Össur hf.
Consolidated Financial Statements
31 December 2023

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Statement by the Board of Directors and President and CEO

Össur is a global leader in non-invasive orthopaedics, innovating, producing, and providing advanced and innovative technological solutions within the prosthetics and bracing & supports market. Össur's mission is to improve the mobility of our end-users so they can live their Life Without Limitations®. The Company is headquartered in Iceland and owns and operates subsidiaries in multiple countries around the world. The Company sells its products worldwide, but its principal market are North America and Europe. The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2023 comprise the Company and its subsidiaries (together referred to as "the Company" or "Össur").

Össur's Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) accounting standards as adopted by the European Union and additional requirements in the Icelandic Annual Accounts Act no. 3/2006.

Operations in 2023

The total Net sales of the Company amounted to USD 785.7 million (2022: USD 718.7 million). Organic sales increase was 9%. Net profit amounted to USD 58.8 million (2022: USD 43.2 million). Diluted earnings per share amounted to US cents 14.0 (2022: US cents 10.3). Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to USD 139.3 million and 18% of sales (2022: USD 114.2 million, 16% and EBITDA before special items amounted to USD 128.2 million, 18%).

The total assets of the Company amounted to USD 1,385.7 million at year end (2022: USD 1,325.4 million), total liabilities were USD 680.7 million (2022: USD 689.9 million) and total equity was USD 705.0 million (2022: USD 635.5 million). The equity ratio at year end was 51% (2022: 48%).

The Company employed an average of 3,945 employees in 2023 (2022: 3,866) and 3,999 at year end (2022: 3,892). Information regarding salaries and salary related expenses can be found in note 6.

In 2023 Össur managed to grow the business across all regions and business segments. Sales grew 9% organically and increased 10% including acquisitions, attributed to strong volume growth in Prosthetics and Patient Care, positive solutions mix, impact from new product launches, and price increases in Prosthetics and Bracing & Supports.

Inflationary effects were evident in both labor and raw material cost, but freight cost declined by USD 5-6 million in 2023 compared to 2022. Freight cost declined in line with expectations, driven by lower freight rates and reduced volume shipped from Asia. Reduced freight cost was partly offset by temporary use of more expensive means of freight for some raw materials in line with strong sales performance.

Össur continues its progress in its strategic objectives to become a patient focused company by acquiring in January 2024, FIOR & GENTZ, a leading maker of lower limb neuro orthotic components. More details can be found in note 33.

Statement by the Board of Directors and President and CEO

Shareholders and share price

Össur's shares are admitted to trading on the Nasdaq Copenhagen stock exchange. The market value of the Company at year end was USD 1,713 million (2022: USD 2,035 million). The share price in DKK amounted to 27.45 at year end (2022: 33.55) and decreased by 18.2% during the year. At year end, registered shareholders in Össur were 4,675 compared to 4,736 at the beginning of the year. It should be noted that due to the concentration of trading in Nasdaq Copenhagen in 2017, about 1,600 shareholders that held shares listed in Iceland were consolidated into a few nominee accounts. The ten largest shareholders and their ownership percentage (net of treasury shares) are: William Demant Invest A/S - 52.1%, Islandsbanki Bank – 13.9%, Citibank Europe – 10.7%, Arbejdsmarkedets Tillægspension (ATP) - 5.2%, JP Morgan SE – 2.2%, SEB Sverigefond Smabolag Chans/Risk – 2%, State Street Bank – 1.6%, SEB Sverigefond Smabol – 1.5%, Clearstream – 1.2% and DNB Bank ASA – 1.2%. William Demant Invest A/S (WDI) ownership in Össur exceeded 50% in January 2018. According to WDI's announcement at the time, their intention is to hold 50-60% of Össur's shares going forward and they have 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.

Össur shares and stock options

At the Company's 2022 Annual general meeting on 29 March 2023 it was approved to reduce Össur's share capital by ISK 2 million nominal value by way of cancelling 2 million Össur's treasury shares. Therefore, following the capital reduction, Össur's total share capital is 421 million shares with a nominal value ISK 1 krona each.

At year end 2023 Össur held 0.7 million treasury shares that equals to 0.2% of issued shares. The remaining treasury shares held will be used to fulfill obligations under share option agreements that have vested or will be vesting in 2024. Share options are granted to management and selected employees. Total granted and unexercised share options at year end 2023 were 4.9 million shares (2022: 5.8 million shares), of which 3.3 million are exercisable before year end 2024 and the remainder between 2025 - 2026.

Dividend proposal

In line with the Company's Capital Structure and Capital Allocation Policy, the Board of Directors will propose to the Annual General Meeting in 2024 not to pay a cash dividend. With emphasis on prioritizing investments in growth opportunities, value-adding investment opportunities and acquisitions, Össur has decided to discontinue dividend payments and focus on returning excess capital to shareholders via purchase of treasury shares in accordance with the Company's Capital Structure and Capital Allocation Policy.

Statement by the Board of Directors and President and CEO

Corporate governance and risk management

The Company follows the Danish Recommendations for Corporate Governance issued by the Danish Committee on Corporate Governance, available at: https://corporategovernance.dk/. The Board of Directors complies with applicable Icelandic laws and regulations, the Articles of Association of the Company and the Board of Directors' Rules of Procedure, which addresses the Board's role and responsibilities. The Company's management structure consists of the Board of Directors and the Executive Management, led by the President and CEO. The two bodies are separate, and no person serves as a member of both. The Board of Directors is composed of five members elected by shareholders at each Annual General Meeting for a term of one year. The Board of Directors consists of two women and three men and is in compliance with Icelandic law on gender ratio. No Össur employee sits on the Board of Directors. The President and CEO manages the Company's daily operations.
The Board of Directors has established three committees, the Audit Committee, the Nomination Committee and the Remuneration Committee. The Audit Committee has three members from the Board, who are appointed by the Board of Directors for a term of one year. The Chairman of the Board and the Chairman of the Audit Committee sit on the Nomination Committee with the President and CEO and the Remuneration Committee. The committees comply with their respective Terms of Reference, which address their role and responsibilities etc.

An investment in Össur involves various risks as the business, financial conditions, and operational results rest upon certain assumptions and could have negative affect the Company. Even though the long-term prospects and underlying fundamental drivers of our markets are not expected to change, Össur highlights key risks which are currently considered the most relevant. The key risks identified are: reimbursement landscape, regulatory requirements, new technologies, industry consolidation and forward integration. Further description of these risks as well as other relevant material risks that Össur faces can be found in the Risk Management chapter of the Annual Report and Company's website. Information about financial instruments and financial risk management can be found in note 34.

The Board of Directors has an ongoing dialogue with the President and CEO on the identification, description and handling of the business risks to which the Company may be exposed. The Company's control framework in relation to financial processes, is designed to mitigate 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 auditor's role in these processes is included in the Independent auditor's report.

Sustainability at Össur

Sustainability is embedded into our strategy and throughout our organization. We have a robust sustainability agenda and capture our commitment under the theme of Responsible for Tomorrow® recognizing that the decisions and actions we take today, will affect future generations.

Our Sustainability Commitment is to provide products and services that contribute to good health, using responsible production methods and supporting climate action, while being a sponsor for inclusivity and transparency. We believe that sustainable growth is the only way to build a successful and responsible business for the benefit of future generations.

Our Environment

We take responsibility for our environmental impact and focus our efforts on our operations, our supply chain, and our products. We have set science-based targets and are actively working towards Net-zero operations by 2050. We are reducing the environmental impact in our supply chain, and of our products and services.

Statement by the Board of Directors and President and CEO

Our People
We take responsibility for enhancing the social well-being of our people and communities and focus our efforts on our customers, our employees, our suppliers, and our communities. We develop quality products and services that improve people's mobility, we nurture the well-being and development of our employees within a safe and inclusive work environment. We partner with suppliers that are committed to quality, and ethical and sustainable practices, and we create a lasting positive impact on our communities, helping more people to live a Life Without Limitations. Multiple policies have been approved and implemented to support and guide our employees and other stakeholders. Our policies are available on the Company's website: https://www.ossur.com/global/our-responsibility/our-commitments/policies.

Our Business
We lead our business with integrity and transparency, promoting sound governance practices in all our activities. In accordance with our values, we set high ethical standards, and we have a zero-tolerance policy when it comes to corruption and bribery. We guide our employees through our Code of Conduct and offer platforms for them and other stakeholders to voice any potential concerns through the Össur Speak-Up line. The Board approves a Corporate Governance report that includes all the information to be included in the statutory statement referred to in Article 66 (c) of the Icelandic Act Annual Accounts no. 3/2006, as well as explanations, comments and information on each recommendation in the Danish Recommendation for Corporate Governance. The report is available on the Company's website: https://www.ossur.com/global/investor-relations/corporate/reports.

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, in the Sustainability chapter to help provide fundamental understanding of the Company's development, performance and position on non-financial matters. Össur has obtained limited assurance according to ISAE 3000 for the information disclosed in the Sustainability chapter in the Annual report. Össur is required by the EU Taxonomy to disclose its alignment and eligibility of turnover, operating expenses and capital additions with six environmental objectives stated in the EU 2020/852 regulation. The results can be found in Sustainability chapter in Annual Report.

In 2023, Össur submitted our science-based targets to the Science Based Targets initiative (SBTi) for validation. Additionally, Össur has reported to CDP since 2022, signed the UN Women's Empowerment Principles in 2014 and joined the UN Global Compact in 2011. Össur has chosen six UN Sustainable Development Goals to contribute to, based on our sustainability commitment. Further information about Össur's sustainability activities and performance can be found in the Sustainability chapter in Annual Report.

Statement by the Board of Directors and President and CEO

Statement by the Board of Directors and the President and CEO
According to our best knowledge, it is our opinion that the Consolidated Financial Statements give a true and fair view of the consolidated financial performance of the Company for the year 2023, its assets, liabilities and consolidated financial position as at 31 December 2023 and its consolidated cash flows for the year 2023. Furthermore, it is our opinion that the financial statements and the report of the Board of Directors and the President and CEO contain a clear overview of developments and results in the Company's operations, its position and describe the main risk factors and uncertainties facing the Company.

In our opinion, the Consolidated Financial Statements of Össur hf. for the financial year 2023 identified as “ossur-2023-12-31.zip” are prepared in all material respects, in compliance with the ESEF Regulation.

The Board of Directors and President and CEO of Össur hf. hereby confirm the Consolidated Financial Statements of Össur for the year 2023 with their signatures.

Reykjavík, 30 January 2024

Board of Directors

Niels Jacobsen
Chairman of the Board

Svafa Grönfeldt
Vice Chairman of the Board of Directors

Alberto Esquenazi
Member of the Board of Directors

Arne Boye Nielsen
Member of the Board of Directors

Guðbjörg Edda Eggertsdóttir
Member of the Board of Directors

President and CEO

Sveinn Sölvason

Independent auditor's report

To the Board of Directors and the Shareholders of Össur hf.

Opinion

We have audited the accompanying Consolidated Financial Statements of Össur hf. and its subsidiaries (the Company) for the year 2023, excluding the Statement by the Board of Directors and President and CEO.

In our opinion, the Consolidated Financial Statements give a true and fair view of the consolidated financial position of the Company as at December 31, 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS accounting standards as adopted by the European Union (EU), and applicable articles in Icelandic law on annual accounts.

Our opinion is consistent with our additional report to the Audit Committee and Board of Directors.

The Consolidated Financial Statements comprise
- The Statement by the Board of Directors and President and CEO.
- The Consolidated Income Statement.
- The Consolidated Statement of Comprehensive Income.
- The Consolidated Balance Sheet.
- The Consolidated Statement of Cash Flow.
- The Consolidated Statement of Changes in Equity.
- Notes to the Consolidated Financial Statements, which include material accounting policies and other explanatory information.

The Statement by the Board of Directors and President and CEO are excluded from the audit, refer to section reporting on other information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. 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.

Independence

We are independent of the Company in accordance with Icelandic laws on auditors and auditing and the code of ethics that apply to auditors in Iceland and relate to our audit of the Company's Consolidated Financial Statements. We have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company are in accordance with the applicable law and regulations in Iceland and that we have not provided non-audit services that are prohibited under Article 5.1. of Regulation (EU) No. 537/2014.

The non-audit services that we have provided to the Company, in the period from 1 January 2023 to 31 December 2023, are disclosed in note no. 7 to the Consolidated Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor's report

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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.

Key audit matter

Impairment of goodwill

The book value of goodwill at year end 2023 amounted to USD 690.9 million.

The change in goodwill consists of additions due to current year business combinations amounting to USD 2.2 million as well as exchange rate profit amounting to USD 8.2 million.

The carrying value of goodwill and the related impairment test relies on the discounted expected future cash flows (value in use) which are complex to determine and require significant estimation by management. The estimates used by management include the determination of market and sales potential, timing of product launches, profit margins, discount rate assumptions and the determination of appropriate cash generating units.

Due to the relative sensitivity of certain inputs to the impairment testing process, and in particular the future cash flows of the cash generating unit, the valuation of goodwill is considered to be a key audit matter.

We refer to note no. 40 that explains the impairment and Company's accounting policies in further detail. We also refer to note no. 13 on goodwill and note no. 32 relating to the change in the Company due to the acquisition of other companies.

Audit procedures

Our audit procedures included:

- Understanding management´s process for assessing the goodwill for potential impairment, including discussions with management for indications of impairment of goodwill.

- Evaluation of the reasonability of the model used by management to calculate the value in use of the individual cash generation units and if it complies with the requirements of IAS 36 Impairment of assets. This entailed involving our internal specialists to assist with the audit procedures carried out in relation to the impairment of goodwill.

- Understanding and validation of assumptions used to calculate the discount rates and value in use, including evaluation of price and volume forecast, long-term growth rates, and mathematical accuracy of relevant value-in-use models prepared by management.

- Performing sensitivity analysis based on activity and our understanding of the future prospects to identify whether these scenarios could give rise to an impairment.

- Evaluation of the presentation and disclosure of impairment testing, ensuring compliance with applicable accounting standards.

Reporting on other information, including the Statement by the Board of Directors and President and CEO

The Board of Directors and President and CEO are responsible for other information. The other information comprises of the Statement by the Board of Directors and President and CEO, note no. 2 Quarterly statements and the Annual Report, which we obtained prior to the date of this auditor's report.

Our opinion on the Consolidated Financial Statements does not cover the other information, including the Statement by the Board of Directors and President and CEO.

Independent auditor’s report

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information identified above 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. In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in other information that we obtained prior to the date of this auditor’s report. We have nothing to report in this respect.

With respect to the Statement by the Board of Directors and President and CEO we have, in accordance with article 104, of the Icelandic law on annual accounts reviewed that to the best of our knowledge, the Statement by the Board of Directors and President and CEO accompanying the Consolidated Financial Statements includes applicable information in accordance with Icelandic law on annual accounts if not presented elsewhere in the Consolidated Financial Statements.

Responsibilities of the Board of Directors and President and CEO

The Board of Directors and the President and CEO are responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with IFRS accounting standards as adopted by the EU, and applicable articles in Icelandic law on annual accounts, and for such internal control as determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Company's management must provide appropriate explanations regarding its ability to continue as going concern, if applicable, and why management applies the presumption of going concern in the preparation and presentation of the Consolidated Financial Statements.

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

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing 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 International Standards on Auditing, we exercise professional judgement 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.

Independent auditor's report

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.

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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on European single electronic format (ESEF Regulation)

As part of our audit of the Consolidated Financial Statements of Össur hf. we performed procedures to be able to issue an opinion on whether the Consolidated Financial Statements of Össur hf. for the year 2023 with the file name ossur-2023-12-31.zip is prepared, in all material respects, in accordance with law no. 20/2021 Act on securities issuer obligations to issue information and self-report relating to requirements under the European single electronic format regulation EU no. 2019/815, which include requirements concerning preparation of the Consolidated Financial Statements in XHTML format and iXBRL markup.

The Board of Directors and President and CEO are responsible for preparing the Consolidated Financial Statements in accordance with law no. 20/2021. This responsibility includes preparing the Consolidated Financial Statements in a XHTML format in accordance to EU regulation no. 2019/815 on the European single electronic format (ESEF regulation).

Our responsibility is to obtain reasonable assurance, based on evidence that we have obtained, on whether the Consolidated Financial Statements are prepared in all material respects, in accordance with the ESEF Regulation, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirements set out in the ESEF regulation, whether due to fraud or error.

In our opinion, the Consolidated Financial Statements of Össur hf. for the year 2023 with the file name ossur-2023-12-31.zip is prepared, in all material respects, in accordance with the European single electronic format regulation EU no. 2019/815.

Independent auditor’s report

Appointment

We were first appointed as auditors at the Company's annual general meeting on 8 March 2022. Our appointment has been renewed annually at the Company's annual general meeting representing a total period of uninterrupted engagement appointment of two years.

Reykjavík, 30 January 2024

PricewaterhouseCoopers ehf.

Vignir Rafn Gíslason
State Authorized Public Accountant

Ljósbrá Baldursdóttir
State Authorized Public Accountant

Consolidated Income Statement

All amounts in USD '000	Notes	2023	2022
Net sales	3	785,683	718,650
Cost of goods sold		(300,110)	(278,902)
Gross profit		**485,573**	**439,748**
Other income / (expenses)		1,927	(2,296)
Sales and marketing expenses		(293,080)	(266,056)
Research and development expenses		(38,142)	(34,024)
General and administrative expenses		(66,891)	(72,529)
Earnings before interest and tax (EBIT)		**89,387**	**64,844**
Financial income		4,608	1,306
Financial expenses		(20,720)	(12,947)
Net exchange rate difference		(666)	2,612
Net financial expenses	8	(16,778)	(9,029)
Share in net profit of associates	15	3,398	357
Earnings before tax (EBT)		**76,007**	**56,172**
Income tax	9	(17,206)	(12,962)
Net profit		**58,801**	**43,210**
Attributable to:			
Owners of the Company		58,389	42,513
Non-controlling interests		412	697
Net profit		**58,801**	**43,210**
Earnings per share	10		
Basic earnings per share (US cent)		14.0	10.3
Diluted earnings per share (US cent)		14.0	10.3

Consolidated Statement of Comprehensive Income

All amounts in USD '000	Notes	2023	2022
Net profit		58,801	43,210
Items that may be reclassified subsequently to profit or loss:			
Change in cash flow hedges	24	963	(1,431)
Fair value changes of financial liabilities	29	93	0
Exchange differences on translating foreign operations		4,839	(23,968)
Income tax	22	811	(208)
Other comprehensive income, net of income tax		**6,706**	**(25,607)**
Total comprehensive income		**65,507**	**17,603**
Attributable to:			
Owners of the Company		65,095	16,906
Non-controlling interests		412	697
Total comprehensive income		**65,507**	**17,603**

Consolidated Balance Sheet

Assets

All amounts in USD '000	Notes	31.12.2023	31.12.2022
Property, plant and equipment	11	64,386	54,189
Right of use assets	12	121,673	125,131
Goodwill	13	690,855	680,400
Other intangible assets	14	65,841	62,003
Investment in associates	15	20,532	13,751
Other financial assets	16	4,530	3,719
Deferred tax assets	26	41,888	37,320
Non-current assets		**1,009,706**	**976,514**
Inventories	17	136,226	132,127
Accounts receivable	18	127,844	112,372
Other assets	19	39,253	27,717
Cash and cash equivalents	20	72,653	76,631
Current assets		**375,976**	**348,847**
Total assets		**1,385,682**	**1,325,361**

Consolidated Balance Sheet

Equity and liabilities

All amounts in USD '000	Notes	31.12.2023	31.12.2022
Issued capital and share premium	21	66,260	66,211
Reserves	22	(64,045)	(70,467)
Retained earnings		699,667	639,961
Shareholders equity		701,883	635,704
Non-controlling interest		3,123	(194)
Total equity		**705,005**	**635,510**
Borrowings	25	311,802	277,709
Lease liabilities	12	112,605	116,376
Deferred tax liabilities	26	28,777	29,596
Provisions	27	6,666	5,808
Deferred income	28	7,277	6,042
Other financial liabilities	29	17,351	17,314
Non-current liabilities		**484,478**	**452,844**
Borrowings	25	21,533	62,068
Lease liabilities	12	21,793	24,770
Accounts payable		30,749	28,653
Income tax payable		12,138	11,012
Provisions	27	11,322	19,325
Accrued salaries and related expenses		50,068	42,005
Other financial liabilities	29	9,583	18,524
Other liabilities	31	39,012	30,651
Current liabilities		**196,198**	**237,007**
Total liabilities		**680,676**	**689,851**
Total equity and liabilities		**1,385,682**	**1,325,361**

Consolidated Statement of Cash Flow

All amounts in USD '000	Notes	2023	2022
Earnings before interests and tax (EBIT)		89,387	64,844
Depreciation and amortization	11, 12, 14	49,920	49,365
Change in inventories		(2,268)	(28,620)
Change in receivables		(16,370)	(13,197)
Change in payables		14,896	10,942
Change in provisions		(7,365)	11,583
Other operating activities		(2,214)	(2,952)
Cash generated from operations		**125,986**	**91,965**
Interest received		4,733	1,581
Interest paid		(16,046)	(13,112)
Income tax paid		(20,349)	(19,663)
Net cash generated from operating activities		**94,324**	**60,771**
Purchase of fixed and intangible assets	11, 14	(42,278)	(25,942)
Acquisition of subsidiaries, net of cash in acquired entities	32	(11,903)	(41,784)
Other investing activities		(2,966)	1,465
Cash flows used in investing activities		**(57,147)**	**(66,261)**
Proceeds from long-term borrowings	25	0	52,833
Repayments of long-term borrowings	25	(13,202)	(65,797)
Changes in revolving credit facility	25	(1,575)	48,588
Payments of lease liabilities	12	(25,423)	(21,264)
Dividends from subsidiaries paid to non-controlling interests		(759)	(630)
Purchased treasury shares		0	(9,941)
Cash flows (used in) / generated from financing activities		**(40,959)**	**3,789**
Net change in cash		(3,782)	(1,702)
Exchange rate effects on cash held in foreign currencies		(196)	(6,864)
Cash and cash equivalents at beginning of period		76,631	85,197
Cash and cash equivalents at end of period		**72,653**	**76,631**
Non-cash financing and investing activities	20		

Consolidated Statement of Changes in Equity

All amounts in USD '000	Share capital	Share premium	Other reserves	Retained earnings	Share-holders equity	Non-controllin interests	Total equity
Balance at 1 January 2022	**4,795**	**70,776**	**(45,917)**	**591,932**	**621,586**	**5,009**	**626,595**
Net profit				42,513	**42,513**	697	**43,210**
Change in cash flow hedges			(1,141)		**(1,141)**		**(1,141)**
Transl. diff. of shares in subsidiaries			(24,466)		**(24,466)**		**(24,466)**
Total comprehensive income	0	0	(25,607)	42,513	**16,906**	697	**17,603**
Payment of dividends					**0**	(630)	**(630)**
Share option charge for the period			2,221		**2,221**		**2,221**
Share option vested during the period	1	579	(1,164)	245	**(338)**		**(338)**
Purchase of treasury shares	(16)	(9,925)			**(9,941)**		**(9,941)**
Change in non-controlling interests				5,270	**5,270**	(5,270)	**0**
Balance at 31 December 2022	**4,781**	**61,430**	**(70,467)**	**639,961**	**635,704**	**(194)**	**635,510**
Net profit				58,389	**58,389**	412	**58,801**
Change in cash flow hedges			770		**770**		**770**
Fair value changes of financial liabilities			70		**70**		**70**
Transl. diff. of shares in subsidiaries			5,866		**5,866**		**5,866**
Total comprehensive income	0	0	6,706	58,389	**65,095**	412	**65,507**
Payment of dividends					**0**	(759)	**(759)**
Put option for minority share in subsidiary			(825)		**(825)**		**(825)**
Share option charge for the period			1,759		**1,759**		**1,759**
Share option vested during the period	0	49	(1,218)	1,088	**(81)**		**(81)**
Change in non-controlling interests				229	**229**	3,665	**3,894**
Balance at 31 December 2023	**4,781**	**61,479**	**(64,045)**	**699,667**	**701,883**	**3,123**	**705,005**

For details on other reserves refer to note 22.

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. It requires retained earnings to be separated into two categories: restricted and unrestricted retained earnings. Profits, net of dividend, received from subsidiaries are classified as restricted retained earnings. The Company could, based on its control as the parent company, decide to let its subsidiaries pay dividends that would lower the restricted balance. As the Company has sufficient retained earnings from previous years, this legal act does not prevent the Company from making dividend payments to its shareholders.

Notes to the Consolidated Financial Statements

1. General information

Össur is a limited liability company incorporated and domiciled in Iceland. The address of its registered office is Grjothals 5, Reykjavik. Its ultimate controlling party is William Demant Invest A/S (WDI). The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2023 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 & supports products. The Company sells its products worldwide, but the principal markets are North America and Europe.

Össur’s Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) accounting standards as adopted by the European Union and additional requirements in the Icelandic Annual Accounts Act no. 3/2006.

The Consolidated Financial Statements are presented in US dollars and all values are rounded to the nearest thousand (’000), except when otherwise indicated. This rounding may have impact on the total sum. In preparing the Consolidated Financial Statements, the Company has applied the concept of materiality to the presentation and level of disclosure. It is the opinion of management that essential and mandatory information is disclosed which is relevant to an understanding of these Consolidated Financial Statements.

These Consolidated Financial Statements have been approved for issue by the Board of Directors and President and CEO on 30 January 2024. The Consolidated Financial Statements as presented in this report are subject to approval by the Annual General Meeting of Shareholders, to be held on 13 March 2024.

The Company is listed on the Nasdaq Copenhagen Stock Exchange.

2. Quarterly statements

		Unaudited			
	Full year 2023	**Q4 2023**	**Q3 2023**	**Q2 2023**	**Q1 2023**
Net sales	785,683	210,197	192,920	201,353	181,212
Cost of goods sold	(300,110)	(81,646)	(73,890)	(75,409)	(69,164)
Gross profit	485,573	128,551	119,030	125,944	112,049
Gross profit margin	62%	61%	62%	63%	62%
Other income	1,927	302	137	430	1,058
Sales and marketing expenses	(293,080)	(76,933)	(71,712)	(73,272)	(71,163)
Research and development expenses	(38,142)	(10,110)	(8,884)	(9,414)	(9,734)
General and administrative expenses	(66,891)	(17,179)	(14,577)	(18,666)	(16,470)
EBIT	89,387	24,631	23,994	25,023	15,739
Net financial expenses	(16,778)	(3,262)	(5,923)	(5,128)	(2,465)
Share in net profit of associates	3,398	2,799	(67)	682	(16)
EBT	76,007	24,169	18,004	20,577	13,257
Income tax	(17,206)	(5,154)	(4,131)	(4,705)	(3,216)
Net profit	**58,801**	**19,015**	**13,873**	**15,872**	**10,041**
EBITDA	139,307	37,487	36,271	37,372	28,177
EBITDA margin	18%	18%	19%	19%	16%

There were no special items in the year 2023.

Notes to the Consolidated Financial Statements

3. Net Sales

	2023	2022
Sales by geographical segment:		
Americas	384,057	350,749
EMEA	336,278	306,013
APAC	65,348	61,888
Total	**785,683**	**718,650**

Sales by business segment:		
Prosthetics	398,039	346,522
Bracing & Supports	146,500	143,121
Internal product sales	(38,952)	(31,083)
External product sales	505,587	458,560
Patient Care	280,096	260,090
Total	**785,683**	**718,650**

Presentation of sales by business segment has been changed in 2023, resulting in restatement of comparatives.

Sales of additional sold warranties and service checks included in standard warranties are deferred at point of sale, then released over the warranty period. Refer to note 40 for accounting policy on revenue recognition and warranty provisions and refer to note 28 for breakdown of revenues recognised over time and amounts deferred and released during the year. All other revenues are recognised at point of sale.

4. Segment Information

The identified operating segments comprise the three main geographical markets. These segments are EMEA (Europe Middle-East and Africa), Americas and APAC (Asia-Pacific). The geographical segments form the basis for managerial decision making. Information reported to the President and CEO for the purposes of resource allocation and assessment of segment performance focuses on geographical markets.

No single customer accounted for more than 10% of the Company‘s sales in 2023 or 2022.

2023	**Americas**	**EMEA**	**APAC**	**Eliminations**	**Consolidated**
Sales					
External sales	384,057	336,278	65,348	0	785,683
Inter-segment sales	134,309	470,317	4,631	(609,257)	0
Total sales	518,366	806,595	69,979	(609,257)	785,683
Results					
Segment results	40,895	41,062	7,430	0	89,387
Net financial expenses					(16,778)
Share in net profit of associates					3,398
EBT					76,007
Income tax					(17,206)
Net profit					**58,801**
Balance sheet 31.12.2023					
Segment assets	735,666	584,861	65,155	0	1,385,682
Segment liabilities	163,737	499,325	17,615	0	680,676

Non current assets other than financial instruments and deferred tax assets located in Iceland amounted to USD 101 million as per 31 December 2023.

Notes to the Consolidated Financial Statements

Other information	Americas	EMEA	APAC	Eliminations	Consolidated
Capital additions	13,760	27,317	1,201	0	42,278
Depreciation, impairment and amortization	16,374	30,899	2,647	0	49,920

The majority of inter-segment sale prices are determined using the Transactional Net Margin Method (TNMM).

2022	Americas	EMEA	APAC	Eliminations	Consolidated
Sales					
External sales	350,749	306,013	61,888	0	718,650
Inter-segment sales	103,506	454,827	13,072	(571,405)	0
Total sales	454,255	760,840	74,960	(571,405)	718,650
Results					
Segment results	24,597	34,977	5,270	0	64,844
Net financial income/(expenses)					(9,029)
Share in net profit of associates					357
EBT					56,172
Income tax					(12,962)
Net profit					**43,210**
Balance sheet 31.12.2022					
Segment assets	720,938	538,434	65,989	0	1,325,361
Segment liabilities	182,077	487,347	20,427	0	689,851

Other information	Americas	EMEA	APAC	Eliminations	Consolidated
Capital additions	6,350	18,350	1,242	0	25,942
Depreciation, impairment and amortization	16,899	28,929	3,537	0	49,365

5. Sales and expenses split by main currencies

		2023			2022	
	LCY	USD	%	LCY	USD	%
Sales						
USD	346,755	346,755	44%	320,039	320,039	45%
EUR	173,902	188,065	24%	154,664	162,914	23%
ISK	503,403	3,659	0%	337,268	2,483	0%
Nordic curr. (SEK, NOK, DKK)		93,268	12%		93,413	13%
Other (GBP, AUD, CAD & Other)		153,936	20%		139,801	19%
Total		**785,683**	**100%**		**718,650**	**100%**
COGS and OPEX						
USD	308,819	308,819	44%	312,567	312,567	48%
EUR	135,361	146,369	21%	108,448	114,789	17%
ISK	9,959,251	72,122	10%	8,787,768	65,084	10%
Nordic curr. (SEK, NOK, DKK)		85,118	12%		84,630	13%
Other (GBP, MXN, CAD & Other)		83,868	12%		76,736	12%
Total		**696,296**	**100%**		**653,806**	**100%**

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

Notes to the Consolidated Financial Statements

6. Salaries

	2023	2022
Salaries	269,126	243,112
Salary-related expenses	60,336	55,553
	329,462	**298,665**

Full time equivalent (FTE) on average	3,945	3,866
Full time equivalent at period end	3,999	3,892

Included in salary-related expense are pension related expenses amounting to USD 19.7 million (2022: USD 18.5 million).

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

	2023	2022
Cost of goods sold	78,774	69,309
Sales and marketing expenses	172,129	156,562
Research and development expenses	20,872	20,297
General and administrative expenses	57,687	52,497
	329,462	**298,665**

Management salaries and benefits

	Salaries		**Shares owned (ii)**	
Board of Directors:	**2023**	**2022**	**2023**	**2022**
Niels Jacobsen - Chairman of the Board(i)	108	103	219,493,992	219,493,992
Svafa Grönfeldt - Vice Chairman	72	62	0	0
Guðbjörg Edda Eggertsdóttir	43	41	26,318	26,318
Alberto Esquenazi	43	41	0	0
Arne Boye Nielsen	50	41	0	0

(i) Shares owned by William Demant Invest A/S which is represented by Niels Jacobsen on the Board. Niels Jacobsen and financially related parties own personally 203,330 shares (2022: 203,330 shares).
(ii) Shares owned are displayed in total number of owned shares, not rounded to the nearest thousand.

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

2023	**Fixed base salary**	**Cash based incentive**	**Pension**	**Other benefits**	**Share based incentive**	**Total remuneration**
Executive Management:						
Sveinn Sölvason President and CEO	576	385	85	27	107	1,180
Executive management (7 people) (ii)	2,465	859	309	32	727	4,392
	3,042	**1,243**	**395**	**59**	**834**	**5,573**

2022	**Fixed base salary**	**Cash based incentive**	**Pension**	**Other benefits**	**Share based incentive**	**Total remuneration**
Executive Management:						
Jón Sigurðsson, President and CEO until 31.3.2022	276	0	37	8	94	415
Sveinn Sölvason, President and CEO from 1.4.2022(i)	409	50	63	31	91	644
Executive management (9 people; 7 FTE)(ii)	2,302	214	305	25	815	3,661
	2,987	**264**	**406**	**63**	**1,000**	**4,720**

(i) Shares owned at year end by Sveinn Sölvason 68,342 (2022: 68,342)
(ii) Shares owned at year end by executive management 999,595 (2022: 994,938).

Notes to the Consolidated Financial Statements

7. Fees to Auditors

	2023	2022
Audit of Financial Statements	1,508	1,400
Other services	100	127
	1,608	**1,527**

The table shows the fees to PricewaterhouseCoopers (PwC) for 2023 and to PwC and other component auditors for 2022. Included in other services is USD 7 thousand (2022: Nil) which represents the fee to PricewaterhouseCoopers ehf. in Iceland, the auditor of the Consolidated Financial Statements.

8. Financial Income / Expenses

	2023	2022
Interests on bank deposits	3,448	779
Other financial income	1,160	527
Financial income	**4,608**	**1,306**
Interests on loans	(13,168)	(6,861)
Interest on leases	(4,791)	(4,343)
Other financial expenses	(2,761)	(1,743)
Financial expenses	**(20,720)**	**(12,947)**
Net exchange rate differences	(666)	2,612
Net financial expenses	**(16,778)**	**(9,029)**

Notes to the Consolidated Financial Statements

9. Income Tax

	2023	2022
Current tax expenses	(21,147)	(23,956)
Deferred tax expenses	3,941	10,994
	(17,206)	**(12,962)**

	2023		2022	
	Amount	**%**	**Amount**	**%**
Earnings before taxes	76,007		56,172	
Icelandic corporate tax rate	(15,201)	20%	(11,234)	20%
Difference between tax rates of non - Icelandic enterprises and Icelandic corporate tax rate	(2,966)	4%	(369)	1%
Impact of non-deductible expenses / non-taxable income	1,409	(2%)	(243)	0%
Impact of unrecognized tax assets, net	(971)	1%	(1,201)	2%
Effects of change in tax rate	73	(0%)	(122)	0%
Other impacts	450	(1%)	207	(0%)
	(17,206)	**23%**	**(12,962)**	**23%**

Deferred tax:	2023	2022
Origination and reversal of temporary differences	4,014	10,872
Effect of changes in tax rate	(73)	122
	3,941	**10,994**

Being part of the WDI consolidated group, the compliance and reporting on both country-by-country reporting and Pillar Two is done as part of WDI. Össur, as part of WDI group, is not expected to be materially impacted by OECD's/EUs Pillar Two Model Rules and local implementation thereof. Most countries in which the group has operations impose taxation in excess of 15% with the effect that most countries are covered by the transitional Safe Harbor rules. The limited countries not covered by the transitional safe harbor rules are still expected to show a GloBE effective tax rate (ETR) in excess of 15%. As such, OECD's/EU's Pillar Two Model Rules and local implementation thereof are expected to result in neither material increased tax payments nor changes to the group ETR.

10. Earnings per share

	2023	2022
Net profit	58,801	43,210
Weighted average number of ordinary shares (in '000)	420,297	417,758
Adjustments for calculation of diluted earnings per share:		
Options	21	73
Weighted average number of shares including potential shares (in '000)	420,318	417,831
Basic earnings per share (US cent)	14.0	10.3
Diluted earnings per share (US cent)	14.0	10.3

Notes to the Consolidated Financial Statements

11. Property, plant and equipment

2023	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Computer equipment	Total
Cost					
At 1 January	2,257	69,427	46,356	13,928	131,968
Reclassification	(1,680)	0	1,680	0	0
Additions	0	8,902	15,540	4,791	29,233
Business combinations	0	82	29	0	111
Eliminated on disposal	0	(4,098)	(3,846)	(280)	(8,224)
Fully depreciated assets	0	(3,258)	(3,624)	(3,795)	(10,677)
Exchange rate differences	19	646	1,116	297	2,078
At 31 December 2023	596	71,701	57,251	14,941	144,489
Depreciation					
At 1 January	474	41,900	26,129	9,276	77,779
Reclassification	(352)	0	352	0	0
Charge for the period	18	8,645	5,445	3,518	17,626
Eliminated on disposal	0	(3,131)	(2,589)	(234)	(5,954)
Fully depreciated assets	0	(3,258)	(3,624)	(3,795)	(10,677)
Exchange rate differences	3	306	859	161	1,329
At 31 December 2023	143	44,462	26,572	8,926	80,103
At 31 December 2023	**453**	**27,239**	**30,679**	**6,015**	**64,386**

Depreciation classified by functional category:	2023	2022
Cost of goods sold	9,129	8,945
Sales and marketing expenses	4,549	4,866
Research and development expenses	673	741
General and administrative expenses	3,275	3,170
Total	**17,626**	**17,722**

2022	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Computer equipments	Total
Cost					
At 1 January	1,606	72,331	46,081	17,359	137,377
Reclassification	57	148	1,268	(1,473)	0
Additions	217	7,973	4,402	3,955	16,547
Business combinations	495	1,212	266	4	1,977
Eliminated on disposal/divestment	0	(263)	(491)	(263)	(1,017)
Fully depreciated assets	0	(11,078)	(3,412)	(5,139)	(19,629)
Exchange rate differences	(118)	(896)	(1,758)	(515)	(3,287)
At 31 December 2022	2,257	69,427	46,356	13,928	131,968
Depreciation					
At 1 January	412	44,326	25,360	11,930	82,028
Charge for the period	201	9,176	5,310	3,035	17,722
Eliminated on disposal/divestment	0	(163)	(357)	(229)	(749)
Fully depreciated assets	0	(11,078)	(3,412)	(5,139)	(19,629)
Exchange rate differences	(139)	(361)	(772)	(321)	(1,593)
At 31 December 2022	474	41,900	26,129	9,276	77,779
At 31 December 2022	**1,783**	**27,527**	**20,227**	**4,652**	**54,189**

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

Notes to the Consolidated Financial Statements

12. Leases

Right of use assets

2023	Buildings & sites	Machinery & equipment	Total
At 1 January	122,647	2,484	125,131
Additions and renewals	15,033	2,077	17,110
Depreciation charge for the period	(20,566)	(1,934)	(22,500)
Eliminated on disposal and termination	(562)	(24)	(586)
Exchange rate differences	2,415	103	2,518
At 31 December 2023	**118,967**	**2,706**	**121,673**

Depreciation classified by functional category:	2023	2022
Cost of goods sold	8,982	8,471
Sales and marketing expenses	4,491	4,235
Research and development expenses	2,695	2,541
General and administrative expenses	6,332	5,930
Total	**22,500**	**21,177**

2022	Buildings & sites	Machinery & equipment	Total
At 1 January	123,992	2,739	126,731
Additions and renewals	27,815	1,770	29,585
Depreciation charge for the period	(19,319)	(1,858)	(21,177)
Eliminated on disposal and termination	(5,477)	0	(5,477)
Exchange rate differences	(4,364)	(167)	(4,531)
At 31 December 2022	**122,647**	**2,484**	**125,131**

Lease liabilities

Contractual maturities analysis as follows:	31.12.2023	31.12.2022
In 2024 / 2023	26,447	29,598
In 2025 / 2024	23,154	22,841
In 2026 / 2025	18,708	19,803
In 2027 / 2026	15,184	16,201
Later	76,132	78,994
Total	**159,625**	**167,436**
Less: Present value discount	(25,228)	(26,290)
Lease liability	**134,397**	**141,146**

Lease liabilities are presented in the Consolidated Balance Sheet as follows:		
Non-Current	112,605	116,376
Current	21,793	24,770
Total	**134,397**	**141,146**

Lease related expenses recognised in the Consolidated Income Statement:	2023	2022
Depreciation expense from right of use assets	22,500	21,177
Interest expense on lease liabilities	4,791	4,343
Exchange difference on lease liabilities	(1,173)	(2,974)
Short-term and low value lease expenses not included in lease liabilities	717	901
Termination of right of use asset	586	3,582
Total	**27,421**	**27,029**

Total cash outflow for leases	30,214	25,607

Notes to the Consolidated Financial Statements

At end of December 2022, one of the Company's main location was moved to a new facility without finalizing a buyout agreement. As a result, the right of use asset for the related lease was terminated to the amount of USD 3.6 million. The buyout agreement was signed in January 2023 and the remaining contractual payments paid, totaling USD 5.0 million. A non-current lease liability at end of the previous year amounting to USD 3.0 million was reclassified to current Lease liabilities.

13. Goodwill

	2023	2022
At 1 January	680,400	644,153
Business combinations	2,241	54,229
Exchange rate differences	8,214	(17,982)
At 31 December	**690,855**	**680,400**

During the year, the Company assessed the recoverable amount of goodwill and determined that none of the Company's cash-generating units have suffered an impairment loss.

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

	WACC % 2023/2022	31.12.2023	31.12.2022
Americas	11.1 / 10.4	453,621	452,451
EMEA	10.3 / 9.4	220,984	211,722
APAC	10.6 / 9.7	16,250	16,227
Total		**690,855**	**680,400**

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 2024 approved by management and the Board of Directors. A post-tax discount rate of 10.3 - 11.1% (2022: 9.4 - 10.4%) per annum was used. The pre-tax discount rate is 10.6 - 11.5% (2022: 9.7 - 10.7%).

Cash flow projections in the forecast are based on sales growth per year in line with the Growth ’27 strategy approved by the Board of Directors and gradual margin improvements of 0.4 - 0.5% per year throughout the period in line with historical margin increases. Cash flows beyond 2028 have been extrapolated using a steady growth rate of 2.5% (2022: 2.5%) for all cash-generating units. This growth rate does not exceed the long-term average growth rate for the market in each segment. Market growth is estimated to be 2-6% per year, for different products. Management believes that any reasonable change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

Notes to the Consolidated Financial Statements

14. Other intangible assets

2023	Cust./distrib. relationships	Patents	Trademarks	Software and other	Total
Cost					
At 1 January	36,939	25,009	2,803	50,242	114,993
Additions	109	3,548	52	712	4,421
Additions - internally generated	0	0	0	8,624	8,624
Fully amortized assets	(3,278)	(500)	0	(5,388)	(9,166)
Exchange rate differences	484	286	16	56	842
At 31 December 2023	34,254	28,343	2,871	54,246	119,714
Amortization					
At 1 January	27,039	6,857	501	18,593	52,990
Charge for the period	1,740	1,376	86	6,592	9,794
Fully amortized assets	(3,278)	(500)	0	(5,388)	(9,166)
Exchange rate differences	175	47	1	32	255
At 31 December 2023	25,676	7,780	588	19,829	53,873
At 31 December 2023	**8,578**	**20,563**	**2,283**	**34,417**	**65,841**

Amortization classified by functional category:	**2023**	**2022**
Cost of goods sold	628	143
Sales and marketing expenses	5,724	6,512
Research and development expenses	1,377	1,365
General and administrative expenses	2,065	2,446
Total	**9,794**	**10,466**

2022	Cust./distrib relationships	Patents	Trademarks	Software and other	Total
Cost					
At 1 January	38,278	19,460	1,863	48,839	108,440
Additions	158	2,180	98	748	3,184
Additions - internally generated	0	0	0	6,211	6,211
Business combinations	1,040	4,515	750	11	6,316
Eliminated on disposal	0	0	0	(305)	(305)
Fully amortized assets	(822)	(176)	0	(5,144)	(6,142)
Exchange rate differences	(1,715)	(970)	92	(118)	(2,711)
At 31 December 2022	36,939	25,009	2,803	50,242	114,993
Amortization					
At 1 January	25,319	5,986	300	17,999	49,604
Charge for the period	3,347	1,160	85	5,874	10,466
Eliminated on disposal	0	0	0	(74)	(74)
Fully amortized assets	(822)	(176)	0	(5,144)	(6,142)
Exchange rate differences	(805)	(113)	116	(62)	(864)
At 31 December 2022	27,039	6,857	501	18,593	52,990
At 31 December 2022	**9,900**	**18,152**	**2,302**	**31,649**	**62,003**

None of the Company's intangible assets are with restricted title or pledged as security.

Notes to the Consolidated Financial Statements

15. Investment in associates

	2023	2022
At 1 January	13,751	13,647
Additions	3,832	0
Share in net profit	3,398	357
Dividend received	(508)	(174)
Exchange rate differences	59	(79)
At 31 December	**20,532**	**13,751**

Included in share in net profit is an excess of the net fair value of identifiable assets and liabilities over the cost of investment acquired during the period amounting to USD 2.1 million.

16. Other financial assets

	31.12.2023	31.12.2022
Financial asset at amortized cost:		
Held to maturity securities	2,905	3,326
Restricted cash	491	393
Financial asset at fair value through Income Statement:		
Call option for shares in associates	1,134	0
	4,530	**3,719**

17. Inventories

	31.12.2023	31.12.2022
Raw material	43,913	39,179
Work in progress	19,202	17,238
Finished goods	73,112	75,710
	136,226	**132,127**

Inventories of USD 10.3 million (2022: USD 7.7 million) are expected to be sold or used in production after more than twelve months.

Inventories recognized as an expense during the period amounted to USD 237.6 million (2022: USD 226.4 million). Thereof USD 3.3 million (2022: USD 2.3 million) was recognized as an expense in respect of write-downs of inventory to net realizable value. There was no reversal of prior year write downs in the current year. The reserve for obsolete inventories at year end amounted to USD 5.6 million compared to USD 4.8 million in 2022.

None of the Company's inventories are pledged as security.

Notes to the Consolidated Financial Statements

18. Accounts Receivable

	31.12.2023	**31.12.2022**
Nominal value	132,920	117,324
Allowance for doubtful accounts	(5,076)	(4,952)
	127,844	**112,372**

The average credit period on sale of goods are 50 days (2022: 47.5 days). An allowance has been made for doubtful accounts. This allowance has been determined by management with reference to the expected credit loss (ECL). Management considers that the carrying amount of receivables approximates their fair value.

Movement in the allowance for doubtful accounts	**2023**	**2022**
At 1 January	(4,952)	(5,273)
Impairment (losses)/gains recognized on receivables	(283)	(145)
Amounts written off as uncollectable	141	368
Exchange rate differences	18	98
At 31 December	**(5,076)**	**(4,952)**

	31.12.2023				
Accounts receivable	**Gross carrying amount at default**	**Expected credit loss rate**	**Collective allowance (lifetime ECL)**	**Individual allowance**	**Net carrying amount**
Not past due	78,641	0.1%	80	307	78,254
Less than six months past due	43,961	1.9%	843	386	42,732
Six to twelve months past due	3,593	33.1%	1,190	165	2,238
More than twelve months past due	6,725	25.1%	1,689	416	4,620
	132,920		**3,802**	**1,274**	**127,844**

	31.12.2022				
Accounts receivable	**Gross carrying amount at default**	**Expected credit loss rate**	**Collective allowance (lifetime ECL)**	**Individual allowance**	**Net carrying amount**
Not past due	74,282	0.1%	100	144	74,038
Less than six months past due	35,585	1.7%	603	166	34,816
Six to twelve months past due	3,504	31.6%	1,109	55	2,340
More than twelve months past due	3,953	68.5%	2,709	66	1,178
	117,324		**4,521**	**431**	**112,372**

The expected credit loss on accounts receivable is estimated using a provision matrix with reference to past default experience, general economic conditions and an assessment of both the current as well as expected conditions, including time value of money where appropriate. Individual allowances and adjustments to the collective bad debt provision are made based on the individual assessment of customers' situation and probability of incoming payments. Refer to note 40 for further details related to accounting policies.

The Company writes off accounts receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

Notes to the Consolidated Financial Statements

19. Other assets

	31.12.2023	31.12.2022
Prepaid expenses	17,660	14,497
VAT refundable	5,524	4,364
Other	16,069	8,856
	39,253	**27,717**

20. Cash and cash equivalents

Cash and cash equivalents include bank balances, cash on hand and minor cash equivalents.

Non-cash investing and financing activities

Non-cash investing and financing activities disclosed in other notes are:

- Exchange rate differences on borrowings and amortization of borrowing cost – note 25. Borrowings
- Liabilities acquired in Business Combination – note 32. Business Combinations
- Assets acquired in Business Combination – note 32. Business Combinations
- Deferred payments and earnouts on acquisitions – note 32. Business Combinations
- Additions to right of use assets and lease liabilities - note 12. Leases
- Exchange rate adjustment on lease liabilities - note 12. Leases
- Additions to financial assets and financial liabilities – notes 16. Other financial assets and 29. Other financial liabilities
- Fair value adjustment on financial assets and financial liabilities - notes 16. Other financial assets and 29. Other financial liabilities

21. Issued capital and share premium

Common stock is as follows in thousands of shares:

	Issued shares	Treasury shares	Total
Balance at 1 January 2022	423,000	(740)	422,260
Sold treasury shares		130	130
Purchased treasury shares		(2,101)	(2,101)
Balance at 31 December 2022	423,000	(2,711)	420,289
Cancellation of own shares	(2,000)	2,000	0
Sold treasury shares		10	10
Balance at 31 December 2023	**421,000**	**(701)**	**420,299**

Movement in issued capital is as follows in USD thousands:

	Share capital	Share premium	Total
Balance at 1 January 2022	4,795	70,776	75,571
Sold treasury shares	1	579	580
Purchased treasury shares	(16)	(9,925)	(9,941)
Balance at 31 December 2022	4,781	61,430	66,211
Sold treasury shares	0	49	49
Balance at 31 December 2023	**4,781**	**61,479**	**66,260**

The share buyback program was temporarily paused in 2022. Decisions on share buybacks are made in accordance with the Company's Capital Structure and Capital Allocation Policy, within the authorizations granted by the Annual General Meeting. The share buyback programs are managed by Nordea, which make its trading decisions independently and without influence by the Company regarding the timing of the purchases.

Notes to the Consolidated Financial Statements

22. Other reserves

The following table shows a breakdown of the movement in other reserves in the Consolidated Statement of Changes in Equity.

	Statutory reserve	Share options	Hedging	Financial assets	Currency Translation	Total
Balance at 1 January 2022	1,267	4,093	113	0	(51,390)	(45,917)
Change in cash flow hedges			(1,431)			(1,431)
Income Tax			290			290
Transl. diff. of shares in subsidiaries					(23,968)	(23,968)
Income Tax					(498)	(498)
Total comprehensive income	0	0	(1,141)	0	(24,466)	(25,607)
Share option charge for the period		2,221				2,221
Share option vested during the period		(1,164)				(1,164)
Balance at 31 December 2022	**1,267**	**5,150**	**(1,028)**	**0**	**(75,856)**	**(70,467)**
Change in cash flow hedges			963			963
Income Tax			(193)			(193)
Fair value changes of financial liabilities				93		93
Income Tax				(23)		(23)
Transl. diff. of shares in subsidiaries					4,839	4,839
Income Tax					1,027	1,027
Total comprehensive income	0	0	770	70	5,866	6,706
Put option for minority share in subsidiary				(825)		(825)
Share option charge for the period		1,759				1,759
Share option vested during the period		(1,218)				(1,218)
Balance at 31 December 2023	**1,267**	**5,691**	**(258)**	**(755)**	**(69,990)**	**(64,045)**

Statutory reserve
The statutory reserve comprises certain portion of the share capital according to Icelandic Company Act.

Share option reserve
The share option reserve is used to recognize the fair value of options issued to employees but not exercised, see note 23 for details.

Hedging reserve
The hedging reserve includes the cash flow hedge reserve and the costs of hedging reserve, see note 24 for details. The cash flow hedge reserve is used to recognise the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges.

Currency translation reserve
The currency translation reserve comprises all currency differences arising from the translation of the financial statements of subsidiaries having different functional currencies than the Company as well as from the translation of liabilities that hedge net investment.

Notes to the Consolidated Financial Statements

23. Share option contracts

The Company has in place a share option plan, approved by 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 of shares traded on the OMX Copenhagen stock exchange over the 20 trading days prior to the issue date. The employee must remain continuously employed with the Company until the option expiring date, either as an employee or in any other way, deemed satisfactory by the Company.

Each employee share option converts into one ordinary share on exercise. No amounts are paid or payable by the recipient to the Company on receipt of the option. The options carry neither rights to dividends nor voting rights. The Company allows net settlement of options in which an equivalent number of shares are delivered to the employee that equals to the profit of the exercised options. With net settlement, the Company does not deliver in full the number of shares at exercise price. The fair value of the share options granted are valued using the Black-Scholes pricing model. Variables used in the Black-Scholes calculation are the exercise price per share, expected life in years, estimated volatility, annual rate of quarterly dividends and annual discount rate. In 2023, the expected volatility assumptions used to value the options ranged from 29.8% to 31.0% (2022: 28.1% to 30.4%) and the annual discount rate ranged from 2.4% to 3.0% (2022: -0.5% to 2.4%). Expected life of options are three years and the options expire one year after the vesting 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 option contracts are outstanding at balance sheet date:

	Number of shares	Grant year	Exercise year	Exercise price (in DKK)	Share price at grant date (in DKK)	Weighted average remaining contr. life in months
Issued to Executive Management:						
Sveinn Sölvason President and CEO	360,000	2020 - 2023	2023 - 2026	29.9-44.6	29.2-43.6	10
Executive management (3 persons)	256,400	2020	2023	45.5-46.3	45.6-47.5	0
Executive management (6 persons)	686,400	2021	2024	44.5-44.6	43.2-43.6	2
Executive management (6 persons)	500,000	2022	2025	28.5-41.7	29.5-44.0	18
Executive management (4 persons)	250,000	2023	2026	27.9-34.2	27.5-34.6	30
Total	2,052,800					
Issued to Management team:						
Sixteen manager	828,800	2020	2023	40.5-46.3	39.0-47.5	0
Thirty - five managers	1,341,200	2021	2024	44.5-46.8	43.2- 47.7	2
Seventeen managers	595,000	2022	2025	28.5-41.7	29.5-44.0	18
Two managers	55,000	2023	2026	30.9-34.2	30.2-34.6	29
Total	2,820,000					
Total	**4,872,800**					**8**

Movements in share options during the period:

	2023		2022	
	Number of shares	Weighted average exercise price (in DKK)	Number of shares	Weighted average exercise price (in DKK)
Outstanding at 1 January	5,789,600	37.6	5,908,400	40.5
Granted during period	375,000	32.3	1,195,000	34.6
Forfeited during period	(217,200)	42.9	(150,800)	46.3
Exercised and expired during period	(1,074,600)	38.6	(1,163,000)	28.5
Total outstanding at 31 December	**4,872,800**	**41.3**	**5,789,600**	**37.6**

Notes to the Consolidated Financial Statements

The estimated remaining cost due to the share option contracts is USD 1.2 million (2022: USD 2.9 million). An expense of USD 1.8 million (2022: USD 2.2 million) is recognized in the Consolidated Income Statement for the period. The exercise period of the share option contracts ranges from 2024-2027.
The range of the share price of exercised and expired options in the current year is 32.3 DKK to 49.8 DKK (2022: 27.4 DKK to 32.3 DKK)

24. Hedging Reserve

Össur hedges its ISK and EUR exposure, using a twelve month, quarterly layered hedging strategy. This is done with forward currency contracts where Össur sells EUR for ISK. At each balance sheet date Össur has outstanding contracts covering approximately 50% of yearly ISK costs. Due to the layered approach, hedge ratio of closed contracts is approximately 80% of ISK costs. Össur applies hedge accounting (IFRS 9) to the extent possible.

Movements in the hedging reserve during the period:

	2023	**2022**
At 1 January	(1,028)	113
Change in fair value of hedging instrument recognised in Other Comprehensive Income	713	(2,815)
Reclassified to Income Statement	250	1,384
Deferred tax	(193)	290
At 31 December	**(258)**	**(1,028)**

At balance sheet date ten forward contracts were open. The fair value of the contracts results in a liability of USD 0.4 million at year end 2023 (2022: USD 1.3 million asset). The effects of the foreign currency-related hedging instruments on the Company's financial position and performance are as follows:

	31.12.2023	**31.12.2022**
Carrying amount (current liability)	358	1,321
Notional amount	29,892	29,885
Maturity date	Mar-Dec 24	Mar-Dec 23
Hedge ratio	1:1	1:1
Change in discounted spot value of outstanding hedging instruments since inception of the hedge	713	(2,815)
Weighted average hedged rate for outstanding hedging instruments	151.8	147.9

Notes to the Consolidated Financial Statements

25. Borrowings

	31.12.2023	31.12.2022
Loans in USD	96,318	125,025
Loans In EUR	237,014	214,751
Total	**333,335**	**339,777**
Non-Current	311,802	277,709
Current	21,533	62,068
Total	**333,335**	**339,777**

Aggregated maturities of borrowings are as follows:

	31.12.2023	31.12.2022
In 2024 / 2023	21,533	62,068
In 2025 / 2024	176	0
In 2026 / 2025	236,769	149,198
In 2027 / 2026	74,857	53,404
Later	0	75,107
	333,335	**339,777**

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

	2023	2022
At 1 January	339,777	308,233
Cash flows	(14,777)	35,624
Non-cash changes:		
Acquisition related	(97)	0
Exchange rate differences	8,055	(4,773)
Amortization of borrowing costs	377	693
At 31 December 2023	**333,335**	**339,777**

The weighted average interest on outstanding loans at 31.12.2023 was 3.8% (2022: 2.9%). The following table highlights key information of the Company´s borrowings:

Lender	Type	Currency	Interest type	Outstanding	Available
Nordea, Danske Bank	Term, Bullet	EUR	Floating	55,516	0
Nordea, Danske Bank	Revolver	EUR	Floating	126,376	0
European Investment Bank	Term, Bullet	USD	Fixed	74,786	0
Nordic Investment Bank	Term, Bullet	EUR	Fixed	55,125	0
Danske Bank	Overdraft	Multicurrency	Floating	21,532	61,342
Total				**333,335**	**61,342**

Notes to the Consolidated Financial Statements

26. Deferred tax assets / (liabilities)

	2023	2022
At beginning of period	7,724	(1,983)
Income tax payable for the period	21,146	23,956
Calculated tax for the period	(17,205)	(12,962)
Arising on acquisition of a subsidiary	42	(2,067)
Recognized directly through equity	1,223	760
Exchange rate differences	181	20
At 31 December	**13,111**	**7,724**
Deferred tax in the Balance Sheet:		
Deferred tax asset	41,888	37,320
Deferred tax liabilities	(28,777)	(29,596)
	13,111	**7,724**

Movement in deferred tax balances:

	1.1.2023	Recognized in Income Statement	Recognized directly in equity	Other (i)	31.12.2023	Deferred tax assets	Deferred tax liabilities
Goodwill	(13,352)	(1,747)		(10)	(15,110)	5,747	(20,857)
Intangible assets	(8,667)	(84)		(148)	(8,899)	1,431	(10,330)
Property, plant and equipment	(1,574)	(491)		118	(1,946)	1,703	(3,649)
Tax loss carry forward	2,125	(772)		(88)	1,265	1,265	0
Inventories	10,135	5,812		25	15,972	16,785	(813)
Provisions	6,993	(2,340)		1	4,654	4,654	0
Current liabilities	7,638	4,171		33	11,842	12,864	(1,022)
Receivables	1,070	97		(1)	1,167	1,185	(18)
Other	3,356	(705)	1,223	290	4,166	4,384	(218)
Total	**7,724**	**3,941**	**1,223**	**220**	**13,111**	**50,018**	**(36,907)**
Deferred tax assets and liabilities offsetting						(8,130)	8,130
Net deferred tax assets (liabilities)						**41,888**	**(28,777)**

	1.1.2022	Recognized in Income Statement	Recognized directly in equity	Other(i)	31.12.2022	Deferred tax assets	Deferred tax liabilities
Goodwill	(11,296)	(2,111)		55	(13,352)	5,747	(19,099)
Intangible assets	(7,543)	460		(1,584)	(8,667)	1,301	(9,968)
Property, plant and equipment	(1,877)	375		(72)	(1,574)	897	(2,471)
Tax loss carry forward	2,066	265		(206)	2,125	2,125	0
Inventories	4,349	5,960		(174)	10,135	10,960	(825)
Provisions	2,883	4,156		(46)	6,993	6,993	0
Current liabilities	5,139	2,483		16	7,638	8,086	(448)
Receivables	758	341		(29)	1,070	1,222	(152)
Other	3,538	(935)	760	(7)	3,356	4,638	(1,282)
Total	**(1,983)**	**10,994**	**760**	**(2,047)**	**7,724**	**41,969**	**(34,245)**
Deferred tax assets and liabilities offsetting						(4,649)	4,649
Net deferred tax assets (liabilities)						**37,320**	**(29,596)**

(i) Effects of foreign currency exchange rate differences and acquisitions.

The Company has unused tax losses available for which no deferred tax asset is recognized. At year end 2023 these unused tax losses amounted to USD 25.2 million (2022: USD 16.8 million). USD 8.5 million of this amount will expire in 5-10 years (2022: USD 7.7 million). The remaining tax losses carry an indefinite term.

Notes to the Consolidated Financial Statements

In relation to the elimination of intercompany gain in inventories, the Company has recognized a deferred tax benefit of USD 5.4 million (2022: USD 5.9 million) in the Consolidated Income Statement.

Össur, as part of WDI group for Pillar Two reporting, has applied the exception to recognize deferred tax on OECD's/EU's Pillar Two Model Rules and local implementation hereof.

27. Provisions

2023	Warranty provisions	Restructuring provisions	Other provisions	Total
At 1 January	9,922	9,201	6,011	25,134
Additional provision recognized	7,567	181	1,083	8,831
Utilization of provision	(6,785)	(6,605)	(2,806)	(16,196)
Exchange rate differences	84	0	133	218
At 31 December 2023	**10,789**	**2,777**	**4,422**	**17,988**
Non-current	4,938	0	1,728	6,666
Current	5,851	2,777	2,694	11,322
At 31 December 2023	**10,789**	**2,777**	**4,422**	**17,988**

2022	Warranty provisions	Restructuring provisions	Other provisions	Total
At 1 January	7,386	108	6,105	13,599
Additional provision recognized	7,835	15,974	2,347	26,156
Utilization of provision	(5,133)	(6,878)	(2,264)	(14,275)
Exchange rate differences	(166)	(4)	(177)	(347)
At 31 December 2022	**9,922**	**9,201**	**6,011**	**25,133**
Non-current	4,497	0	1,311	5,808
Current	5,425	9,201	4,699	19,325
At 31 December 2022	**9,922**	**9,201**	**6,011**	**25,133**

Warranty provisions are expected to be utilized over the next 6 years. Restructuring provisions are expected to be fully utilized over the next 12 months.

28. Deferred income

	2023	2022
At 1 January	9,359	9,621
Deferred income	3,719	3,472
Released from deferred income	(3,183)	(3,233)
Exchange rate differences	224	(501)
At 31 December	**10,119**	**9,359**
Non-current	7,277	6,042
Current	2,842	3,317
At 31 December	**10,119**	**9,359**

Deferred income relates to the sale of additional warranty for prosthetic products and service checks included in standard warranty. Income from additional warranty is deferred when sold and released on a straight line basis within the warranty period. Income from service checks is deferred when sold and released when the service has been rendered. Additional warranties range from 2-6 years. The current deferred income is presented as part of other liabilities in the Consolidated Balance Sheet as indicated in note 31.

Notes to the Consolidated Financial Statements

29. Other financial liabilities

	31.12.2023	31.12.2022
Financial liabilities at amortized cost:		
Deferred payments relating to business combinations	15,327	23,791
Other financial liabilities at amortized cost	550	381
Financial liabilities at fair value through Income Statement:		
Earnouts relating to business combinations	8,833	9,520
Put option for shares in associates	1,134	0
Financial liabilities at fair value through Other Comprehensive Income:		
Put option for minority share in subsidiary	732	825
Hedging derivatives - foreign currency forwards	358	1,321
	26,933	**35,838**
Non-current	17,351	17,314
Current	9,583	18,524
	26,933	**35,838**

During the year USD 0.3 million were recognized as fair value gain in Income statement related to earnout and USD 0.1 million were recognized in Other comprehensive income related to fair value gain of put option for minority share in subsidiary.

Put options for purchase of remaining share in an associate is calculated as a multiple of EBITDA of the associate in the previous financial year in the proportion which the put option shares bear to the total shares of the entity. The option is exercisable in 2027 and 2028.

Put options for purchase of remaining minority share in a subsidiary is calculated as a multiple of net sales of the subsidiary in the previous financial year in the proportion which the put option shares bear to the total shares of the entity. The option is exercisable until end of 2026.

30. Related party transactions

Balances and transactions within the Company (Össur hf. and its subsidiaries) 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:

Associates	**2023**	**2022**
Sales of products	2,404	2,104
Purchases	524	525
Receivables from associates at 31 December	507	345
Payables to associates at 31 December	374	114
Other related parties	**2023**	**2022**
Sales of products	1,338	1,187
Purchases	5,875	5,821
Receivables from other related at 31 December	607	423
Payables to other related at 31 December	487	932

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

Notes to the Consolidated Financial Statements

31. Other liabilities

	31.12.2023	31.12.2022
Accrued expenses	23,996	17,220
Sales tax and VAT	4,798	4,121
Deferred income	2,842	3,317
Sales return accrual	2,828	1,849
Other	4,548	4,144
	39,012	**30,651**

32. Business combinations

Össur made acquisitions during 2023 to strengthen the Company's Patient Care business segment. In the Consolidated Income Statement for the year 2023, sales amounting to USD 1.2 million (2022: USD 11.1 million) and net profit of USD 0.2 million (2022: USD 0.3 million) were related to these acquisitions.

The current year acquisitions were made in January resulting in the consolidated pro-forma revenue and profit to be the same but if prior year acquisitions had occurred on 1 January 2022, consolidated pro-forma revenue and profit for the year ended 31 December 2022 would have been USD 18.3 million and USD 0.6 million respectively.

Assets acquired and liabilities consumed at the date of acquisition:	**2023**	**2022**
Property, plant and equipment	111	1,977
Other intangible assets	0	6,316
Other non-current assets	69	52
Inventories	75	2,832
Accounts and other receivables	48	2,189
Bank balances and cash equivalents	123	2,368
Borrowings	(97)	0
Other liabilities	(87)	(6,308)
Net identifiable assets aquired	241	9,426
Non controlling interest	327	0
Goodwill	2,241	54,229
Net assets aquired	**2,809**	**63,655**
Consideration:		
Net assets aquired	2,809	63,655
Contingent consideration and deferred payments on current year´s acquisitions	(215)	(23,450)
Cash paid	2,594	40,205
Payments on prior year´s acquisitions	9,432	3,947
Cash from acquired companies	(123)	(2,368)
Consideration shown in Cash Flow	**11,903**	**41,784**

Notes to the Consolidated Financial Statements

33. Subsequent event

On 16 January Össur acquired all shares of privately owned Fior & Gentz, a leading maker of lower limb neuro orthotic components. Fior & Gentz was founded in Lüneburg, Germany in 1997 and is a leading European provider of functional lower limb neuro orthotic solutions and employs around 80 people.

In 2023, Fior & Gentz reached total sales of approx. USD 23 million, up 16% from the year before, and preliminary EBITDA margin is 30%.

The purchase price (enterprise value) for Fior & Gentz amounted to USD 109 million plus a contingent additional purchase price (earnout) of maximum USD 22 million, depending on sales performance in the years 2024-2026. Össur paid 66 million in cash, financed partly through additional credit facilities, and issues new shares worth USD 28 million to the sellers of Fior & Gentz. The remaining USD 17 million will be paid in cash two years after closing.

In connection with the acquisition, the Board of Directors of Össur has resolved to utilize the authorization in Article 5, paragraph 1, of the Articles of Association to issue 6,636,122 new shares in Össur, raising the total share capital in nominal value by 1.6% from ISK 421,000,000 to ISK 427,636,122. The price of each new share is DKK 28.10 and the total value of the share capital increase is thus DKK 186 million (USD 28 million). The sellers of Fior & Gentz subscribe for all the new shares. The sellers have also agreed to a one-year lock-up period from closing for all the new shares, and to a lock-up period of an additional year for 50% of the new shares, during which they are not entitled to sell their shares in Össur.

The transaction is estimated to be accretive to Össur's organic sales growth and EBITDA margin before special items and is expected to have minimal impact on EPS in 2024 and to be EPS accretive from 2025. Össur will expense special items of around one million as part of the transaction in Q1 2024 and net interest-bearing debt to EBITDA before special items will, all else equal, be temporarily slightly above the target range of 2.0-3.0x.

As a consequence of submission and approval of the annual report for 2023 is close to the acquisition date, the preparation of the purchase price allocation in accordance with IFRS 3 is in progress, but not finalized. Therefore, assets acquired and liabilities consumed at the date of acquisition, consideration and profit and loss effects have not been disclosed within these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

34. Financial instruments

Financial assets and liabilities

The Company holds the following financial instruments:

Financial assets	Notes	31.12.2023	31.12.2022
Financial assets at amortised cost:			
Accounts receivable	18	127,844	112,372
Cash and cash equivalents	20	72,653	76,631
Financial assets at amortised cost	16	3,396	3,719
Financial assets at fair value through Income Statement	16	1,134	0
Total		**205,027**	**192,722**

Financial liabilities	Notes	31.12.2023	31.12.2022
Financial liabilities at amortised cost:			
Accounts payables		30,749	28,653
Borrowings	25	333,335	339,777
Lease liabilities	12	134,397	141,146
Other financial liabilities at amortized cost	29	15,877	24,172
Financial liabilities at fair value through Income Statement	29	9,966	9,520
Financial liabilities at fair value through Other Comprehensive Income	29	732	825
Hedging derivatives - foreign currency forwards	29	358	1,321
Total		**525,415**	**545,413**

Fair value of financial instruments

In the above overivew of financial instruments, financial assets and financial liabilities that are measured at fair value in the financial statement can be identified.

Except as detailed in the following table, management considers that the carrying amount of financial assets and financial liabilities recognized in the Consolidated Financial Statements to approximate their fair value.

	31.12.2023		31.12.2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:				
Borrowings	333,335	334,373	339,777	340,946

The difference between the fair value and the carrying amount relates to distribution of borrowing cost. The fair value is determined as a level 2 in the fair value hierarchy.

Fair value hierarchy

The following table explains the judgements and estimates made in determining the fair values of the financial instruments recognised and measured at fair value in the financial statements. In order to convey the reliability of the inputs used in determining the fair value, the Company has classified its financial instruments into the three levels prescribed under IFRS accounting standards as adopted by the European Union.

Notes to the Consolidated Financial Statements

Financial assets	Notes	Level 1	Level 2	Level 3	Total
Financial assets at fair value through income statement:					
Call option for shares in associates	16			1,134	1,134
Total financial assets		**0**	**0**	**1,134**	**1,134**

Financial liabilities					
Financial liabilities at fair value through income statement:					
Earnouts related to acquisition	29			8,833	8,833
Put option for shares in associates	29			1,134	1,134
Financial liabilities at fair value through other comprehensive income:					
Put option for minority share in subsidiary	29			732	732
Hedging derivatives - foreign currency forwards	29		358		358
Total financial liabilities		**0**	**358**	**10,698**	**11,056**

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year.

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price.

Level 2: The fair value of financial instruments that are not traded in active markets is determined using valuation techniques that maximise the use of observable market data and rely as little as possible on entity-specific estimates.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Capital risk management

The Company manages capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged since 2022.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 25, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity.

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:

	31.12.2023	31.12.2022
Net debt	395,047	404,290
EBITDA before special items	139,307	128,189
Net debt/EBITDA before special items	**2.8**	**3.2**

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. This is performed through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include liquidity risk, interest rate risk, foreign currency exchange risk and counterparty credit risk.

Notes to the Consolidated Financial Statements

The general policy is to apply natural hedging to the extent possible but Össur also uses 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.

Currency risk management

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

Össur hedges its ISK and EUR exposure, using a twelve month, quarterly layered hedging strategy. This is done with forward currency contracts where Össur sells EUR for ISK. At each balance sheet date Össur has outstanding contracts covering approximately 50% of yearly ISK costs. Due to the layered approach, hedge ratio of closed contracts is approximately 80% of ISK costs. At balance sheet date ten forward contracts were open. The fair value of the contracts results in a liability of USD 0.4 million at year end 2023 (2022: USD 1.3 million). Össur applies hedge accounting (IFRS 9) to the extent possible.

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

	Liabilities		**Assets**	
	31.12.2023	**31.12.2022**	**31.12.2023**	**31.12.2022**
EUR	290,181	267,301	43,773	39,175
USD	189,889	220,718	97,613	94,616
ISK	53,095	42,293	19,474	10,608
SEK	25,160	24,145	13,370	11,875
GBP	6,980	6,986	6,268	5,505
Other	34,395	31,800	63,782	58,660
	599,700	**593,243**	**244,280**	**220,439**

Foreign currency sensitivity analysis

The Company is mainly exposed to the fluctuation of Icelandic krona (ISK) and Euro (EUR).

The following table details the Company's sensitivity to a 10% decrease in USD against the relevant foreign currencies with all other variables fixed. The sensitivity analysis includes all foreign currency denominated items and adjusts their translation at the period end for a 10% change in foreign currency rates. The table below indicates the effect on profit or loss and other equity where USD weakens 10% against the relevant currency. For a 10% strengthening of USD against the relevant currency, there would be an equal and opposite impact on the profit or loss and equity.

	EUR (i)		**ISK (ii)**	
	2023	**2022**	**2023**	**2022**
Net profit	4,263	4,400	(5,281)	(4,818)
Equity	(932)	(243)	(595)	(1,177)

(i) 21% (2022: 17%) of the Company's COGS and OPEX is in EUR against 24% (2022: 23%) of its sales causing an increase in profit if the USD decreases against the EUR.

(ii) 10% (2022: 10%) of the Company's COGS and OPEX is in ISK against 0.5% (2022: 0.3%) of its sales causing a decrease in profits if the USD decreases against the ISK.

Hedge accounting is not considered in the above calculation.

Notes to the Consolidated Financial Statements

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 Company´s treasury function and fixed rate loans or interest rate swap contracts may be used to maintain an appropriate mix between fixed and floating rate borrowings. At the end of 2023 61% of total borrowings were on floating interest rates. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite and to ensure optimal hedging strategies are applied. The Company did not have any interest rate swap agreements outstanding at balance sheet date.

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

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates on borrowings with floating terms. The analyses is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. If interest rates had been 1 percent higher/lower and all other variables were held constant, the Company´s profit for the year ended 31 December 2023 would have decreased/increased by USD 2.0 million (2022: USD 1.9 million).

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 a total liquidity of USD 134.0 million, consisting of undrawn revolving credit facilities of USD 61.3 million (2022: USD 56.4 million) and cash and cash equivalents of USD 72.7 million (2022: USD 76.6 million).

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
31.12.2023					
Borrowings	3.8%	34,489	338,818	0	373,306
Lease liabilities	3.7%	26,571	79,513	53,541	159,625
Non-interest bearing liabilities	-	126,570	17,383	0	143,953
		187,629	**435,714**	**53,541**	**676,885**
31.12.2022					
Borrowings	2.2%	69,804	294,964	7	364,775
Lease liabilities	3.6%	29,598	82,627	55,210	167,436
Non-interest bearing liabilities	-	116,513	16,111	0	132,624
		215,916	**393,702**	**55,218**	**664,835**

Notes to the Consolidated Financial Statements

Credit risk management

The Company manages the financial counterparty credit risk centrally. Primary Banks should have a long-term credit rating of at least A-/A3 and a short-term credit rating of at least A-2/P-2. Other financial counterparties should have investment grade credit ratings.

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

Accounts receivable consist of a large number of customers spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. Refer to note 18 for assessment of expected credit loss (ECL) and accounting policy on impairment of financial assets.

The Company is exposed to normal business risk in collecting accounts receivable. Adequate allowance is made for bad debt in line with the Company accounting policy.

Book value of financial assets measured at amortized cost represents the maximum exposure to credit risk.

35. Other information

From 2021, the Company is required to file the primary statements of the Consolidated Financial Statements in the new European Single Electronic Format (ESEF) and therefore those statements are prepared in the XHTML format that can be displayed in a standard browser. The primary statements in the Consolidated Financial Statements are tagged using inline eXtensible Business Reporting Language (iXBRL). The iXBRL tags comply with the ESEF taxonomy, which is included in the ESEF Regulation and developed based on the IFRS taxonomy published by the IFRS Foundation. Where a primary statements line item is not defined in the ESEF taxonomy, an extension to the taxonomy has been created. Extensions are anchored to elements in the ESEF taxonomy, except for extensions which are subtotals. The Consolidated Financial Statements submitted to the Icelandic Financial Supervisory Authority consists of the XHTML document together with certain technical files, all included in a file named "ossur-2023-12-31.zip".

36. Insurance

	31.12.2023		31.12.2022	
	Insurance value	Book value	Insurance value	Book value
Fixed assets and inventories	213,956	206,255	195,247	191,075

The book value of fixed assets and inventories is adjusted for inventory reserve. The Company has purchased a Property Damage & Business Interruption insurance intended to compensate for damages on owned property and temporary loss of income due to such loss. Additionally the Company has numerous insurance in place that are necessary to insure against the risks to its operations, including but not limited to general and product liability, professional liability, product recall insurance, directors and officers liability and certain types of frauds towards the Company.

Notes to the Consolidated Financial Statements

37. Comparative information

Comparative figures disclosed in the notes to these financial statements have been reclassified to conform with the current year´s disclosure format for the purpose of compliance with International Financial Reporting Standards as adopted by the European Union (EU).

38. Contingent liabilities

The Company is engaged in certain litigation proceedings and various ongoing audits and investigations. Management, on an ongoing basis, assesses the possible financial impact of current and pending litigations. Relevant information is disclosed when management is able to assess whether a litigation could potentially have a material financial impact on the Company. In the opinion of management there are currently no litigations expected to have a material effect on the Company's financial position, operating profit or cash flow.

39. Adoption of new and revised standards

New and amended IFRS that are effective for the current year

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

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies.
Amendments to IAS 8: Definition of Accounting Estimates.
Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
OECD Pillar Two Rules.

New and revised IFRS in issue but not yet effective

At the date of authorization of these Consolidated Financial Statements, the Company has not applied new and revised IFRS that have been issued but are not yet effective.

Management of the Company does not expect that the adoption of the standards will have a material impact on the Financial Statements of the Company in future periods.

Notes to the Consolidated Financial Statements

40. Summary of material accounting policies

Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with IFRS accounting standards as adopted by the European Union and additional requirements in the Icelandic Annual Accounts Act no. 3/2006.

Basis of preparation

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

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
- can use its power to affect its returns.

The Company reassesses whether 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 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.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases. 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.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. 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 intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

Notes to the Consolidated Financial Statements

The Company treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Company. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized directly in equity attributable to owners of the Company.

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- 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 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 IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Notes to the Consolidated Financial Statements

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e., the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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

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 profit and losses, 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. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment. Where the Company´s share of losses in an associate equals or exceeds its interest in the associate, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Goodwill

Goodwill is initially recognized as an asset at 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.

Goodwill is not amortized but is reviewed for impairment at least annually. For 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.

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.
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.

Notes to the Consolidated Financial Statements

The Company's policy for goodwill arising on the acquisition of an associate is described in the accounting policy for Investments in associates above.

Revenue recognition

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

Sale of goods and services

The Company sells bracing & support products and prosthetics products and related services both as wholesaler and directly to customers through its own distribution channels.

Revenue is recognized for the sale of products including standard warranty when control of the goods has transferred. Control is considered transferred when the goods have been shipped or directly delivered to retail customer. Following shipment, it is considered that our customers have full discretion over the manner of distribution and price to sell the goods, have the primary responsibility when selling the goods, and bear the risks of obsolescence and loss in relation to the goods. A receivable is recognized by the Company when the goods are shipped to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. Sales related standard warranties serve as an assurance that the products sold comply with agreed-upon specifications, those warranties are accounted for in accordance with IAS 37 Provisions.

For some Prosthetics product, a service check is included in the standard warranty and is treated as a distinct service and is accounted for as a separate performance obligation. The customer has an option to purchase an additional warranty which is treated as a distinct service as the Company promises to provide the service to the customer in addition to the product and the standard warranty. That warranty is accounted for as a separate performance obligation.

Revenues from the sale of additional warranties are deferred when sold and released on a straight-line basis within the warranty period. Revenues from service checks included in the standard warranty are deferred when sold and released when the service has been rendered or the service obligation has ended. Deferred revenues are shown separately within liabilities in the Balance sheet.

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

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

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.

Leases

The Company leases office buildings, manufacturing and warehouse facilities and vehicles. Rental contracts are typically made for fixed periods but may have extension options, exercisable by the Company. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Notes to the Consolidated Financial Statements

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company and makes adjustments specific to the lease, e.g. term, country and currency.

The lease payments included in the measurement of the lease liability comprise fixed payments less any incentives, variable lease payments that depend on an index or rate, expected residual guarantees and the exercise price of purchase options if the Company expects to exercise the option.

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

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

Variable rents that depend on usage are not included in the measurement of the lease liability and the right of use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs.
As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has used this practical expedient.

Foreign currencies

For consolidation purposes, the assets and liabilities of the Company's foreign operations are expressed in USD, which is also the Company´s functional currency, using exchange rates prevailing at the balance sheet date.
Income and expense items are translated at the average exchange rates for each month. Exchange differences arising, if any, are classified as equity and transferred to the Company's currency translation reserve (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising, if any, are recognized in equity.

Exchange differences are recognized in the Consolidated Income Statement in the period they occur, except for exchange differences on monetary items receivable from or payable to a foreign operation, which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

Notes to the Consolidated Financial Statements

Transactions in currencies other than local currency are initially recorded at the rates of exchange prevailing on the dates of the transactions. Other assets, such as inventories and operating fixed assets, purchased in foreign currencies are to be valued at cost at the exchange rate prevailing on the date of the transaction.

Share capital

The share capital of Össur at balance sheet date is ISK 421,000,000 nominal value, divided into the same number of shares. There is only one class of shares, and all shares carry one vote, besides treasury shares that do not carry voting rights.

Share premium

The share premium reserve is comprised of payments in excess of nominal value of ISK 1 per share that shareholders have paid for shares sold by the Company.

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 23.

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.

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, 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.

Notes to the Consolidated Financial Statements

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 influences 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.

Össur, as a part of WDI group for Pillar Two reporting, has applied the temporary exception, introduced in May 2023, from the accounting requirements for deferred taxes in IAS 12, so that the group neither recognizes nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes.

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.

Property, plant and equipment

Property, plant and equipment are recognized as an asset when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured in a reliable manner.

Property, plant and equipment which qualify for recognition as an asset are initially measured at cost. The cost of a property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use.

The depreciable amount of the asset is allocated on a straight-line basis over its useful life. The depreciation charge for each period is recognized as an expense. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis.

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

Buildings & sites	25-50 years
Machinery and equipment	3-10 years
Fixtures and office equipment	5-8 years
Computer equipment	2-5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at the date of the sale transaction and is recognized in the Consolidated Income Statement.

Notes to the Consolidated Financial Statements

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.

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 & other	2-10 years

Internally generated intangible assets

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 internally generated intangible asset cannot be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

After 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.

After 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.

Notes to the Consolidated Financial Statements

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 to determine the extent of the impairment loss. 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, 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits with banks and deposits with financial institutions. Bank overdrafts are shown within borrowings in current liabilities in the Consolidated Balance Sheet. Deposits that are subject to regulatory restrictions and are therefore not available for general use by the Company are presented as restricted cash and disclosed in note 16.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the 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.

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, considering 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.

Warranty provisions

Warranty provisions include expected warranty costs for products sold with standard warranty and 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.

Notes to the Consolidated Financial Statements

Restructuring provisions

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

Other provisions

Other provisions mainly consists of legal and employee related provisions.

Financial instruments

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

Effective interest method

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

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

Financial assets

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

Classification of financial assets

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

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

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

Notes to the Consolidated Financial Statements

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost and account receivables. The amount of expected credit loss is updated at each reporting date to reflect changes in credit risk from initial recognition of the respective financial instrument. The company applies the IFRS 9 simplified approach to measuring expected credit losses (ECL) which uses a lifetime expected loss allowance for accounts receivables. The expected credit loss on accounts receivable is estimated using a provision matrix by reference to past default experience, general economic conditions and an assessment of both the current as well as expected conditions, including time value of money where appropriate. Individual allowance and adjustments to the collective allowance are made based on the individual assessment of customers' situation and probability of incoming payments. As the Company´s historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Company´s different geographical segments.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about significant financial difficulty of the borrower. An allowance for credit-impaired financial assets is measured on an individual basis.

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

Derecognition of financial assets

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

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

Financial liabilities

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

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

A financial liability is classified as held for trading if:

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

Notes to the Consolidated Financial Statements

Derecognition of financial liabilities

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

Employee benefits

Retirement benefit costs

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

A liability is recognized in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to currency risk. Further details of derivative financial instruments are disclosed in note 34.

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

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

Hedge accounting

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

Notes to the Consolidated Financial Statements

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

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

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

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

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.

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 Consolidated Income Statement.

Notes to the Consolidated Financial Statements

Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the set conditions and that the grants will be received. Government grants are recognized in profit or loss in the periods in which the Company recognizes the related expenses for which the grants are intended to compensate.

Significant accounting judgments, estimates and assumptions

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised. Revision of accounting estimates can also affect future periods.

Management has made significant accounting estimates and judgements in respect of the following areas:

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Details of impairment calculations are set out in note 13.

Acquisitions as part of business combinations results in recognition of goodwill and various assets and liabilities. The amounts allocated to the acquired assets and liabilities are based on assumptions and estimates about their fair values. Details of fair value of assets and liabilities in business combination are set out in note 32.

Some of the Company’s assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of assets or liabilities, the Company uses market-observable data to the extent it is available. Where such inputs are not available, the Company uses valuation models based on observable prices where applicable else non-observable prices. Details of fair value of financial assets and liabilities are set out in note 34.

Notes to the Consolidated Financial Statements

41. Definitions of key ratios and terms

EBIT
Earnings before interest and taxes

EBITDA
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

EBITDA before special items
Management monitors the performance measure EBITDA before special items, at a consolidated level and considers the measure relevant to an understanding of the Company's financial performance as it facilitates a better comparison of the Consolidated Income Statement between periods. Special items comprise material amounts of a non-recurring nature, such as costs relating to divestments, closure or restructuring, lawsuits, etc.

Gross profit margin
Gross profit as a percentage of net sales

EBITDA margin
EBITDA as a percentage of revenues

EBIT margin
EBIT as a percentage of revenues

Free cash flow
Cash from operations less capital expenditure

Equity ratio
Equity as a percentage of total assets

Net interest-bearing debt (NIBD) to EBITDA before special items
Aggregated interest bearing debt, consisting of borrowings and lease liabilities, less cash and cash equivalents divided by EBITDA before special items

Return on equity
Net profit as a percentage of average equity

Capex to net sales
The amount of purchased fixed and intangible assets to net sales

Market value of equity
Value of the Company's equity, measured by multiplying the current stock price by the total number of outstanding shares

Sales growth
The change in revenue compared to prior period

Basic Earnings per share (EPS)
Net profit attributable to the parent Company's shareholders, divided by the parent Company’s average number of shares outstanding for the period

Diluted Earnings per share (EPS)
Net profit attributable to the parent Company's shareholders, divided by the parent Company’s average number of shares outstanding for the period adjusted for effects of outstanding share option contracts.

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