**190**	**(812)**	**177**	**(4,887)**

The Company has unused tax losses available for which no deferred tax asset is recognized. Per 31.12.2017 these unused tax losses amount to USD 2.9 million (2016: USD 2.7 million). Of this amount, USD 0.9 million of unused tax losses will expire in 8-10 years (2016: USD 0.9 million). The remaining tax losses carry an indefinite term.

9. Earnings per share

	2017	2016
Net profit	57,661	50,998
Total weighted average number of ordinary shares (in thousands)	430,638	439,259
Total weighted average number of shares including potential shares (in thousands)	432,449	440,678
Basic earnings per share (US cent)	13.4	11.6
Diluted earnings per share (US cent)	13.3	11.6
Cash earnings per share	18.6	16.5
Diluted cash earnings per share	18.5	16.5

Earnings per share before dilution is calculated as net profit, attributable to the Parent Company's shareholders, divided by the Parent Company's average number of shares outstanding for the fiscal year.
Cash earnings per share is calculated the same way as earnings per share with the exception that amortization / depreciation is added to the net profit.
Diluted earnings per share is calculated as net profit, attributable to the Parent Company's shareholders divided by the average number of shares outstanding plus the average number of shares that would be issued as an effect of ongoing share-based incentive programs.
Diluted cash earnings per share is calculated the same way as diluted cash earnings per share with the exception that amortization/depreciation is added to the net profit.
If there were potential shares redeemed or expired during the period, these are also included in the average number of shares used to calculate the earnings per share after dilution.

10. Property, plant and equipment

2017	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Computer equipment	Total
Cost					
At 1 January	11,527	77,828	30,257	13,182	132,794
Additions	81	8,655	2,958	2,828	14,522
Acquired on acquisition of subsidiary	0	186	0	0	186
Exchange rate differences	1,535	3,060	1,204	460	6,259
Eliminated on disposal	0	(1,158)	(49)	(750)	(1,957)
Fully depreciated assets	0	(3,617)	(100)	(2,191)	(5,908)
At 31 December 2017	13,143	84,954	34,271	13,529	145,896
Depreciation					
At 1 January	7,929	46,705	15,875	9,448	79,957
Charge for the period	374	7,868	3,544	1,930	13,716
Exchange rate differences	1,078	2,100	527	296	4,001
Eliminated on disposal	0	(1,075)	(32)	(744)	(1,851)
Fully depreciated assets	0	(3,617)	(100)	(2,191)	(5,908)
At 31 December 2017	9,381	51,981	19,814	8,739	89,915
At 31 December 2017	**3,762**	**32,973**	**14,457**	**4,789**	**55,981**

Depreciation classified by functional category:	2017	2016
Cost of goods sold	8,384	8,369
Sales and marketing expenses	2,025	1,632
Research and development expenses	833	541
General and administrative expenses	2,474	2,482
	13,716	**13,024**

2016	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Computer equipments	Total
Cost					
At 1 January	11,784	65,266	26,614	10,249	113,913
Additions	178	11,447	5,868	3,276	20,769
Acquired on acquisition of subsidiary	0	3,529	2,036	631	6,196
Exchange rate differences	(350)	(1,189)	(1,414)	(216)	(3,168)
Eliminated on disposal	0	(894)	(97)	(390)	(1,381)
Fully depreciated assets	(85)	(331)	(2,751)	(369)	(3,536)
At 31 December 2016	11,527	77,828	30,257	13,182	132,794
Depreciation					
At 1 January	7,913	38,748	14,755	7,961	69,377
Charge for the period	346	7,561	3,247	1,870	13,024
Acquired on acquisition of subsidiary	0	2,528	1,167	502	4,197
Exchange rate differences	(245)	(1,005)	(464)	(142)	(1,856)
Eliminated on disposal	0	(796)	(79)	(375)	(1,250)
Fully depreciated assets	(85)	(331)	(2,751)	(369)	(3,536)
At 31 December 2016	7,929	46,705	15,875	9,448	79,957
At 31 December 2016	**3,598**	**31,123**	**14,382**	**3,734**	**52,837**

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

Notes to the Consolidated Financial Statements

11. Goodwill

	2017	2016
At 1 January	394,123	369,238
Arising on acquisition of subsidiaries	0	35,065
Purchase price allocation	2,076	0
Exchange rate differences	18,464	(10,180)
At end of period	**414,663**	**394,123**

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. Further information on the purchase price allocation in the year 2017 can be found in note 28.

11.1 Allocation of goodwill to cash-generating units

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

	WACC %	31.12.2017	31.12.2016
Americas	9.3 / 8.9	235,673	221,211
EMEA	8.5 / 8.1	161,329	157,304
APAC	10/ 9.4	17,661	15,608
		414,663	**394,123**

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 2018 approved by management and the Board of Directors. The discount rate of 8.5 - 10.0% (2016: 8.1 - 9.4%) per annum was used.

Cash flow projections in the forecast are based on the same expected gross margins and raw materials prices throughout the period. Cash flows beyond 2022 have been extrapolated using a steady 3% per annum growth rate for all segments. This growth rate does not exceed the long-term average growth rate for the market in each market area. Management believes that any reasonable further change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

12. Other intangible assets

2017	Cust. / distrib relationships	Patents	Trademarks	Software and other	Total
Cost					
At 1 January	34,519	13,254	12,625	35,287	95,685
Additions	68	181	0	1,872	2,121
Additions - internally generated	0	0	0	2,509	2,509
Fully amortized assets	0	0	0	(1,513)	(1,513)
Exchange rate differences	3,060	1,076	1,828	695	6,659
At 31 December 2017	37,647	14,511	14,453	38,850	105,461
Amortization					
At 1 January	25,471	1,853	201	22,568	50,093
Charge for the period	2,523	806	158	5,352	8,839
Fully amortized assets	0	0	0	(1,513)	(1,513)
Exchange rate differences	2,293	128	237	371	3,029
At 31 December 2017	30,287	2,787	596	26,778	60,448
At 31 December 2017	**7,360**	**11,724**	**13,857**	**12,072**	**45,013**

Amortization classified by functional category:	2017	2016
Cost of goods sold	1,262	1,006
Sales and marketing expenses	4,503	5,406
Research and development expenses	1,113	505
General and administrative expenses	1,961	1,756
	8,839	**8,673**

Notes to the Consolidated Financial Statements

2016	Cust. / distrib relationships	Patents	Trademarks	Software and other	Total
Cost					
At 1 January	30,423	4,127	13,091	31,070	78,711
Additions	41	155	0	2,164	2,360
Additions - internally generated	0	0	0	1,454	1,454
Acquired on acquisition of subsidiary	5,616	10,699	347	2,877	19,539
Fully amortized assets	0	(441)	0	(1,662)	(2,103)
Exchange rate differences	(1,561)	(1,286)	(813)	(616)	(4,276)
At 31 December 2016	34,519	13,254	12,625	35,287	95,685
Amortization					
At 1 January	22,981	1,693	467	18,451	43,592
Charge for the period	3,269	406	113	4,885	8,673
Acquired on acquisition of subsidiary	45	263	0	1,168	1,476
Fully amortized assets	0	(441)	0	(1,662)	(2,103)
Exchange rate differences	(824)	(68)	(379)	(274)	(1,545)
At 31 December 2016	25,471	1,853	201	22,568	50,093
At 31 December 2016	**9,048**	**11,401**	**12,424**	**12,719**	**45,592**

The Gibaud trademark amounting to USD 13.4 million (2016: USD 11.8 million) is estimated to have infinitive life. The trademark has been well established within the French market since the foundation of the company in 1890.

13. The Consolidation

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 2017 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.

These Consolidated Financial Statements have been approved for issue by the Board of Directors and CEO on 5 February 2018. These Consolidated Financial Statements as presented in this report are subject to approval by the Annual General Meeting of Shareholders, to be held on 8 March 2018.

The Company is listed on the Nasdaq Copenhagen Stock Exchange.

The main operation is carried out in the following subsidiaries:

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. & Rehabilition 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

Notes to the Consolidated Financial Statements

14. Investments in associates

	2017	2016
At 1 January	12,912	8,355
Additions	3,053	5,831
Share in net profit / (loss)	2,607	(1,273)
Impairment of associates	(2,450)	0
Divident received	(1,396)	0
Exchange rate differences	14	(1)
At end of period	**14,740**	**12,912**

The Company has guaranteed credit lines of approximately USD 0.1 million (2016: USD 2.9 million) for its associates.

15. Other financial assets

	31.12.2017	31.12.2016
Restricted cash	1,023	906
Loans and receivables	6,096	5,558
	7,119	**6,464**

16. Inventories

	31.12.2017	31.12.2016
Raw material	19,405	16,338
Work in progress	5,644	5,022
Finished goods	57,242	53,936
	82,291	**75,296**

Inventories of USD 5.8 million (2016: USD 5.9 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 19.7 million (2016: USD 16.2 million) were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 5.2 million (2016: USD 4.7 million) is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

The cost of inventories recognized as an expense includes USD 1.6 million (2016: USD 2.0 million) in respect of write-downs of inventory to net realizable value. Reserve for obsolete inventories at year end is USD 5.2 million compared to USD 4.1 million in 2016.

17. Accounts receivables

	31.12.2017	31.12.2016
Nominal value	98,091	86,774
Allowances for doubtful accounts	(3,958)	(3,561)
Allowances for sales return	(1,075)	(1,104)
	93,058	**82,109**

The average credit period on sales of goods is 51 days (2016: 47 days). Allowance has been made for doubtful accounts and sales returns, this allowance has been determined by management in reference to past default experience. Management considers that the carrying amount of receivables approximates their fair value.

Aging of accounts receivables	31.12.2017	31.12.2016
Less than three months	86,206	73,084
Three to six months	6,724	6,486
Six to nine months	1,224	1,753
Older than nine months	3,937	5,451
	98,091	**86,774**

Notes to the Consolidated Financial Statements

Movement in the allowance for doubtful accounts	2017	2016
At 1 January	(3,561)	(2,183)
Impairment (losses)/gains recognized on receivables	(467)	(1,516)
Amounts written off as uncollectable	270	96
Exchange rate difference	(200)	42
At end of period	**(3,958)**	**(3,561)**

In determining the recoverability of accounts receivable, the Company considers any change in the credit quality of the accounts receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believe that there is no further credit provision required in excess of the allowance for doubtful accounts. Within accounts receivables are USD 10.5 million (2016: USD 8.9 million) with more than 30 days past due of which USD 6.6 million (2016: USD 5.4 million) is considered recoverable.

18. Other assets

	31.12.2017	31.12.2016
VAT refundable	2,741	2,915
Prepaid expenses	12,594	10,959
Taxes receivable	40	251
Other	4,202	4,108
	19,577	**18,233**

19. Bank balances and cash

	31.12.2017	31.12.2016
Bank accounts	33,584	32,171
Bankers draft received	3,536	2,867
Cash and other cash equivalents	152	53
	37,272	**35,091**

20. Issued capital and share premium

Common stock is as follows in thousands of shares:

	Issued shares	Treasury shares	Total
Balance at 1 January 2016	446,293	(2,592)	443,701
Cancellation of own shares	(3,292)	3,292	0
Sold treasury shares		1,300	1,300
Purchased treasury shares		(7,838)	(7,838)
Balance at 31 December 2016	443,001	(5,838)	437,163
Cancellation of own shares	(5,838)	5,838	0
Sold treasury shares		145	145
Purchased treasury shares		(9,225)	(9,225)
Balance at 31 December 2017	**437,163**	**(9,080)**	**428,083**

In accordance with resolutions from the Annual General Meeting on 9 March 2017, the share capital was decreased in April by ISK 5,837,832 by cancelling the Company's own shares of ISK 1 nominal value each.

The Company currently holds 9,079,662 own shares. In August 2017 the Company initiated a new share buyback program where it may purchase up to 5,000,000 shares, corresponding to 1% of the current share capital. At year-end 963,057 shares have been purchased.

Notes to the Consolidated Financial Statements

Movement in issued capital is as follows in USD thousands:

	Share capital	Share premium	Total
Balance at 1 January 2016	4,986	169,538	174,524
Sold treasury shares	11	4,361	4,372
Purchased treasury shares	(64)	(29,226)	(29,290)
Balance at 31 December 2016	4,933	144,673	149,606
Sold treasury shares	0	510	510
Purchased treasury shares	(84)	(36,508)	(36,592)
Balance at 31 December 2017	**4,849**	**108,675**	**113,524**

21. 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 in the OMX Copenhagen stock exchange over the 20 trading days prior to the issue date. The employee must remain continuously employed with the Company until expiring date, either as an employee or in any other way, deemed satisfactory by the Company.
Each employee share option converts into one ordinary share on exercise. No amounts are paid or payable by the recipient 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 26.9% to 28.0% and the annual discount rate range from -0.6% to -0.3%. 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	1,250,000	2015 / 2016	2018 / 2019	21.9 / 25.9	24.1 / 25.8
Members of executive management (6 persons)	875,000	2015	2018	19.4 / 21.9	19.0 / 24.1
Members of executive management (6 persons)	975,000	2016	2019	22.4 / 26.8	23.0 / 26.9
Members of executive management (3 persons)	675,000	2017	2020	25.0	26.1
	3,775,000				
Issued to management team:					
Seventeen managers	1,175,000	2015	2018	19.4 / 23.9	19.0 / 24.1
Fourteen managers	900,000	2016	2019	22.4 - 26.8	23.0 - 26.9
Seven managers	300,000	2017	2020	25,0 - 30,1	26,1 - 29,9
	2,375,000				
Total issued option contracts	**6,150,000**				

Movements in share options during the period:

	2017		2016	
	Number of shares	Weighted average contract rate (in DKK)	Number of shares	Weighted average contract rate (in DKK)
Outstanding at beginning of period	5,300,000	23.2	4,050,000	17.0
Granted during period	975,000	26.9	2,550,000	25.3
Forfeited during period	(125,000)	24.3	0	0.0
Exercised during period			(1,300,000)	7.8
Outstanding at end of period	**6,150,000**	**23.8**	**5,300,000**	**23.2**

There were no share options contracts exercised during the period.

Estimated remaining cost due to the share option contracts is USD 1.8 million. An expense of USD 1.4 million (2016: USD 1.1 million) is recognized in the Income Statement for the period. Exercise period of the share options contracts is 2018-2020.

Notes to the Consolidated Financial Statements

22. Borrowings

	31.12.2017		31.12.2016	
	Current	**Non-current**	**Current**	**Non-current**
Loans in USD	12,570	831	12,568	12,280
Loans in EUR	12,628	59,699	11,862	64,660
Revolver in USD	0	52,000	0	22,850
Revolver in EUR	0	20,957	0	30,305
	25,198	**133,487**	**24,430**	**130,095**

The current borrowings amounting to USD 25 million matures on 31.3.2018. The maturity of the revolving credit facility is Q2 2019. 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:

	31.12.2017	**31.12.2016**
In 2018 / 2017	25,198	24,430
In 2019 / 2018	85,701	24,630
In 2020 / 2019	11,914	63,674
In 2021 / 2020	11,866	10,125
Later	24,006	31,666
	158,685	**154,525**

Össur has a facility with ING, Nordea and SEB for a total amount of USD 170m (2016: USD 183m) as well as a EUR 50m (2016: EUR 50m) term loan with the Nordic Investment Bank. Both the facility and the term 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 are <100 bps +LIBOR/EURIBOR, changing in line with financial leverage.

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

			Non-cash changes			
	31.12.2016	**Cash flows**	**Acquisition**	**Exchange rate**	**Transaction cost**	**31.12.2017**
Borrowings	154,525	(11,544)	0	15,295	409	158,685

23. Deferred tax asset / (liability)

	2017	**2016**
At beginning of period	(4,887)	(3,626)
Income tax payable for the period	15,821	16,603
Calculated tax for the period	(11,081)	(17,419)
Arising on acquisition of a subsidiary	864	(812)
Recognized directly through equity	533	190
Exchange rate differences	(236)	177
At end of period	**1,014**	**(4,887)**
Deferred tax in the balance sheet:		
Deferred tax asset	23,322	23,739
Deferred tax liabilities	(22,308)	(28,626)
	1,014	**(4,887)**

Notes to the Consolidated Financial Statements

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

31.12.2017	**Assets**	**Liabilities**	**Net**
Goodwill	9,117	(14,197)	(5,080)
Intangible assets	767	(5,830)	(5,063)
Property, plant and equipment	147	(3,071)	(2,924)
Tax loss carry forward	2,783	0	2,783
Inventories	4,313	0	4,313
Provisions	1,621	(5)	1,616
Current liabilities	4,686	(1,168)	3,518
Receivables	1,486	(87)	1,399
Other	1,259	(807)	452
Total tax assets / (liabilities)	26,179	(25,165)	1,014
Tax asset and liabilities offsetting	(2,857)	2,857	0
	23,322	**(22,308)**	**1,014**

31.12.2016	**Assets**	**Liabilities**	**Net**
Goodwill	7,773	(14,500)	(6,727)
Intangible assets	1,201	(6,234)	(5,033)
Property, plant and equipment	21	(3,363)	(3,342)
Tax loss carry forward	5,689	0	5,689
Inventories	3,623	0	3,623
Provisions	1,419	(15)	1,404
Current liabilities	3,051	(3,965)	(914)
Receivables	418	(34)	384
Other	852	(823)	29
Total tax assets / (liabilities)	24,047	(28,934)	(4,887)
Tax asset and liabilities offsetting	(308)	308	0
	23,739	**(28,626)**	**(4,887)**

24. Provisions

2017	**Warranty provisions**	**Other provisions**	**Total**
At 1 January	5,356	6,904	12,260
Additional provision recognized	4,940	3,970	8,910
Utilization of provision	(3,995)	(6,494)	(10,489)
Exchange rate differences	11	338	349
At 31 December 2017	**6,312**	**4,718**	**11,030**
Non-current	3,062	3,654	6,716
Current	3,250	1,064	4,314
At 31 December 2017	**6,312**	**4,718**	**11,030**

2016	**Warranty provisions**	**Other provisions**	**Total**
At 1 January	5,029	2,928	7,957
Additional provision recognized	1,811	5,932	7,743
Utilization of provision	(1,450)	(1,885)	(3,335)
Exchange rate differences	(34)	(71)	(105)
At 31 December 2016	**5,356**	**6,904**	**12,260**
Non-current	1,895	4,624	6,519
Current	3,461	2,280	5,741
At 31 December 2016	**5,356**	**6,904**	**12,260**

Notes to the Consolidated Financial Statements

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

25. Other financial liabilities

Other financial liabilities consist of fair value of hedge contracts, fair value of a purchase option of minority shares and deferred income.

26. 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.

Transactions and balances with related parties:

	2017	**2016**
Sales of products	5,256	5,898
Receivables at 31 December	1,510	1,207
Other financial assets at 31 December	4,798	4,888

For disclosures relating to key management positions, refer to note 5.

27. Other liabilities

	31.12.2017	**31.12.2016**
Accrued expenses	20,117	17,420
Accrued royalties	793	684
Sales tax and VAT	4,789	3,458
Other	2,882	5,426
	28,581	**26,988**

28. Business combinations

In 2016 Össur acquired 100% of the share capital in Touch Bionics Limited and 100% of the share capital in Medi Prosthetics. The initial accounting for the acquisitions was provisionally determined at year end 2016. The final fair value of assets and liabilities have been determined based on management best estimate. None of the goodwill arising on this acquisitions is expected to be deductible for tax purposes. Changes from the preliminary fair value assessment done at end of 2016 is that fair value of accounts receivables and inventory have been lowered by a total of USD 2.7 million. Comparative amounts in the Balance sheet have not been adjusted for this change.

Assets acquired and liabilities recognized at the date of acquisition:

	Book value at acquisition date	Fair value changes (Original 2016)	Fair value changes (Change 2017)	**Total fair value**
Current assets	18,570	0	(2,650)	15,920
Non-current assets	6,190	16,304	0	22,494
Non-current liability	(7,442)	(1,342)	574	(8,210)
Current liabilities	(9,897)	(1,723)	0	(11,620)
	7,041	**13,239**	**(2,076)**	**18,584**

Consideration paid in cash	55,345
Book value of identifiable net assets acquired	(7,041)
Fair value of identifiable net assets acquired	(11,164)
Goodwill arising on acquisition	**37,141**

Notes to the Consolidated Financial Statements

29. Events after the reporting period

William Demant Invest A/S (WDI) has been a shareholder in the Company since 2004. In 2012 WDI made a voluntary public offer for shares in the Company to ensure flexibility for WDI as a controlling shareholder and so WDI would not become subject to a mandatory public offer later. At the time WDI intended to hold an average of 40-50% of the Company's shares. WDI's ownership in the Company exceeded 50% in January 2018. According to their announcement, WDI's current intention is to hold 50-60% of the Company's shares going forward. WDI has no intention of taking over the Company or delisting the Company's shares from Nasdaq Copenhagen. Furthermore, WDI has no intention of making changes to the Company's strategy, management, or operations.

30. Financial instruments

30.1 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 2016.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 22, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the equity overview.

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

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

	31.12.2017	31.12.2016
Net debt	121,413	119,434
EBITDA before special items	102,955	98,476
Net debt/EBITDA before special items	**1.2**	**1.2**

30.2 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 35 to the Consolidated Financial Statements.

30.3 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.

30.4 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.

In February 2017 Össur started actively hedging part of currency exposure that is not covered by the natural hedge in sales and costs by currency. The main exposure in this regard is the ISK, as Össur has very limited sales in ISK, while for 2017 11% of total costs were in ISK (see note 4). Össur has entered into forward contracts where it sells euros for ISK, covering approximately half of the estimated ISK costs in 2018. At balance sheet date Össur has twelwe forward contracts open, one for each month of 2018. The fair value of the contracts is negative of USD 0.8 million at year end 2017.

Notes to the Consolidated Financial Statements

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

	Liabilities		Assets	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
EUR	125,853	131,468	53,556	44,117
USD	87,919	71,683	51,767	6,472
SEK	15,245	12,060	17,522	15,610
GBP	3,449	3,515	6,378	5,456
Other	23,549	19,593	27,803	24,897
	256,015	**238,319**	**157,026**	**96,552**

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)	
	2017	2016	2017	2016
Net profit	3,948	3,063	(4,498)	(3,384)
Equity	10,172	5,807	(1,061)	(700)

(i) 22% (2016: 22%) of the Company's COGS and OPEX is in EUR against 28% (2016: 27%) of its sales causing an increase in profit if the USD decreases against the EUR.

(ii) 11% (2016: 11%) of the Company's COGS and OPEX is in ISK against 0.4% (2016: 0.5%) of its sales causing a decrease in profits if the USD decreases against the ISK.

In February 2017 the Company started hedging approximately 50% of its ISK exposure using forward currency contracts. This is not considered in the above calculations.

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

30.6 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 70.9 million (2016: USD 80.8 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
31.12.2017					
Borrowings	1.8%	28,324	137,309	0	165,633
Non-interest bearing liabilities	-	87,213	4,003	0	91,216
		115,537	**141,312**	**0**	**256,849**
31.12.2016					
Borrowings	1.9%	27,896	136,691	0	164,587
Non-interest bearing liabilities	-	75,637	5	0	75,642
		103,533	**136,696**	**0**	**240,229**

30.7 Credit risk management

The Company's counterparty credit risks arise mainly from short-term investment of liquid assets.

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

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

30.8 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.

	31.12.2017		31.12.2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:				
Borrowings	158,685	159,084	154,525	155,285

31. Operating lease arrangements

	2017	2016
Payments recognized as an expense	18,036	14,871

Non-cancellable operating lease commitments:	31.12.2017	31.12.2016
Less than 1 year	14,489	12,752
1 - 5 years	29,215	24,591
5+ years	9,013	10,985
	52,717	**48,328**

Operating lease payments represent rentals payable by the Company for certain of its office properties and cars. More than four hundred lease agreements are in place in multiple countries. The leases expire in the periods 2018-2026.

32. Litigation

The litigation with Vincent Systems in Germany, noted in 2016 Consolidated Financial Statements, is expected to be settled in Q1 2018.

33. Insurance

	31.12.2017		31.12.2016	
	Insurance value	Book value	Insurance value	Book value
Fixed assets and inventories	269,320	143,157	248,340	133,018

Notes to the Consolidated Financial Statements

The Company has purchased a business interruption insurance intended to compensate for temporary breakdown of operations. The insurance amount is USD 481 million (2016: USD 426 million). In addition the Company has a product and professional liability insurance with a USD 30 million limit and a product recall insurance with a USD 2 million limit. The deductible amount on the product and professional liability and product recall insurances is USD 25-50 thousand.

34. Adoption of new and revised Standards

34.1 Amendments to IFRSs that are mandatorily effective for annual periods beginning on or after 1 January 2017

The following amendments to IFRSs became mandatorily effective in the current year. The application of the below amendments has minor effect on the Consolidated Financial Statements.

• Amendments to IAS 7 Disclosure Initiative;

• Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses; and

• Amendments to IFRS 12 included in Annual Improvements to IFRS Standards 2014-2016 Cycle.

34.2 New and revised IFRSs that are not mandatorily effective

Below is a list of new and revised IFRSs that are not yet mandatorily effective (but allow early application) for the year ending 31 December 2017:

• IFRS 9 Financial Instruments;

• IFRS 15 Revenue from Contracts with Customers and the related Clarifications;

• IFRS 16 Leases;

• Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions;

• Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;

• Amendments to IAS 40 Transfers of Investment Property;

• Annual Improvements to IFRS Standards 2014-2016 Cycle; and

• IFRIC 22 Foreign Corrency Transactions and Advance Consideration.

Management of the Company have made preliminary estimate of the effect of the above changes on the Consolidated Financial Statements. They have concluded that the amendmends of the standards will have immaterial effects, except for IFRS 16. The effects of new standards are further discussed below.

IFRS 9 Financial Intruments (as revised in 2014) - Effective for annual periods beginning on or after 1 January 2018

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9, which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

Management believes that IFRS 9 does not have material effect on amounts reported in the Consolidated Financial Statements.

IFRS 15 Revenue from Contracts with Customers - Effective for annual periods beginning on or after 1 January 2018

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue Standards Interpretations upon its effective date, IAS 18 Revenue; IAS 11 Contstruction Contracts; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 18 Transfers of Assets from Customers; and SIC 31 Revenue-Barter Transactions Involving Advertising Services.

Based on Össur assessment of IFRS 15 the impact is non-material and limited to revenue recognition of additional warranties for bionic products that are occasionally sold separate from the product. In 2017 the amount sold in relation to additional warranties amounted to USD 0.2 million, that under the new standard would have been deferred.

Notes to the Consolidated Financial Statements

IFRS 16 Leases - Effective for annual periods beginning on or after 1 January 2019

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the following lease Standard and Interpretations upon its effective date, IAS 17 Leases; IFRIC 4 Determining whether an Arrangement contains a Lease; SIC-15 Operating Leases - Incentives; and SIC-27 Evaluating the Substance of Transactions involving the Legal Form of a Lease.

IFRS 16 introduces significant changes to lessee accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognise a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases or low value assets.

Össur has started an assessment of the impacts on its Consolidated Financial Statements and is implementing a new leasing system. Össur will recognize right to use assets and related liabilities. The nature of expenses related to those leases will change as IFRS 16 replaces the operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities reported under financing expenses. Össur will likely use the partial retrospective application which means comparatives do not need to be restated. The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices.

As can be seen in note 31, Össur paid USD 18 million for lease arrangements and of that USD 15 million for facilities. Note 31 also shows non-cancellable operating lease commitments amounting to USD 53 million of which USD 48 million relates to facilities.

35. Summary of Significant Accounting Policies

35.1 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.

35.2 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 Group takes into account the characteristics of the asset or liability if 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.

35.3 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.

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.

Notes to the Consolidated Financial Statements

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Company's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group'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.

35.4 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 generally 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.

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 IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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.

35.5 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 39 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 Group 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 IAS 39. 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.

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

35.6 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.

The Company's policy for goodwill arising on the acquisition of an associate is described at 35.5 above.

35.7 Revenue recognition

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

Sale of goods

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

Royalties

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

Interest revenue and dividend

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

35.8 Leasing

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

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

35.9 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.

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

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

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.

35.10 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 21.

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.

35.11 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.

Deferred tax

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

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

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

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

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

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

Current and deferred tax for the year

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

35.12 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	5 - 8 years
Fixtures and office equipment	5 years
Computer equipment	2 - 5 years

Notes to the Consolidated Financial Statements

35.13 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

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.

35.14 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.

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.

35.15 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.

35.16 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.

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.

35.17 Risk management

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

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

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

35.18 Financial assets

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

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

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

Derecognition of financial assets

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

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

35.19 Financial liabilities

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

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

Financial liabilities at fair value through profit or loss

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

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

Other financial liabilities

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

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

Derecognition of financial liabilities

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

35.20 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.

35.21 Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to interest rate and currency risk. Further details of derivative financial instruments are disclosed in note 30.

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

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

Hedge accounting

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

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

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

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.

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35.22 Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 35, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Details of impairment calculations are set out in note 11.

As described at 35.12, the Company reviews the estimated useful lives of property, plant and equipment at the end of each balance sheet date.

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