ÖSSUR Q4 and FULL YEAR RESULTS 2014

Highlights Full Year 2014

- Net profit increased by 45% and amounted to USD 59 million or 12% of sales, compared to USD 41 million or 9% of sales in 2013.
- Sales amounted to USD 509 million compared to USD 436 million in 2013, corresponding to 18% growth and 5% organic growth, both measured in local currency.
- Bracing and supports sales growth in 2014 was 18% and 1% organic, both measured in local currency.
- Prosthetics sales growth in 2014 was 17% and 11% organic, both measured in local currency.
- Gross profit amounted to USD 323 million and 63% of sales, compared to USD 270 million and 62% of sales in 2013.
- EBITDA increased by 38% and amounted to USD 104 million or 20% of sales, compared to USD 75 million or 17% of sales in 2013. EBITDA margin adjusted for one-time expenses was 18% of sales in 2013.
- Cash generated by operations amounted to USD 98 million or 19% of sales, compared to USD 73 million or 17% of sales in 2013.
- Two small acquisitions were completed in the Asia-Pacific segment, APAC (previously referred to as Asia segment) during the year, which further strengthened the sales platform.
- The Board of Directors will propose to the Annual General Meeting in 2015 that the Company pays a cash dividend of DKK 0.12 per share for 2014, an increase of 20% from 2013 and equivalent to 14% of net earnings in 2014.
- The Board of Directors will also propose to the Annual General Meeting to reduce the share capital by cancelling 7,456,755 of the Company's own shares.

Highlights Q4 2014

- Net profit increased by 5% and amounted to USD 15 million or 12% of sales, compared to USD 14 million or 11% of sales in Q4 2013.
- Sales amounted to USD 129 million compared to USD 128 million in Q4 2013, corresponding to 6% growth and 5% organic growth, both measured in local currency.
- EBITDA increased by 7% and amounted to USD 26 million or 20% of sales, compared to USD 24 million or 19% of sales in Q4 2013. EBITDA growth amounted to 14% in local currency in the quarter.
- Cash generated by operations amounted to USD 29 million or 23% of sales, compared to USD 29 million or 22% of sales in Q4 2013.
- In November 2014, Össur purchased 9,863,578 of its own shares (2.2% of the Company's share capital) for USD 29 million.

Financial Guidance for 2015

The financial guidance for the full year of 2015 is as follows:

- Total sales growth LCY in the range of 4-6%
- Organic sales growth LCY in the range of 3-5%
- EBITDA margin in the range of 20-21% of sales
- Capital expenditures in the range of 2.5-3.5% of sales
- Effective tax rate around 26%

Jón Sigurðsson, President & CEO, comments:

"We closed the year with yet another strong quarter despite adverse currency fluctuations which negatively impacted our operating results. This year has been excellent operationally with strong profitability and cash flow. We have successfully been harvesting from our efficiency improvement projects. Prosthetics sales growth was excellent across all our major markets and product lines with good contribution from the latest bionic product, RHEO KNEE®3. Sales growth in bracing and supports was in line with expectations. Our continued emphasis on increased profitability from product rationalization efforts and focus on selling high end innovative products is yielding promising results."

Conference Call

Össur will host a conference call on Friday 6th February 2015 at **10:00 CET / 9:00 GMT / 4:00 EDT.**
To participate in the call please dial: Europe: + 45 3544 5580, +44 (0) 203 364 5374 or +46 (0) 8 505 564 74, The United States: + 1 855 753 2230, Iceland: +354 800 7416

Financial Highlights

USD m		Q4 2014	Q4 2013	2014	2013	2012	2011	2010
Income Statement								
Net sales		129	128	509	436	399	398	359
Gross profit		81	80	323	270	248	246	223
Operating expenses (excl. other income)		60	60	237	210	191	189	164
EBIT		21	20	86	60	57	59	60
Net profit		15	14	59	41	38	35	35
EBITDA		26	24	104	75	70	73	74
Sales growth								
Sales growth USD	%	1	31	17	9	0	11	9
Growth breakdown:								
Organic growth in LCY	%	5	7	5	2	3	5	6
Currency effect	%	(5)	2	(1)	1	(3)	3	(1)
Acquired/divested business	%	1	23	13	6	1	4	4
Balance Sheet								
Total assets		678	706	678	706	591	580	607
Equity		442	448	442	448	408	365	344
Net interest-bearing debt (NIBD)		93	108	93	108	82	111	133
Cash Flow								
Cash generated by operations		29	29	98	73	71	68	64
Free cash flow		20	22	68	49	43	32	33
Key ratios								
Gross profit margin	%	63	62	63	62	62	62	62
EBIT margin	%	16	15	17	14	14	15	17
EBITDA margin	%	20	19	20	17	18	18	21
Equity ratio	%	65	63	65	63	69	63	57
Net debt to EBITDA [1]		0.9	1.4	0.9	1.4	1.2	1.5	1.8
Effective tax rate	%	18	26	24	26	26	26	26
Return on equity [1]	%	13	10	13	10	10	10	10
CAPEX / Net sales	%	4.4	3.3	3.3	3.9	3.6	4.1	2.6
Full time employees on average		2,224	2,096	2,214	1,765	1,860	1,864	1,627
Market								
Market value of equity		1,311	880	1,311	880	606	676	778
Number of shares	Millions	454	454	454	454	454	454	454
Price/earnings ratio, (P/E) [1]		22.1	21.7	22.1	21.7	15.8	20.0	22.3
Diluted EPS	US cent	3.3	3.1	13.1	9.1	8.4	7.7	7.8
Diluted cash EPS	US cent	4.4	4.1	17.2	12.5	11.3	10.6	10.9

*Financial ratios for Q4 2014 and Q4 2013 are based on operations for the preceding 12 months.

Management's Report

Q4 HIGHLIGHTS

Sales Performance

Sales amounted to USD 129 million compared to USD 128 million in Q4 2013, corresponding to 6% growth and 5% organic growth, both measured in local currency. Bracing and supports sales grew by 2% and 1% organic compared to Q4 2013, both measured in local currency. Prosthetics sales grew by 13% and 10% organic compared to Q4 2013, both measured in local currency.

Sales by Segments and Regions in Q4 2014

USD m	Q4 2014	% of sales	Sales growth USD	Sales growth LCY	Organic sales growth LCY
Bracing and supports	75	58%	-4%	2%	1%
Prosthetics	53	42%	8%	13%	10%
Other	0	0%	49%	40%	-25%
Total	**129**	**100%**	**1%**	**6%**	**5%**

USD m	Q4 2014	% of sales	Sales growth USD	Sales growth LCY	Organic sales growth LCY
EMEA	67	52%	-3%	7%	7%
Americas	53	41%	0%	0%	0%
APAC	9	7%	53%	56%	15%
Total	**129**	**100%**	**1%**	**6%**	**5%**

The strengthening of the USD in Q4 2014 compared to Q4 2013 against other major operating currencies impacted the operating results negatively. Sales were negatively impacted by USD 7 million and EBITDA by USD 2 million while there was minimal negative impact on the EBITDA margin.

EBITDA increased by 7% and amounted to USD 26 million or 20% of sales, compared to USD 24 million or 19% of sales in Q4 2013. EBITDA growth amounted to 14% in local currency in the quarter. The increase in EBITDA and EBITDA margin was a result of an increase in gross profit margin and efficient operations.

Net profit increased by 5% and amounted to USD 15 million or 12% of sales, compared to USD 14 million or 11% of sales in Q4 2013. Net profit was negatively impacted by an increase in financial expenses as a result of negative exchange rate difference of USD 2 million compared to a positive exchange rate difference of USD 1 million in Q4 2013.

Cash generated by operations amounted to USD 29 million or 23% of sales, compared to USD 29 million or 22% of sales in Q4 2013.

Sales of bionic products in the quarter accounted for 19% of prosthetic component sales, compared to 15% in Q4 2013.

2014 FULL YEAR HIGHLIGHTS

Sales Performance

Sales amounted to USD 509 million compared to USD 436 million in 2013, corresponding to 18% growth and 5% organic growth, both measured in local currency.

Sales by Segments and Regions in 2014

USD m	2014	% of sales	Sales growth USD	Sales growth LCY	Organic sales growth LCY
Bracing and supports	296	58%	17%	18%	1%
Prosthetics	212	42%	16%	17%	11%
Other	1	0%	48%	42%	-8%
Total	**509**	**100%**	**17%**	**18%**	**5%**

USD m	2014	% of sales	Sales growth USD	Sales growth LCY	Organic sales growth LCY
EMEA	267	52%	30%	33%	7%
Americas	209	41%	1%	1%	1%
APAC	33	6%	41%	42%	16%
Total	**509**	**100%**	**17%**	**18%**	**5%**

Bracing and supports

Bracing and supports sales grew by 18% and 1% organic compared to 2013, both measured in local currency. Sales performance in EMEA was good in all main markets; Scandinavia, Germany, France and UK, while there was some turbulence in smaller markets, such as Russia and Turkey. Sales in Americas declined in the year as market conditions continued to be challenging. The sales performance was further affected by product rationalization efforts and more focus on high end products resulting in increased profitability. Sales performance in APAC continued to be good.

Prosthetics

Prosthetics sales grew by 17% and 11% organic compared to 2013, both measured in local currency. Sales performance in EMEA continued to be strong across all major markets and product lines. Sales performance in Americas was good and was driven by growth in all major product lines. The prosthetics market in Americas continued to show signs of stabilization and the effects from regulatory audits have temporarily subsided. All markets in APAC contributed to excellent sales growth.

Sales of bionic products in the year accounted for 17% of prosthetic component sales, compared to 13% in 2013.

Two small acquisitions were completed in APAC during the year, one in Q1 and the other in the beginning of Q3, further strengthening the sales platform in the region. These acquisitions and recent acquisition in Scandinavia are performing according to plan.

The strengthening of the USD against other major operating currencies, primarily in Q4, impacted the full year operating results negatively. Sales were negatively impacted by USD 7 million. Gross profit was negatively impacted by USD 5 million and EBITDA by USD 3 million.

Gross Profit

Gross profit amounted to USD 323 million and 63% of sales, compared to USD 270 million and 62% of sales in 2013. The increase in the gross profit margin when comparing to 2013 was a result of favorable product mix changes and efficiency in manufacturing while the margin was negatively impacted by currency fluctuations.

EBITDA

EBITDA increased by 38% and amounted to USD 104 million or 20% of sales, compared to USD 75 million or 17% of sales. EBITDA margin adjusted for one-time expenses was 18% of sales in 2013.

The increase in EBITDA and EBITDA margin was largely a result of improved gross profit margin and efficient operations. Currency fluctuations have marginal negative impact on the EBITDA margin when comparing to 2013.

Financial Items, Tax and Net Profit

Net financial expenses amounted to USD 8 million compared to USD 4 million in 2013. Net exchange rate difference was negative by USD 4 million compared to positive USD 1 million in 2013. However, interest expenses continue to decrease as a result of lower debt and lower interest rates on the debt.

Income tax amounted to USD 18 million, corresponding to a 24% effective tax rate, compared to USD 14 million and 26% effective tax rate in 2013. The drop in the effective tax rate in 2014 is due to a one-off revaluation of a deferred tax liability as a result of recent changes in state tax regulations in the US.

Net profit increased by 45% and amounted to USD 59 million or 12% of sales, compared to USD 41 million or 9% of sales in 2013.

Diluted earnings per share amounted to 13.1 US cents, compared to 9.1 US cents in 2013, increasing by 44%.

Cash Flow

Cash generated by operations amounted to USD 98 million or 19% of sales, compared to USD 73 million and 17% of sales in 2013. The good cash flow was driven by strong cash flow from operations and positive impact from net working capital.

Capital expenditures during the year amounted to USD 17 million or 3.3% of sales, compared to USD 17 million and 3.9% of sales in 2013.

Capital Structure, Share Buybacks and Dividends

Össur's dividend policy was updated in February 2015 by the Board of Directors and extended to a Capital Structure and Dividend Policy.

The Capital Structure and Dividend Policy

Össur's policy is to maintain a healthy balance sheet and a level of net interest bearing debt of USD 50-140 million.

Excess capital is returned to shareholders via annual cash dividends and/or purchase of own shares.

Össur's policy is to distribute a relatively stable cash dividend. The cash dividends will be decided annually in DKK per share.

Return of capital to shareholders is based on objectives of maintaining a solid financial position, operational outlook and investment requirements.

Share Buybacks and proposal to reduce share capital

In November 2014, Össur purchased 9,863,578 own shares (2.2% of the Company's share capital) on NASDAQ Iceland. The total purchase price was DKK 172 million (USD 29 million). The purpose of the share buyback transaction was to adjust the capital structure in line with the Company's desired capital level of net interest bearing debt in accordance with the Company's Capital Structure and Dividend Policy.

The Company currently holds 12,106,755 own shares. The Board of Directors will propose to the Annual General Meeting in 2015 to reduce the share capital by ISK 7,456,755 by way of cancelling 7,456,755 of the Company's own shares of ISK 1 nominal value each. If the motion is approved by the Annual General Meeting, the Company will hold 4,650,000 own shares that may be used to settle share options vesting in 2015.

Dividend for 2014

The Board of Directors will propose to the Annual General Meeting in 2015 that the Company pays a cash dividend of DKK 0.12 per share for 2014, an increase of 20% from 2013 and equivalent to 14% of net earnings in 2014.

Financial Guidance for 2015

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

Total sales growth is expected to be 4-6% and organic sales growth is expected to be 3-5%, both measured in local currency. The difference between the expected total sales growth and expected organic sales growth is due to full year impact from an acquisition in APAC made in Q3 2014. In prosthetics, continued good performance is expected in key markets although at lower growth rates than observed in 2014. In bracing and supports, EMEA and APAC sales performance is expected to be good, while sales in Americas will continue to be challenged by difficult market conditions and affected by product rationalization efforts and more focus on high end products.

EBITDA margin is expected to be in the range of 20-21% of sales. In 2014, adjusted EBITDA margin improved by 2 percentage points when comparing to 2013. In 2015, margins are expected to be stable to slightly improving, mainly driven by continued cost control, favorable product mix effects and efficiency in manufacturing.

Capital expenditures are expected to be in the range of 2.5-3.5% of sales and is in line with previous years.

Effective tax rate is expected to be around 26% and is in line with previous years, adjusted for the one-off effects discussed above in 2014.

Products

In 2014, 38 new products and product upgrades were introduced to the market; 26 bracing and supports products and 12 prosthetic products. Product highlights during the year include:

RHEO KNEE® 3 is the third generation of Össur's first bionic product. The new RHEO KNEE® 3 is suitable for a broader range of users, offering enhanced support, in particular for low active users.

Unity® for K2 Sensation® unifies three technologies, the K2 Sensation® foot, which has a flexible full length fiberglass keel, designed to promote user confidence and stability, the Seal In® X TF silicone liner, the latest innovation in Seal-in technology with a separate and moveable seal to suit individuals with above knee amputations and finally the new Unity system that generates elevated vacuum in the prosthetic socket through gait.

Rebound ® PCL is the world's first dynamic PCL brace. It is designed to apply a physiologically correct, dynamic force, optimum for rehabilitation of posterior cruciate ligament (PCL) ruptures, whether during functional (non-surgical) treatment or post-surgical reconstruction.

The Unloader® FIT is a lightweight and easy to fit osteoarthritis solution for individuals suffering from knee osteoarthritis.

Financial Calendar and Upcoming Events and Conferences

Össur's Annual General Meeting will be held at the Company's headquarters in Reykjavik on 12 March 2015. Agenda and proposals for the Annual General Meeting will be disclosed no later than 3 weeks prior to the meeting, 19 February 2015.

The next Capital Markets Day will be held in Copenhagen in June 2015. More details will follow in due course.

Financial Calendar	
2015 Annual General Meeting (IS)	12 March 2015
Q1 2015 Results	29 April 2015
Q2 2015 Results	23 July 2015
Q3 2015 Results	22 October 2015
Q4/FY 2015 Results	2 February 2016
2016 Annual General Meeting (IS)	10 March 2016

Upcoming Events and Conferences	
Morgan Stanley European Medtech & Services Conference (UK)	3-4 March 2015
Carnegie Healthcare Seminar (SE)	12 March 2015
DB Healthcare Conference (US)	6-7 May 2015
Össur's Capital Markets Day (DK)	June 2015

Further information:

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Sveinn Sölvason, CFO	Tel: +354 515 1300
Eva Sóley Guðbjörnsdóttir, VP of IR	Tel: +354 664 1155

Össur press releases by e-mail

If you wish to receive Össur press releases by e-mail please register at the web-site: www.ossur.com/investormailings.

About Össur

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

Forward-Looking Statements

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

Össur hf.

Consolidated Financial Statements

December 31st 2014

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Statement by the Board of Directors and President and CEO

It is the opinion of the Board of Directors and the President and CEO of Össur hf. (the Company), that these Consolidated Financial Statements present the necessary information to evaluate the financial position of the Company at year end, the operating results for the year and financial developments during the year 2014. Össur Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional Danish disclosure requirements for listed companies.

Össur hf. designs, manufactures and sells orthopaedic products specializing in prosthetics and bracing and supports solutions. The Company is headquartered in Iceland and the Company owns and operates subsidiaries in the United States, Canada, Mexico, Brazil, France, the Netherlands, Germany, United Kingdom, Sweden, Norway, Iceland, Spain, S-Africa, China, Hong Kong, Korea, Singapore and Australia. The Company sells its products world wide, but the principal market areas are North America and Europe.

The total sales of the Össur Consolidation amounted to USD 509.4 million, compared to USD 436.3 million in the preceding year. This represents an increase in sales of 16.8%. Net profit amounted to USD 59.5 million compared to USD 41.0 million in 2013. Diluted Earnings per Share amounted to US cents 13.1 compared to US cents 9.1 in 2013. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to USD 104.3 million compared to USD 75.5 million in the preceding year.

The total assets of the Össur Consolidation amounted to USD 677.8 million at year end, liabilities were USD 235.7 million and equity was USD 442.1 million. The equity ratio at year end was 65%, compared to 63% the preceding year.

In the course of the year the Company employed on average 2,214 employees and 2,233 at year end.

The Board of Directors and President and CEO of Össur hf. hereby confirm the Consolidated Financial Statements of Össur for the year 2014 with their signatures.

Össur is listed on the NASDAQ Copenhagen. The market value of the Company at year end was USD 1,311 million. During the year the share price in DKK increased by 69%. At year end, shareholders in Össur hf. numbered 3,272 compared to 2,748 at the beginning of the year. The ten largest shareholders and their ownership percentage are: William Demant Invest A/S - 41.2%, Lífeyrissjóður Verslunarmanna (Pension Fund)- 7.7%, Gildi lífeyrissjóður (Pension Fund) - 5.4%, Arbejdsmarkedets Tillægspension (Pension Fund) - 5.1%, Lífeyrissjóður starfsmanna ríkisins (Pension Fund) - 4.8%, JP Morgan Chase Bank - 3.8%, Stefnir IS-15 (Equity Fund) - 1.6%, Sameinaði lífeyrissjóðurinn (Pension Fund) - 1.4%, Stafir lífeyrissjóður (Pension Fund) - 1.3%, Topdanmark Livforsikring – 1.2%.

In its procedures, the Board of Directors complies with the Articles of Association of the Company, the Board of Directors' Rules of Procedure and follows the Danish Recommendations for Corporate Governance issued by the Danish Committee on Corporate Governance. The Rules of Procedure address issues such as allocation of responsibilities and power of decision within the Board, independency issues, confidentiality etc. An Audit Committee is present within the Board. The Board of Directors is composed of five members elected at each Annual General Meeting for a term of one year. The Board of Directors consists of two women and three men and therefore complies with Icelandic law on gender ratio which entered into effect on the 1st of September 2013. No Össur employee is sitting on the Board of Directors.

The Board of Directors recommends payment of dividends to shareholders in 2015 amounting to DKK 0.12 per share, this approximates USD 8 million and 14% of 2014 net profit. As regards to changes in the equity of the Company, the Board refers to the Notes attached to the Consolidated Financial Statements.

The Board of Directors and President and CEO of Össur hf. hereby confirm the Consolidated Financial Statements of Össur for the year 2014 with their signatures.

Reykjavík, 5 February 2015

Board of Directors

Niels Jacobsen
Chairman of the Board

Arne Boye Nielsen

Kristján T. Ragnarsson

Guðbjörg Edda Eggertsdóttir

Svafa Grönfeldt

President and CEO

Jón Sigurðsson

Independent Auditor's Report

To the Board of Directors and Shareholders of Össur hf.

We have audited the accompanying financial statements of Össur hf, which comprise the statement of Board of Directors and the CEO, balance sheet as of 31 December, 2014, the income statement, statement of comprehensive income, statement of cash flow and statement of changes in equity, for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's and the Board of directors Responsibility for the Financial Statements

Management and the board of directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and additional Danish disclosure requirements for listed companies and for such internal control as management and the board of directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

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

Opinion

In our opinion, the Consolidated Financial Statements gives a true and fair view, of the financial position of Össur hf. as of 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and additional Danish disclosure requirements for listed companies.

Kópavogur, 5 February 2015

Deloitte ehf.

Þorsteinn Pétur Guðjónsson	Signý Magnúsdóttir
State Authorized Public Accountant	State Authorized Public Accountant

Consolidated Income Statement 2014 and 2013

All amounts in USD '000	Notes	2014	2013	Unaudited Q4 2014	 Q4 2013
Net sales	2	509,357	436,274	129,300	128,472
Cost of goods sold		(186,231)	(166,336)	(47,823)	(48,583)
Gross profit		**323,126**	**269,938**	**81,477**	**79,889**
Other income		188	363	68	24
Sales and marketing expenses		(168,296)	(139,080)	(43,248)	(42,501)
Research and development expenses		(19,428)	(21,537)	(4,583)	(5,493)
General and administrative expenses		(49,651)	(49,477)	(12,600)	(12,242)
Earnings before interest and tax (EBIT)		**85,939**	**60,207**	**21,114**	**19,677**
Financial income		207	217	24	27
Financial expenses		(3,968)	(4,619)	(1,021)	(1,260)
Net exchange rate difference		(4,351)	681	(1,965)	640
Net financial income / (expenses)	5	(8,112)	(3,721)	(2,962)	(593)
Share in net profit / (loss) of associated companies		0	(1,197)	(5)	14
Earnings before tax (EBT)		**77,827**	**55,289**	**18,147**	**19,098**
Income tax	6	(18,369)	(14,335)	(3,248)	(4,968)
Net profit		**59,458**	**40,954**	**14,899**	**14,130**
Attributable to:					
Owners of the Company		59,447	40,483	14,998	13,659
Non-controlling interests		11	471	(99)	471
		59,458	**40,954**	**14,899**	**14,130**
Earnings per share	7				
Basic earnings per share (US cent)		13.2	9.1	3.3	3.1
Diluted earnings per share (US cent)		13.1	9.1	3.3	3.1

Consolidated Statement of Comprehensive Income 2014 and 2013

All amounts in USD '000	Notes	2014	2013	Unaudited Q4 2014	Unaudited Q4 2013
Net profit		59,458	40,954	14,899	14,130
Items that will not be reclassified subsequently to profit or loss:					
Defined benefit plan actuarial gains/losses		(862)	0	(862)	0
Income tax relating to components of other comprehensive income		254	0	254	0
		(608)	**0**	**(608)**	**0**
Items that may be reclassified subsequently to profit or loss:					
Change in cash flow hedges		622	1,036	135	199
Translation difference of shares in foreign operations		(24,498)	1,055	(8,767)	148
Income tax relating to components of other comprehensive income		(1,270)	538	(50)	294
		(25,754)	**2,629**	**(9,290)**	**641**
Total comprehensive income		**33,704**	**43,583**	**5,608**	**14,771**
Attributable to:					
Owners of the Company		33,693	43,112	5,707	14,300
Non-controlling interests		11	471	(99)	471
		33,704	**43,583**	**5,608**	**14,771**

Consolidated Balance Sheet

Assets

All amounts in USD '000	Notes	31.12.2014	31.12.2013
Property, plant and equipment	9	39,895	40,360
Goodwill	10	388,100	396,601
Other intangible assets	11	41,039	47,871
Other financial assets	13	10,007	5,486
Deferred tax assets	23	21,038	22,159
Non-current assets		**500,079**	**512,477**
Inventories	14	64,224	66,825
Accounts receivables	15	69,474	71,239
Other assets	16	15,522	13,938
Bank balances and cash	17	28,484	41,769
Current assets		**177,704**	**193,771**
Total assets		**677,783**	**706,248**

31 December 2014 and 31 December 2013

Equity and liabilities

All amounts in USD '000	Notes	31.12.2014	31.12.2013
Issued capital	18	169,198	198,365
Reserves		(21,421)	4,083
Retained earnings		293,055	244,202
Equity attributable to owners of the Company		440,832	446,650
Non-controlling interest in equity		1,292	1,387
Total equity		**442,124**	**448,037**
Borrowings	20	121,718	129,556
Defined employee benefits	21	283	0
Deferred tax liabilities	23	21,335	21,117
Provisions	24	6,629	4,751
Other financial liabilities	22	471	1,264
Non-current liabilities		**150,436**	**156,688**
Borrowings	20	101	19,998
Accounts payable		17,504	21,070
Taxes payable		12,651	6,342
Provisions	24	3,770	4,491
Accrued salaries and related expenses		28,101	25,951
Other liabilities	26	23,096	23,671
Current liabilities		**85,223**	**101,523**
Total equity and liabilities		**677,783**	**706,248**

Consolidated Statement of Cash Flows 2014 and 2013

All amounts in USD '000	Notes	2014	2013	Unaudited Q4 2014	Q4 2013
Profit from operations		85,939	60,207	21,114	19,677
Depreciation and amortization	9, 11	18,398	15,266	4,907	4,677
(Gain) / loss on disposal of assets		69	119	17	(2)
Change in provisions		(150)	(408)	(7)	(167)
Changes in operating assets and liabilities		(6,390)	(2,555)	3,232	4,521
Cash generated by operations		**97,866**	**72,629**	**29,263**	**28,706**
Interest received		309	199	186	8
Interest paid		(3,089)	(3,426)	(554)	(909)
Income tax (paid)/received		(9,953)	(3,248)	(3,478)	(1,828)
Net cash provided by operating activities		**85,133**	**66,154**	**25,417**	**25,977**
Purchase of fixed and intangible assets	9, 11	(16,770)	(17,052)	(5,740)	(4,275)
Proceeds from sale of fixed assets		48	103	35	22
Acquisition of subsidiaries		(18,767)	(64,238)	(1,864)	(53,254)
Changes in financial assets		(5,333)	326	(358)	(88)
Cash flows from investing activities		**(40,822)**	**(80,861)**	**(7,927)**	**(57,595)**
Proceeds from long-term borrowings		51,870	866	2,670	423
Repayments of long-term borrowings		(69,483)	(21,424)	(553)	(6,266)
Changes in revolving credit facility		(939)	61,630	12,935	(2,479)
Payment of dividends		(8,401)	(7,861)	0	0
Dividends from subsidiaries paid to non-controlling interests		0	(428)	0	(72)
Purchased treasury shares		(29,167)	0	(29,167)	0
Cash flows from financing activities		**(56,120)**	**32,783**	**(14,115)**	**(8,394)**
Net change in cash		(11,809)	18,076	3,375	(40,012)
Effects of exchange rate changes on:					
Balance of cash held in foreign currencies		(3,880)	(393)	(6,374)	(189)
Other items held in foreign currencies		2,404	2,208	5,238	1,152
Cash at beginning of period		41,769	21,878	26,245	80,818
Cash at end of period		**28,484**	**41,769**	**28,484**	**41,769**

Additional information regarding cash flow 8

Consolidated Statement of Changes in Equity for the period ended 31 December 2014

All amounts in USD '000	Share capital	Share premium	Statutory reserve	Share option reserve	Fair value reserve	Translation reserve	Accumulated profits	Attributable to owners of the parent	Non-controlling interests	Total equity
Balance at 1 January 2013	5,024	188,767	1,267	958	(1,587)	453	211,971	**406,853**	881	**407,734**
Net profit							40,483	**40,483**	471	**40,954**
Change in cash flow hedges net of tax					852			**852**		**852**
Translation difference of shares in foreign operations						1,777		**1,777**		**1,777**
Total comprehensive income for the period	0	0	0	0	852	1,777	40,483	**43,112**	471	**43,583**
Payment of dividends							(7,861)	**(7,861)**	(428)	**(8,289)**
Share option charge for the period				847				**847**		**847**
Share options forfeited				(298)				**(298)**		**(298)**
Share option vested during the period				(186)				**(186)**		**(186)**
Arising on acquisition								**0**	463	**463**
Movement of treasury shares	24	4,550					(391)	**4,183**		**4,183**
Balance at 31 December 2013	**5,048**	**193,317**	**1,267**	**1,321**	**(735)**	**2,230**	**244,202**	**446,650**	**1,387**	**448,037**
Net profit							59,447	**59,447**	11	**59,458**
Change in cash flow hedges net of tax					486			**486**		**486**
Translation difference of shares in foreign operations						(25,632)		**(25,632)**		**(25,632)**
Defined benefit plan actuarial gains/losses					(608)			**(608)**		**(608)**
Total comprehensive income for the period	0	0	0	0	(122)	(25,632)	59,447	**33,693**	11	**33,704**
Payment of dividends							(8,401)	**(8,401)**		**(8,401)**
Share option charge for the period				723				**723**		**723**
Share option vested during the period				(473)				**(473)**		**(473)**
Acquisition of Non-controlling interests							(2,193)	**(2,193)**	(106)	**(2,299)**
Purchase of treasury shares	(80)	(29,087)						**(29,167)**		**(29,167)**
Balance at 31 December 2014	**4,968**	**164,230**	**1,267**	**1,571**	**(857)**	**(23,402)**	**293,055**	**440,832**	**1,292**	**442,124**

Notes to the Consolidated Financial Statements

1. Quarterly statements

Quarterly information are not audited as the Company only requires an audit for the full year.

	Full year	Unaudited			
		Q4	Q3	Q2	Q1
	2014	2014	2014	2014	2014
Net sales	509,357	129,300	126,510	132,645	120,902
Cost of goods sold	(186,231)	(47,823)	(45,517)	(47,586)	(45,305)
Gross profit	323,126	81,477	80,993	85,059	75,597
Gross profit margin	63%	63%	64%	64%	63%
Other income	188	68	37	75	8
Sales and marketing expenses	(168,296)	(43,248)	(39,747)	(43,446)	(41,855)
Research and development expenses	(19,428)	(4,583)	(4,682)	(4,924)	(5,239)
General and administrative expenses	(49,651)	(12,600)	(12,183)	(12,195)	(12,673)
EBIT	85,939	21,114	24,418	24,569	15,838
Net financial income /(expenses)	(3,761)	(997)	(582)	(1,332)	(850)
Net exchange rate difference	(4,351)	(1,965)	(2,569)	(147)	330
Share in profit of associated companies	0	(5)	(4)	3	6
EBT	77,827	18,147	21,263	23,093	15,324
Income tax	(18,369)	(3,248)	(5,249)	(5,846)	(4,026)
Net profit	**59,458**	**14,899**	**16,014**	**17,247**	**11,298**
EBITDA	104,337	26,021	28,970	29,085	20,261
EBITDA ratio	20%	20%	23%	22%	17%

2. Net sales

Specified according to geographical segments:	2014	2013	Unaudited Q4 2014	Q4 2013
EMEA	267,098	206,008	67,178	69,430
Americas	209,195	206,773	52,856	52,980
APAC	33,064	23,493	9,266	6,062
	509,357	**436,274**	**129,300**	**128,472**

Specified according to product lines:

Bracing and Supports	295,585	252,764	75,408	78,637
Prosthetics	212,388	182,578	53,471	49,553
Other products	1,384	932	421	282
	509,357	**436,274**	**129,300**	**128,472**

3. Segment information

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

2014	**Americas**	**EMEA**	**APAC**	**Eliminations**	**Consolidated**
Sales					
External sales	209,195	267,098	33,064	0	509,357
Inter-segment sales	48,752	174,579	1,555	(224,886)	0
Total sales	257,947	441,677	34,619	(224,886)	509,357
Results					
Segment results	27,535	50,865	7,539	0	85,939
Financial income/(expenses)					(8,112)
Share in net profit of associated companies					0
EBT					77,827
Income tax					(18,369)
Net profit					**59,458**
Balance sheet 31.12.2014					
Assets					
Segment assets	523,178	510,435	40,910	(396,740)	677,783
Liabilities					
Segment liabilities	232,893	424,218	25,403	(446,855)	235,659
Other information 2014					
Capital additions	6,161	10,456	153	0	16,770
Depreciation and amortization	6,227	11,896	275	0	18,398

Sales of approximately USD 23 million (2013: USD 21 million) arose from sales to the Company's largest customer.

2013	**Americas**	**EMEA**	**APAC**	**Eliminations**	**Consolidated**
Sales					
External sales	206,773	206,008	23,493	0	436,274
Inter-segment sales	45,693	146,909	0	(192,602)	0
Total sales	252,466	352,917	23,493	(192,602)	436,274
Results					
Segment results	18,275	37,079	4,853	0	60,207
Financial income/(expenses)					(3,721)
Share in net profit of associated companies					(1,197)
EBT					55,289
Income tax					(14,335)
Net profit					**40,954**
Balance sheet 31.12.2013					
Assets					
Segment assets	497,729	530,303	17,891	(339,675)	706,248
Liabilities					
Segment liabilities	199,422	408,574	7,859	(357,644)	258,211
Other information 2013					
Capital additions	9,042	7,655	355	0	17,052
Depreciation and amortization	5,481	9,427	358	0	15,266

Notes to the Consolidated Financial Statements

4. Salaries

	2014	2013
Salaries	150,297	132,669
Salary-related expenses	30,224	29,023
	180,521	**161,692**

Included in salary-related expense are pension related expenses amounting to USD 7.2 million (2013: USD 5.8 million).

Full time employees (FTE) on average	2,214	1,765
Full time employees at period end	2,233	2,097

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

	2014	2013
Cost of goods sold	43,059	46,094
Sales and marketing	94,812	75,366
Research and development	11,171	11,472
General and administrative	31,479	28,760
	180,521	**161,692**

Management salaries and benefits

Board of Directors:	Salaries and related exp.	Stock options	Shares owned
Niels Jacobsen - Chairman of the Board[(i)]	93	0	187,279,233
Kristján Tómas Ragnarsson - Vice Chairman	52	0	623,789
Arne Boye Nielsen	37	0	0
Guðbjörg Edda Eggertsdóttir	37	0	26,318
Svafa Grönfeldt	37	0	0

(i) Shares owned by William Demant Invest A/S which Niels Jacobsen represents on the Board. Niels and financially related parties own personally 193,405 shares.

2014	Fixed base salary	Cash based incentive	Pension	Other benefits	Share based incentive	Total remuneration
Executive Management:						
Jón Sigurðsson President and CEO(i)	899	533	0	153	153	1,739
Executive management (6 people) (ii)	1,820	513	145	40	266	2,784
	2,720	**1,046**	**145**	**193**	**419**	**4,523**

2013	Fixed base salary	Cash based incentive	Pension	Other benefits	Share based incentive	Total remuneration
Executive Management:						
Jón Sigurðsson President and CEO(i)	897	375	0	153	153	1,578
Executive management (9 people) (ii)	2,156	311	181	132	269	3,049
	3,053	**686**	**181**	**285**	**422**	**4,627**

(i) Shares owned by Jón Sigurðsson 458.834 (2013: 381.168)
(ii) Shares owned by members of executive management 836.849 (2013: 836.849)

5. Financial income / (expenses)

	2014	2013	Unaudited Q4 2014	Unaudited Q4 2013
Interests on bank deposits	91	77	7	29
Other financial income	116	140	38	(2)
Financial income	**207**	**217**	**45**	**27**
Interests on loans	(3,393)	(3,979)	(704)	(1,015)
Other financial expenses	(575)	(640)	(191)	(245)
Financial expenses	**(3,968)**	**(4,619)**	**(895)**	**(1,260)**
Net exchange rate differences	(4,351)	681	(2,112)	640
Net financial income / (expenses)	**(8,112)**	**(3,721)**	**(2,962)**	**(593)**

6. Income tax

			Unaudited	
	2014	**2013**	**Q4 2014**	**Q4 2013**
Current tax expenses	(16,365)	(9,370)	(3,911)	(3,106)
Deferred tax expenses	(2,004)	(4,965)	663	(1,862)
	(18,369)	**(14,335)**	**(3,248)**	**(4,968)**

	2014		2013	
	Amount	**%**	**Amount**	**%**
Profit before taxes	77,827		55,289	
Income tax calculated at 20%	(15,565)	20%	(11,058)	20%
Effect of different tax rates of other jurisdictions	(3,617)	5%	(2,823)	5%
Effect of non-deductible expenses / nontaxable income	(186)	0%	(289)	1%
Effect of change in tax rate	1,393	(2%)	0	0%
Other effects	(394)	1%	(165)	0%
	(18,369)	**24%**	**(14,335)**	**26%**

Deferred tax:	**2014**	**2013**
Origination and reversal of temporary differences	(3,373)	(5,010)
Write-downs (reversals of previous write-downs) of deferred tax assets	(24)	0
Losses (recognized) and utilized	0	42
Effect of changes in tax rate	1,393	3
	(2,004)	**(4,965)**

Deferred tax balances:

2014	**1.1.2014**	**Recognized in Income statement**	**Recognized directly in equity**	**Acquisitions / disposals**	**Exc. rate difference**	**Reclassified**	**31.12.2014**
Goodwill	5,438	(2,714)			94		2,818
Intangible assets	(5,952)	(65)		(505)	755		(5,767)
Operating fixed assets	(2,421)	(610)			28		(3,003)
Tax loss carry forward	2,789	1,697			(11)		4,475
Inventories	1,772	16		(12)	(22)		1,754
Provisions	204	(134)		73	(12)		131
Current liabilities	253	(997)		29	177		(538)
Receivables	(728)	61		(1)	()		(668)
Other	(313)	742	118		(46)		501
Total	**1,042**	**(2,004)**	**118**	**(416)**	**963**	**0**	**(297)**

2013	**1.1.2013**	**Recognized in Income statement**	**Recognized directly in equity**	**Acquisitions / disposals**	**Exc. rate difference**	**Reclassified**	**31.12.2013**
Goodwill	10,268	(4,819)			(11)		5,438
Intangible assets	(4,687)	704		(1,978)	(216)	225	(5,952)
Operating fixed assets	(889)	(1,347)		44	(4)	(225)	(2,421)
Tax loss carry forward	688	1,816		283	2		2,789
Inventories	1,743	(94)		124	(1)		1,772
Provisions	(598)	811		(1)	(8)		204
Current liabilities	2,123	(882)		(982)	(6)		253
Receivables	(744)	14			2		(728)
Other	974	(1,168)	(82)	(51)	14		(313)
Total	**8,878**	**(4,965)**	**(82)**	**(2,561)**	**(228)**	**0**	**1,042**

Notes to the Consolidated Financial Statements

7. Earnings per share

	2014	2013	Unaudited Q4 2014	Unaudited Q4 2013
Net profit	59,458	40,954	14,899	14,130
Total weighted average number of ordinary shares (in thousands)	450,318	449,638	446,789	452,328
Total average number of shares including potential shares (in thousan	452,711	449,850	449,735	453,333
Basic earnings per share (US cent)	13.2	9.1	3.3	3.1
Diluted earnings per share (US cent)	13.1	9.1	3.3	3.1
Cash earnings per share	17.3	12.5	4.4	4.2
Diluted cash earnings per share	17.2	12.5	4.4	4.1

8. Additional information regarding cash flow

	2014	2013	Unaudited Q4 2014	Unaudited Q4 2013
Net profit	59,458	40,954	14,899	14,130
Items not affecting cash	20,151	22,393	4,004	6,724
Working capital provided by operating activities	79,609	63,347	18,903	20,854
(Increase) / decrease in inventories	(1,110)	317	(2,857)	(1,959)
(Increase) / decrease in receivables	(5,157)	(7,590)	1,032	3,193
Increase / (decrease) in payables	11,791	10,080	8,339	3,889
Net cash provided by operating activities	**85,133**	**66,154**	**25,417**	**25,977**

9. Property, plant and equipment

2014	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Total
Cost				
At 1 January	15,184	58,023	33,300	106,507
Additions	151	9,396	2,460	12,007
Acquired on acquisition of subsidiary	0	542	281	823
Exchange rate differences	(2,122)	(1,628)	(1,653)	(5,403)
Eliminated on disposal	(68)	(472)	(82)	(622)
Fully depreciated assets	0	(4,433)	(3,449)	(7,882)
At 31 December	13,145	61,428	30,858	105,431
Depreciation				
At 1 January	9,452	38,457	18,238	66,147
Charge for the period	423	6,768	3,505	10,696
Acquired on acquisition of subsidiary	0	317	115	432
Exchange rate differences	(1,398)	(1,494)	(454)	(3,345)
Eliminated on disposal	(68)	(371)	(73)	(512)
Fully depreciated assets	0	(4,433)	(3,449)	(7,882)
At 31 December	8,409	39,245	17,883	65,536
At 31 December 2014	**4,736**	**22,184**	**12,976**	**39,895**

Notes to the Consolidated Financial Statements

2013	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Total
Cost				
At 1 January	14,155	42,464	26,959	83,578
Additions	544	6,913	5,128	12,585
Acquired on acquisition of subsidiary	429	10,634	4,011	15,074
Exchange rate differences	657	721	263	1,641
Eliminated on disposal	(601)	(287)	(1,971)	(2,859)
Fully depreciated assets	0	(2,422)	(1,090)	(3,512)
At 31 December	15,184	58,023	33,300	106,507
Depreciation				
At 1 January	8,734	25,047	14,308	48,089
Charge for the period	403	5,707	3,451	9,561
Acquired on acquisition of subsidiary	316	9,736	3,335	13,387
Exchange rate differences	470	581	202	1,253
Eliminated on disposal	(471)	(192)	(1,968)	(2,631)
Fully depreciated assets	0	(2,422)	(1,090)	(3,512)
At 31 December	9,452	38,457	18,238	66,147
At 31 December 2013	**5,732**	**19,566**	**15,062**	**40,360**

			Unaudited	
Depreciation classified by operational category:	**2014**	**2013**	**Q4 2014**	**Q4 2013**
Cost of goods sold	5,897	4,811	1,676	1,269
Sales and marketing expenses	1,473	1,131	269	451
Research and development expenses	421	473	95	136
General and administrative expenses	2,905	3,146	723	759
	10,696	**9,561**	**2,763**	**2,615**

Assets pledged as security

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

10. Goodwill

	31.12.2014	31.12.2013
At 1 January	396,601	348,935
Arising on acquisition of subsidiaries	15,941	43,473
Exchange rate differences	(24,442)	4,193
At 31 December	**388,100**	**396,601**

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.

10.1 Allocation of goodwill to cash-generating units

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

	WACC %	31.12.2014	31.12.2013
Americas	7.9 / 8.7	223,790	225,717
EMEA	7.4 / 8.9	146,857	167,976
APAC	8.3 / 9.1	17,453	2,907
		388,100	**396,601**

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 2015 approved by management and the Board of Directors. The discount rate of 7.4 - 8.3% (2013: 8.7 - 9.1%) per annum was used.

Cash flow projections in the forecast are based on the same expected gross margins and raw materials prices throughout the period. Cash flows beyond 2019 have been extrapolated using a steady 3% per annum growth rate for all segments. This growth rate does not exceed the long-term average growth rate for the market in each market area. Management believes that any reasonably further change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

At balance sheet date an intangible asset with indefinite useful life is allocated to the EMEA cash-generating unit amounting to USD 14.0 million (2013: USD 15.4 million). Initial accounting for the newly acquired companies has been provisionally accounted for at year end. Adjustment to provisional amounts in the measurement period could lead to a reclass from goodwill.

11. Other intangible assets

2014	Cust./distrib relationships	Patents	Trademarks	Software and other	Total
Cost					
At 1 January	36,408	4,287	16,640	24,315	81,650
Additions	0	172	0	2,295	2,467
Additions - internally generated	0	0	0	2,296	2,296
Acquired on acquisition of subsidiary	391	0	0	0	391
Fully depreciated assets	0	(538)	0	(1,016)	(1,554)
Exchange rate differences	(3,886)	(179)	(2,002)	(400)	(6,467)
At 31 December	32,913	3,742	14,638	27,490	78,783
Amortization					
At 1 January	18,481	2,190	767	12,341	33,779
Charge for the period	4,265	130	0	3,307	7,702
Fully depreciated assets	0	(538)	0	(1,016)	(1,554)
Exchange rate differences	(1,904)	(139)	(171)	31	(2,183)
At 31 December	20,842	1,643	596	14,663	37,744
At 31 December 2014	**12,071**	**2,099**	**14,042**	**12,827**	**41,039**

Notes to the Consolidated Financial Statements

2013	Cust. / distrib relationships	Patents	Trademarks	Software and other	Total
Cost					
At 1 January	24,065	4,806	15,826	17,951	62,648
Additions	0	165	105	2,333	2,603
Additions - internally generated	0	0	0	1,864	1,864
Acquired on acquisition of subsidiary	11,255	0	0	1,764	13,019
Purchase price allocation	237	1,372	0	699	2,308
Fully depreciated assets	0	(2,133)	0	(354)	(2,487)
Exchange rate differences	851	77	709	58	1,695
At 31 December	36,408	4,287	16,640	24,315	81,650
Amortization					
At 1 January	15,011	4,140	708	9,653	29,512
Charge for the period	2,934	157	8	2,606	5,705
Acquired on acquisition of subsidiary	0	0	0	421	421
Fully depreciated assets	0	(2,133)	0	(354)	(2,487)
Exchange rate differences	536	26	51	15	628
At 31 December	18,481	2,190	767	12,341	33,779
At 31 December 2013	**17,927**	**2,097**	**15,873**	**11,974**	**47,871**

			Unaudited	
Amortization classified by operational category:	**2014**	**2013**	**Q4 2014**	**Q4 2013**
Cost of goods sold	775	554	228	160
Sales and marketing expenses	5,080	3,555	1,279	1,237
Research and development expenses	104	214	21	39
General and administrative expenses	1,743	1,382	616	626
	7,702	**5,705**	**2,144**	**2,062**

The Gibaud trademarks amounting to USD 14.0 million (2013: USD 15.4 million) are estimated to have infinitive life. The trademark has been well established within the French market since the foundation of the company in 1890.

12. The Consolidation

The main operation is carried out in the following companies:

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

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

13. Other financial assets

	31.12.2014	31.12.2013
Investment in associates	7,485	2,493
Restricted cash	1,263	1,617
Loans and receivables	1,259	1,376
	10,007	**5,486**

Investments in associates

	31.12.2014	31.12.2013
At 1 January	2,493	4,145
Additions	5,000	0
Share in net profit / (loss)	0	(1,196)
Sold associates	0	(456)
Exchange rate differences	(8)	0
At end of period	**7,485**	**2,493**

14. Inventories

	31.12.2014	31.12.2013
Raw material	14,808	14,787
Work in progress	6,302	5,347
Finished goods	43,114	46,691
	64,224	**66,825**

Inventories of USD 3.5 million (2013: USD 3.3 million) are expected to be sold or used in production after more than twelve months.

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 10.5 million (2013: USD 10.1 million) were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 3.2 million (2013: USD 3.2 million) is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

The cost of inventories recognized as an expense includes USD 2.2 million (2013: USD 1.6 million) in respect of write-downs of inventory to net realizable value. Reserve for obsolete inventories at year end is USD 5.2 million compared to USD 4.5 million in 2013.

15. Accounts receivables

	31.12.2014	31.12.2013
Nominal value	72,093	74,113
Allowances for doubtful accounts	(1,665)	(1,934)
Allowances for sales return	(954)	(940)
	69,474	**71,239**

The average credit period on sales of goods is 42 days (2013: 44 days). Allowance has been made for doubtful accounts and sales returns, this allowance has been determined by management in reference to past default experience. Management considers that the carrying amount of receivables approximates their fair value.

Aging of accounts receivables

	31.12.2014	31.12.2013
Less than three months	61,535	66,827
Three to six months	6,417	4,223
Six to nine months	1,887	663
Older than nine months	2,254	2,400
	72,093	**74,113**

Movement in the allowance for doubtful accounts

	2014	2013
At 1 January	(1,934)	(1,886)
Impairment (losses)/gains recognized on receivables	(94)	(1,031)
Amounts written off as uncollectible	257	1,021
Exchange rate difference	106	(38)
At 31 December	**(1,665)**	**(1,934)**

In determining the recoverability of accounts receivable, the Company considers any change in the credit quality of the accounts receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believe that there is no further credit provision required in excess of the allowance for doubtful debts. Within accounts receivables are USD 7.2 million (2013: USD 6.8 million) with more than 30 days past due of which USD 5.6 million (2013: USD 4.9 million) is considered recoverable.

16. Other assets

	31.12.2014	31.12.2013
VAT refundable	3,607	3,603
Prepaid expenses	8,533	7,799
Taxes receivable	45	427
Other	3,337	2,109
	15,522	**13,938**

17. Bank balances and cash

	31.12.2014	31.12.2013
Bank accounts	24,897	38,853
Bankers draft received	3,516	2,856
Cash and other cash equivalents	71	60
	28,484	**41,769**

18. Issued capital

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

	Shares	Nominal value
Balance at 1 January 2013	453,750	5,068
Purchased treasury shares	(2,243)	(20)
Balance at 31 December 2013	451,507	5,048
Purchased treasury shares	(9,864)	(80)
Balance at 31 December 2014	**441,643**	**4,968**

Total shares issued at balance sheet date are 453,750,008. The nominal value of each share is one Icelandic Króna. All shares are fully paid.

	Share capital	Share premium	Issued capital
Balance at 1 January 2013	5,024	188,767	193,791
Movement in treasury shares	24	4,550	4,574
Balance at 31 December 2013	5,048	193,317	198,365
Movement in treasury shares	(80)	(29,087)	(29,167)
Balance at 31 December 2014	**4,968**	**164,230**	**169,198**

19. Share option contracts and obligations to increase share capital

19.1 Employee share option plan

The Company has in place a share option plan, approved at the Company's Annual General Meetings, under which managers may be granted options to purchase ordinary shares at an exercise price. The exercise price of each share option is determined by the average closing price on shares traded in the OMX Copenhagen stock exchange over the 20 trading days prior to the issue date. The employee must remain continuously employed with the Company until expiring date, either as an employee or in any other way, deemed satisfactory by the Company.

Each employee share option converts into one ordinary share on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights and are valued using the Black-Scholes pricing model. The expected volatility assumptions used to value the options range from 31.7% to 33.7% and the annual discount rate range from 0.3% to 0.6%. The options expire one month after the exercise date. If a share option vests during a closed period for insider trading the vesting period is automatically extended until the next open window for insider trading.

The following share-based payment arrangements were in existence at balance sheet date:

	Number of shares	Grant / Issue year	Exercise year	Exercise price (in DKK)	Fair value at grant date (in DKK)
Issued to executive management:					
Jón Sigurðsson President and CEO	1,250,000	2012	2015	8.6	8.8
Members of executive management (4 persons)	1,600,000	2012	2015	8.6 / 8.7	8.8
Members of executive management (2 persons)	700,000	2013	2016	7.8 / 7.9	7.4 / 7.9
	3,550,000				
Issued to management team:					
Eighteen managers	1,800,000	2012	2015	8.7	8.8
Six managers	600,000	2013	2016	7.7 - 7.9	7.4 - 7.9
	2,400,000				
Total issued option contracts	**5,950,000**				

19.2 Movements in share options during the period

	31.12.2014		31.12.2013	
	Number of shares	Weighted average contract rate (in DKK)	Number of shares	Weighted average contract rate (in DKK)
Outstanding at beginning of period	6,350,000	8.3	6,750,000	8.3
Granted during period	0	0.0	1,400,000	7.8
Forfeited during period	0	0.0	(1,600,000)	8.4
Exercised during period	(400,000)	6.2	(200,000)	4.4
Outstanding at end of period	**5,950,000**	**8.4**	**6,350,000**	**8.3**

19.3 Share options exercised during the period

	Number exercised	Exercise date	Share price at exercise date (in DKK)
Issued to Executive Management	200,000	5.2.2014	11.3
Issued to Management team	100,000	5.2.2014	11.3
Issued to Management team	100,000	1.4.2014	12.3
Total exercised during the year	400,000		

Estimated remaining cost due to the share option contracts is USD 0.3 million (2013: USD 1.1 million). An expense of USD 0.7 million (2013:USD 0.5 million) is recognized in the Income Statement for the period.

20. Borrowings

	31.12.2014		31.12.2013	
	Current	Non-current	Current	Non-current
Loans in USD	101	23,810	12,881	35,677
Loans in EUR	0	24,036	6,594	12,522
Revolver in USD	0	34,450	0	8,500
Revolver in EUR	0	38,719	0	71,926
Other borrowings	0	703	523	931
	101	**121,718**	**19,998**	**129,556**

The maturity of the revolving credit facility is Q2 2019. The Company has classified the revolving credit facility as non-current liability as the intention is to use it to finance further growth of the Company.

Aggregated maturities of borrowings are as follows:

	31.12.2014	31.12.2013
In 2015 / 2014	101	19,998
In 2016 / 2015	794	20,338
In 2017 / 2016	23,877	109,218
In 2018 / 2017	23,877	0
In 2019 / 2018	73,170	0
	121,819	**149,554**

In Q2 2014 Össur extended the Company's long term financing agreement by three years, now maturing in Q2 2019. Össur's banking partners continue to be ING, Nordea and SEB. The total facility is USD 195m and is secured with shares in Össur's larger subsidiaries. The facility contains covenants that place various financial and operational restrictions on the company. The covenants are in line with market standard for investment grade rated companies. Current average interest terms are 100 bps + LIBOR/EURIBOR, changing in line with financial leverage.

21. Defined employee benefits

With an acquisition at end of 2013, the Group acquired a defined benefit retirement plan. At year end 2013 the net defined benefit asset was included within other financial assets.

Defined benefit asset / liability

	31.12.2014	31.12.2013
Fair value of plan assets	3,300	3,763
Present value of obligation	(3,583)	(3,542)
Net liability /asset arising from defined benefit obligation	**(283)**	**221**

Plan assets	31.12.2014	31.12.2013
Equity securities	327	286
Property occupied by the Group	495	625
Held to maturity bonds	1,175	1,501
Bonds	1,234	1,264
Others	69	87
	3,300	**3,763**

Movements on the defined benefit asset / liability

	Assets	Liabilities
Beginning of period	3,763	(3,542)
Contributions paid into the plan	268	0
Benefits paid	(100)	108
Service cost	0	(308)
Expected return on plan assets	149	0
Actuarial gains / losses (through equity)	(37)	(487)
Exchange rate differences	(717)	665
Other	(26)	(19)
At 31 December 2014	**3,300**	**(3,583)**

Expense recognized in profit and loss

	2014
Service costs	170
Interests on obligation	138
Expected return on plan assets	(149)
Other	85
	244
Expense classified by operational category:	
Cost of goods sold	56
Sales and marketing expense	173
R&D expenses	0
General and administrative expenses	15
	244

Actuarial gains and losses recognized in equity

	2014	2013
Amount accumulated at beginning of period	0	0
Recognized during year (net of taxes)	(383)	0
At end of period	**(383)**	**0**

Principal assumptions used for actuarial valuations

	31.12.2014	31.12.2013
Discount rates	3.0%	4.1%
Expected rate of salary increase	3.3%	3.8%
Expected return on plan assets at beginning of year	3.0%	4.1%
Future salary increases	3.3%	3.8%
Medical cost trend rate	3.0%	3.5%
Future pension increases	0.1%	0.6%

22. Other financial liabilities

At balance sheet date, two interest rate swap agreements are effective, with a negative value of USD 0.5 million (2013: negative USD 1.2 million).

23. Deferred tax asset / (liability)

	31.12.2014	31.12.2013
At beginning of period	1,042	8,878
Income tax payable for the period	16,365	9,370
Calculated tax for the period	(18,369)	(14,335)
Arising on acquisition of a subsidiary	(416)	(2,561)
Recognized directly through equity	118	(82)
Exchange rate differences	963	(228)
At end of period	**(297)**	**1,042**
Deferred tax in the balance sheet:		
Deferred tax asset	21,038	22,159
Deferred tax liabilities	(21,335)	(21,117)
	(297)	**1,042**

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

31.12.2014	Assets	Liabilities	Net
Goodwill	17,869	(15,051)	2,818
Intangible assets	1,018	(6,785)	(5,767)
Operating fixed assets	0	(3,003)	(3,003)
Tax loss carry forward	4,475	(0)	4,475
Inventories	1,780	(26)	1,754
Provisions	531	(400)	131
Current liabilities	3,865	(4,403)	(538)
Receivables	0	(668)	(668)
Other	1,000	(499)	501
Total tax assets / (liabilities)	30,538	(30,835)	(297)
Tax asset and liabilities offsetting	(9,500)	9,500	0
	21,038	**(21,335)**	**(297)**

31.12.2013	Assets	Liabilities	Net
Goodwill	19,334	(13,896)	5,438
Intangible assets	1,024	(6,976)	(5,952)
Operating fixed assets	102	(2,523)	(2,421)
Tax loss carry forward	2,789	0	2,789
Inventories	1,772	0	1,772
Provisions	546	(342)	204
Current liabilities	4,096	(3,843)	253
Receivables	2	(730)	(728)
Other	637	(950)	(313)
Total tax assets / (liabilities)	30,302	(29,260)	1,042
Tax asset and liabilities offsetting	(8,143)	8,143	0
	22,159	**(21,117)**	**1,042**

24. Provisions

	31.12.2014		31.12.2013	
	Current	**Non-current**	**Current**	**Non-current**
Warranty [i]	2,039	5,056	2,511	4,503
Other	1,731	1,573	1,980	248
	3,770	**6,629**	**4,491**	**4,751**

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

	Warranty provisions	Other provisions	Total
At 1 January 2013	7,180	2,420	9,600
Additional provision recognized	2,971	3,008	5,979
Utilization of provision	(3,137)	(3,239)	(6,376)
Exchange rate differences	0	39	39
At 31 December 2013	7,014	2,228	9,242
Additional provision recognized	2,414	1,966	4,380
Utilization of provision	(2,333)	(693)	(3,026)
Exchange rate differences	0	(197)	(197)
At 31 December 2014	**7,095**	**3,304**	**10,399**
Non-current	5,056	1,573	6,629
Current	2,039	1,731	3,770
At 31 December 2014	**7,095**	**3,304**	**10,399**

25. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. The Company had no material transactions with related parties during the period.

26. Other liabilities

	31.12.2014	31.12.2013
Accrued expenses	10,437	11,101
Accrued royalties	973	967
Sales tax and VAT	3,479	6,120
Payable due to previous acquisition	2,324	2,324
Other	5,883	3,159
	23,096	**23,671**

27. Financial instruments

27.1 Capital risk management

The Company manages capital to ensure that affiliates within the consolidation will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged from 2013.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the equity overview.

Net debt to EBITDA ratio

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

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

	31.12.2014	31.12.2013
Net debt	93,335	107,785
EBITDA	104,337	75,473
Net debt/EBITDA	**0.9**	**1.4**

27.2 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 32 to the Consolidated Financial Statements.

27.3 Financial risk management objectives

The Company's Corporate Finance function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include liquidity risk, interest rate risk, foreign exchange risk and counterparty credit risk.

The general policy is to apply natural hedging to the extent possible and prohibit any speculative trading of financial instruments. The use of financial derivatives is governed by the Company's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

27.4 Foreign currency risk management

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

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

	Liabilities		Assets	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
EUR	86,338	112,123	37,508	46,973
USD	81,239	81,642	45,178	44,891
SEK	12,797	12,971	14,223	13,659
GBP	1,760	2,011	4,412	5,568
Other	21,791	19,106	22,166	21,341
	203,925	**227,852**	**123,487**	**132,432**

Foreign currency sensitivity analysis

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

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

	EUR (i)		ISK (ii)	
	2014	**2013**	**2014**	**2013**
Profit or loss	3,748	2,524	(2,981)	(2,486)
Other equity	8,839	9,487	(975)	(256)

(i) 21% (2013: 24%) of the Company's COGS and OPEX is in EUR against 28% (2013: 28%) of its sales causing an increase in profit if the USD decreases against the EUR.

(ii) 10% (2013: 9%) of the Company's COGS and OPEX is in ISK against 0.6% (2013: 0.4%) of its sales causing a decrease in profits if the USD decreases against the ISK.

Sales and expenses split by main currencies	Sales		COGS and OPEX	
	2014	**2013**	**2014**	**2013**
USD	41%	49%	42%	50%
EUR	28%	28%	21%	24%
ISK	1%	0%	10%	9%
Other	30%	23%	27%	17%
	100%	**100%**	**100%**	**100%**

27.5 Interest rate risk management

The Company is exposed to interest rate risks as funds are borrowed at floating interest rates. Interest rate risk is managed by the Corporate Finance function by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied.

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

Contracts made to swap floating interest rates to fixed with an average weighted interest rate of 2.5% for periods up to March 2016 are outstanding at year end with nominal values of USD 26 million (2013: USD 40 million). At year end the fair value of the swaps amounted to negative USD 0.5 million (2013: negative USD 1.2 million). The fair value of the interest rate swaps at the reporting date is determined by the present value of the expected future cash flows. Changes in fair value are realized through equity. The interest swaps are the Company's sole derivative financial liability valued at fair value and belong to level 2 in the fair value hierarchy in accordance to IFRS's 7.27A.

27.6 Liquidity risk management

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At period end the Company had undrawn revolving credit facilities at its disposal amounting to USD 72.2 million (2013: USD 32.5 million) to further reduce liquidity risk.

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest	Less than 1 year	1-5 years	5+ years	Total
2014					
Borrowings	2.6%	3,926	131,344	0	135,270
Non-interest bearing liabilities	-	82,392	20,916	0	103,308
		86,318	**152,260**	**0**	**238,577**
2013					
Borrowings	3.3%	25,471	136,965	0	162,436
Non-interest bearing liabilities	-	76,941	19,878	0	96,819
		102,412	**156,843**	**0**	**259,255**

27.7 Credit risk management

The Company's counterparty credit risks arise mainly from short-term investment of liquid assets and the mark-to-market effect of interest rate swaps.

The Company reviews the credit quality of counterparties. The Company's policy is that all counterparties have at least an A3 credit rating from Moody's or A minus from Standard & Poor's. The Company has one exception where deposits are at a local bank rated BB+ from Standard & Poor's.

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

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

27.8 Fair value of financial instruments

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

	31.12.2014		31.12.2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:				
Borrowings	121,819	123,821	149,554	150,753

The fair values of financial instruments are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

28. Acquisitions

In 2014 the Company finalized two minor acquisitions in Australia. The Company also acquired the remaining interest in three of it's entities, where the Company previously held majority share. Total acquisition price is USD 18.8 million.

Included in the sales for the year are USD 10 million attributable to the two acquisitions and the EBITDA for the year includes USD 2 million in respect of the two acquisitions. Had both acquisitions been effected at 1 January 2014, the Consolidated revenue from continuing operations would have been USD 14 million, and the EBITDA from continuing operations would have been USD 3 million. Management consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualized basis and to provide a reference point for comparison in future periods.

29. Operating lease arrangements

Payments recognized as an expense:

	2014	**2013**
Minimum lease payments	15,301	14,286

Non-cancellable operating lease commitments

	31.12.2014	**31.12.2013**
No longer than 1 year	15,435	15,908
Longer than 1 year and no longer than 5 years	28,162	33,668
Longer than 5 years	1,053	2,510
	44,650	**52,086**

Operating lease payments represent rentals payable by the Company for certain of its office properties and cars. More than hundred rental agreements are in place in multiple countries. The leases expire in the periods 2015-2028.

30. Insurance

	31.12.2014		**31.12.2013**	
	Insurance value	**Book value**	**Insurance value**	**Book value**
Fixed assets and inventories	197,323	109,004	210,000	112,070

The Company has purchased a business interruption insurance intended to compensate for temporary breakdown of operations. The insurance amount is USD 344 million (2013: USD 334 million). In addition the Company has a product and professional liability insurance with a USD 30 million limit and a product recall insurance with a USD 2 million limit. The deductible amount on the product and professional liability and product recall insurances is USD 50 thousand.

31. Adoption of new and revised Standards

31.1 Standards and interpretations effective in the current and prior periods

The Consolidated Financial Statements are presented in accordance with the new and revised standards (IFRS / IAS) and new interpretations (IFRIC), applicable in the year 2014. Management believes that those new and revised IFRS standards do not have material effect on amounts reported in the Consolidated Financial Statements.

31.2 Standards not yet effective

The Company has not early adopted new and revised IFRS's that have been issued but are not yet effective. Management believes that implementation of those standards and interpretations do not have a material effect on the Consolidated Financial Statements of the Company.

32. Summary of Significant Accounting Policies

32.1 Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

32.2 Basis of preparation

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

32.3 Basis of consolidation

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

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

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

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

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

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

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

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

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

Changes in the Company's ownership interests in existing subsidiaries

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

32.4 Business Combination

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

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

• deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

• liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date;

• assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the purchase price of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities, contingent liabilities, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer´s previously held equity interest in the acquiree. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss. Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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

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

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

32.5 Investments in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in the Consolidated Financial Statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the balance sheet and adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Company's interest in that associate are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company’s investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount, Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Company retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the company reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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

32.6 Goodwill

Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the Consolidated Income Statement. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Company's policy for goodwill arising on the acquisition of an associate is described at 32.5 above.

32.7 Revenue recognition

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

Sale of goods

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

Royalties

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

Interest revenue and dividend

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

32.8 Leasing

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

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

32.9 Foreign currencies

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Company's foreign operations are expressed in USD using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for each month, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Company's translation reserve (attributed to non-controlling interests as appropriate).

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

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

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

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

32.10 Borrowing costs

All borrowing cost are recognized in profit or loss in the period in which they incurred.

32.11 Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 19.

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.

32.12 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the Consolidated Income Statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

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

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

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

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

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

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

Current and deferred tax for the year

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

32.13 Property, plant and equipment

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

Property, plant and equipment which qualify for recognition as an asset are initially measured at cost.

The cost of a property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use.

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

In the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the Consolidated Income Statement.

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

Buildings	20 - 50 years
Fixtures and furniture	2 -10 years
Machinery and equipment	2 - 10 years

32.14 Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful life are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is allocated on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each balance sheet date, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

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

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

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

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Company's development is recognized only if all of the following conditions are met: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the intention to complete the intangible asset and use or sell it; the ability to use or sell the intangible asset; the intangible asset will generate probable future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognized separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

32.15 Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

32.16 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a standard cost basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

32.17 Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Warranties

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

32.18 Risk management

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

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

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

32.19 Financial assets

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

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

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

Derecognition of financial assets

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

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in Other Comprehensive Income and accumulated in equity is recognized in profit or loss. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

32.20 Financial liabilities

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

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

Financial liabilities at fair value through profit or loss

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

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

Other financial liabilities

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

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

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Derecognition of financial liabilities

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

32.21 Defined employee benefits

Retirement benefit costs and termination benefits

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

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The retirement benefit obligation recognized in the balance sheet represents the actual deficit or surplus in the Company’s defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.
A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

32.22 Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to interest rate risk. Further details of derivative financial instruments are disclosed in note 27.

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

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

Hedge accounting

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

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

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

Note 24 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are detailed in the equity overview.

Hedges of net investments in foreign operations

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity in the foreign currency translation reserve.

Gains and losses deferred in the foreign currency translation reserve are recognized in profit or loss on disposal of the foreign operation.

Cash flow hedges

The effective portion of changes in the fair value of derivatives, that are designated and qualify as cash flow hedges, is recognized in other comprehensive income and accumulated under the heading of hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other financial expense / income' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the income statement as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires, is sold, terminated, exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in the income statement.

33. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 32, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Details of impairment calculations are set out in note 10.

As described at 32.15, the Company reviews the estimated useful lives of property, plant and equipment at the end of each balance sheet date.