

Announcement Össur hf. No. 02/2013
Reykjavik, 6 February 2013

2012 results in line with guidance - Q4'12 a record quarter in bionics

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

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

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

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

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

Jón Sigurðsson, President & CEO, comments:

“This year has been yet another strong year in EMEA while it has been challenging in the US due to adverse market conditions. The fourth quarter was a record quarter in bionic sales and prosthetics sales in EMEA have been very strong during the year. Despite turbulence in the reimbursement systems in the US we experience the acceptance of our high-end solutions. One of our most advanced bionic products, POWER KNEE, was accepted into the reimbursement system in the US as of 1 January 2013. We are pleased to see the continued demand for high-end and quality solutions based on clinical and a health economical outcome”.

Amputees make history – In 2012 Oscar Pistorius made history when he became the first amputee to participate in the Olympics, competing against able body athletes. Oscar who is often called “Blade Runner”, competes on Össur's Flex-Foot Cheetah prosthetic legs. Again at the Paralympics disabled athletes inspired people all around the world and took one step closer to change the perception of what people with disability can accomplish.

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

Mexico – This year is the first full year of operation in the Mexico facility which opened in September 2011. The transfer of products previously manufactured in other Össur locations to the Mexico facility has been successful and without any major complications. The facility is well equipped and will continue to strengthen Össur's manufacturing capabilities.

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

Conference call tomorrow 7 February at 12:00 CET/ 11:00 GMT/ 6:00 EST

Tomorrow, Thursday 7 February Jón Sigurðsson, President and CEO, and Hjörleifur Pálsson, CFO, will host a conference call presenting and discussing the results of the fourth quarter and the full year of 2012. The conference call will be conducted in English and can be heard on Össur's website: www.ossur.com/investors

To participate in the meeting please call one of the following telephone numbers:
Europe: + 44 (0) 1452 555131 or + 46(0)8 506 307 79
The United States: + 1 866 682 8490
Iceland: 800 9300

Key Financial Figures (USD millions)

		2012	2011	2010	2009	2008
Income statements						
Net sales		399	398	359	331	347
Gross profit		248	246	223	202	214
Operating expenses (excl. Other income)		191	189	164	154	168
Profit from operations		57	59	60	48	56
Net profit		38	35	35	23	28
EBITDA		70	73	74	67	79
Balance sheets						
Total assets		591	580	607	628	604
Equity		408	365	344	312	250
Net interest-bearing debt (NIBD)		82	111	133	158	234
Cash flow						
Cash generated by operations		71	68	64	86	71
Cash provided by operating activities		58	48	40	69	53
Cash flows from investing activities		(27)	(19)	(19)	(16)	(7)
Cash flows from financing activities		(29)	(65)	(46)	(4)	(31)
Free cash flow		43	32	33	60	46
Sales growth						
Sales growth USD	%	0	11	9	(5)	4
Organic growth in LCY	%	3	5	6	(1)	2
Currency effect	%	(3)	3	(1)	(4)	2
Acquired/divested business	%	1	4	4	0	0
Key figures						
Operating margin	%	14	15	17	15	16
EBITDA margin	%	18	18	21	20	23
Equity ratio	%	69	63	57	50	41
Ratio of net debt to EBITDA		1.2	1.5	1.8	2.4	2.9
Ratio of debt to EBITDA		1.5	1.8	2.5	3.5	3.3
Current ratio		1.9	1.7	1.9	2.3	1.1
Return on equity	%	10	10	10	8	11
Market						
Market value of equity		606	676	778	529	349
Number of shares (millions)		454	454	454	454	423
Price/earnings ratio, (P/E)		15.8	20.0	22.3	23.2	12.3
Diluted EPS	US Cent	8.41	7.66	7.77	5.30	6.73
Diluted Cash EPS	US Cent	11.35	10.58	10.87	9.66	12.29

Notes

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

HIGHLIGHTS

External environment

The prosthetic market in the US has been facing challenges in 2012 due to audits from reimbursements authorities. These audits are made into payments by Medicare to O&P providers, focusing on documentation in relation to insurance billing for prosthetic products. Due to the audits demand for high end products has slowed down as the main focus of the audits has been on both high-end and high activity products. This has created uncertainty and operational challenges for O&P facilities and delayed service to the end users.

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

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

Overall pressure on healthcare costs continues, however key markets in EMEA and Asia have generally been healthy with good growth. Increased demand for high-end products in key markets in Europe and demand for high quality products and health economic outcomes continues.

Products

During 2012 Össur has had a steady flow of new products and launched 29 products; 13 bracing and supports products, 13 prosthetic products and 3 compression therapy products.

Sales of bionic products for the full year accounts for 14% of prosthetics sales, the same ratio as in 2011. Sales of bionic products in the US were good in the fourth quarter and excellent in Europe. The fourth quarter was a record quarter in bionic sales, accounting for 17% of prosthetics sales.

Indication based innovation and efforts to medically and clinically validate product development is increasingly a differentiating factor. Össur will continue to rely on clinical, health economical and functional outcomes in order to develop valuable concepts for individuals and healthcare systems.



Organizational changes

In 2012 a new division was established, Global Marketing. This unit is expected to work across functions and geographical locations to increase Össur's competitive edge in a changing market. Increased focus will be on effectively communicating the outcomes of Össur's solutions and to further add value to Össur's customer experience. Ólafur Gylfason, previously President of EMEA heads the new division as Executive Vice President of Global Marketing.

Taking over Ólafur's role is Jos Van Poorten, now Managing Director of EMEA. Jos has been with Össur for 10 years as the Financial director for Össur EMEA. Jos has a bachelor degree in Economics and a Master degree in Controlling from the University of Maastricht in Holland.

Össur's products exempt from the US medical device tax

In December the US Department of Treasury issued a final rule clarifying the applicability of a medical device tax created by the Affordable Care Act, the legislation that reforms US health care. The Department of Treasury has confirmed that the 2.3% tax on medical devices does not apply to neither prosthetics nor orthotic devices. While Össur does sell other products that may still be subject to the tax, the impact on Össur is not expected to be material as these products generate limited sales.

Paralympics

Team Össur members and Össur Ambassadors achieved extraordinary performance during the 2012 Paralympic Games. The group, which includes some of the world's best-known Paralympic athletes, captured a total of 21 medals. Out of the amputee track and field finalists, 2/3 used Össur prosthetic products such as the Flex-Foot Cheetah. Earlier during 2012 Oscar Pistorius made history being the first amputee to compete among able-bodied athletes at the Olympics. Talents like Oscar and other Team Össur members help to change the perception of disabled people by redefining ability.

INCOME STATEMENTS

(USD '000)	2012	% of sales	2011	% of sales	Change
Net sales	399,437	100.0%	398,325	100.0%	0.3%
Cost of goods sold	(151,485)	-37.9%	(152,255)	-38.2%	-0.5%
Gross profit	247,952	62.1%	246,070	61.8%	0.8%
Other income	102	0.0%	2,103	0.5%	-95.1%
Sales & marketing expenses	(120,924)	-30.3%	(119,313)	-30.0%	1.4%
Research & development expenses	(22,131)	-5.5%	(19,654)	-4.9%	12.6%
General & administrative expenses	(48,223)	-12.1%	(49,806)	-12.5%	-3.2%
Profit from operations	56,776	14.2%	59,400	14.9%	-4.4%
Financial income	153	0.0%	224	0.1%	-31.7%
Financial expenses	(6,788)	-1.7%	(10,845)	-2.7%	-37.4%
Net exchange rate difference	281	0.1%	(2,052)	-0.5%	-113.7%
Share in profit of associated companies	456	0.1%	104	0.0%	338.5%
Profit before tax	50,878	12.7%	46,831	11.8%	8.6%
Income tax	(13,115)	-3.3%	(12,223)	-3.1%	7.3%
Net profit for the period	37,763	9.5%	34,608	8.7%	9.1%
EBITDA	69,956	17.5%	72,606	18.2%	-3.6%

2011 figures are restated, see note 5 in the Financial Statements

Sales

Total sales amounted to USD 399 million compared to USD 398 million in 2011. Negative currency effects amounted to USD 11 million. Total sales growth is 3% both organic and measured in local currency.

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

EMEA delivered yet another good year, growing 5% both organic and measured in local currency. The prosthetics segment in EMEA continues to be strong with good growth in key markets such as Germany and France. In addition new markets such as Turkey and Russia are growing nicely. Sales of bionic products has been excellent in 2012 and Q4'12 was a record quarter in bionics sales. Sales of bracing and supports in France were slow, while sales growth in other markets were impressive. Sales initiative in France has not returned expected performance and will be scaled down.

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

Sales growth in Asia was excellent with 18% organic growth, measured in local currency. Sales in Japan continue to be strong both in bracing and supports and prosthetics as well as in other markets within Össur Asia. Japan is the single largest market within Össur Asia.

Sales by region

USD `000	2012	% of sales	Growth USD	Growth LCY	Organic growth LCY
Americas	207,999	52%	1%	1%	-1%
EMEA	169,932	43%	-2%	5%	5%
Asia	21,506	5%	18%	18%	18%
Total	399,437	100%	0%	3%	3%

Sales by segments

USD `000	2012	% of sales	Growth USD	Growth LCY	Organic growth LCY
Bracing & supports	208,255	52%	0%	3%	3%
Prosthetics	171,895	43%	1%	4%	2%
Compression therapy	18,440	5%	-1%	6%	6%
Other	847	0%			
Total	399,437	100%	0%	3%	3%

Gross profit

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

Savings from Mexico for the full year amounted to USD 4 million, as already communicated.

Operating expenses

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

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

Financial items, tax and net profit

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

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

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

EBITDA

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

BALANCE SHEETS

USD '000	31 Dec. 2012	31 Dec. 2011	Change
Non-current assets	450,949	438,404	3%
Current assets	140,214	141,564	-1%
Total assets	591,163	579,968	2%
Stockholders' equity	407,734	364,733	12%
Non-current liabilities	108,418	132,832	-18%
Current liabilities	75,011	82,403	-9%
Total equity and liabilities	591,163	579,968	2%
Current ratio	1.9	1.7	
Equity ratio	69%	63%	
Net interest bearing debt / EBITDA LTM	1.2	1.5	
Debt/EBITDA	1.5	1.8	

CASH FLOW

USD '000	2012	% of sales	2011	% of sales
Cash generated by operations	70,553	18%	68,377	17%
Net cash provided by operating activities	57,568	14%	48,447	12%

Össur's cash flow continues to be strong and has resulted in further deleveraging and net debt to EBITDA is now 1.2.

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

Annual General Meeting 2013

Össur's Annual General Meeting will be held at the Company's headquarters in Reykjavik, on 15 March 2013. Agenda and proposals for the Annual General Meeting will be disclosed no later than 3 weeks prior to the meeting, 22 February 2013.

Dividend Policy

The Company's current strategy is to retain earnings to finance future growth and strategic acquisitions, however as communicated in the full year report for 2011 the Board of Directors of Össur stated that the Company's dividend policy might be changed at the next Annual General Meeting.

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

The proposed new dividend policy is as follows:

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

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

Restatement of comparative figures

Comparative figures for 2011 have been restated due to an accounting error in the 2011 Financial Statements of a small majority held subsidiary. See further note 5 in the Financial Statements, 31.12.2012 page 22.

Income Statements Q4 2012

USD '000	Q4 2012	% of sales	Q4 2011	% of sales	Change
Net sales	98,395	100.0%	97,241	100.0%	1.2%
Cost of goods sold	(38,068)	-38.7%	(37,473)	-38.5%	1.6%
Gross profit	60,327	61.3%	59,768	61.5%	0.9%
Other income	275	0.3%	1,203	1.2%	-77.1%
Sales & marketing expenses	(31,254)	-31.8%	(30,375)	-31.2%	2.9%
Research & development expenses	(5,897)	-6.0%	(5,157)	-5.3%	14.3%
General & administrative expenses	(12,683)	-12.9%	(13,442)	-13.8%	-5.6%
Profit from operations	10,768	10.9%	11,997	12.3%	-10.2%
Financial income	42	0.0%	50	0.1%	-16.0%
Financial expenses	(1,274)	-1.3%	(2,193)	-2.3%	-41.9%
Net exchange rate difference	747	0.8%	(391)	-0.4%	-291.0%
Share in profit of associated companies	274	0.3%	27	0.0%	914.8%
Profit before tax	10,557	10.7%	9,490	9.8%	11.2%
Income tax	(2,486)	-2.5%	(2,341)	-2.4%	6.2%
Net profit for the period	8,071	8.2%	7,149	7.4%	12.9%
EBITDA	14,384	14.6%	15,603	16.0%	-7.8%

2011 figures are restated, see note 5 in the Financial Statements.

Q4 2012 highlights

Sales were slow and in line with management's communication on guidance. Sales growth was 2% and organic growth 1%, both measured in local currency. Bracing and supports sales were weak and declined by 1% and 2% organic, both measured in local currency while prosthetics sales were strong, or 8% growth and 6% organic, both measured in local currency.

Contractual adjustments to sales in one of Össur's distribution companies in Americas had material effect on sales and overall performance in the quarter. However EMEA and Asia continue to show good performance in both bracing and supports and prosthetics.

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Financial Calendar 2013	Date
2013 Annual General Meeting	15 March 2013
Q1 Results	24 April 2013
Q2 Results	24 July 2013
Q3 Results	23 October 2013
Q4 Results	5 February 2014
2014 Annual General Meeting	14 March 2014

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About Össur

Össur (NASDAQ OMX: OSSR) is a global leader in non-invasive orthopaedics that help people live a life without limitations. Its business is focused on improving people's mobility through the delivery of innovative technologies within the fields of braces, supports, prosthetic limbs and compression therapy, including the Flex-Foot Cheetah carbon fiber running prostheses used by "The Blade Runner", renowned double-amputee sprinter Oscar Pistorius. A recognized "Technology Pioneer", Össur invests significantly in research and product development; its award-winning designs ensuring a consistently strong position in the market. Successful patient and clinical outcomes are further empowered via Össur's educational programs and business solutions. Headquartered in Iceland, Össur has major operations in the Americas, Europe and Asia, with additional distributors worldwide. www.ossur.com

Forward-Looking Statements

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