Consolidated Annual Financial Statement 2014

Selected figures in EUR million

Sales and result	01.01. – 31.12.2014	01.01. – 31.12.2013	Change
Sales	30.6*	28.6*	7%
EBITDA	2.3*	5.1*	-55%
EBITDA margin (%)	7%*	18%*	
EBIT	-0.1*	0.8*	-113%
EBIT margin (%; sales)	0%*	3%*	
Net result	-0.5*	1.1*	-149%
Cash flow and investments	**01.01. - 31.12.2014**	**01.01. - 31.12.2013**	**Change**
Operating cash flow	-2.9**	3.5***	-183%
Investing activities in intangible assets	3.1**	2.1***	48%
Investing activities in tangible assets	2.0**	3.6***	-44%
Total investing activities	5.1**	5.7***	-10%
Value development	**31.12.2014**	**31.12.2013**	**Change**
Intangible assets	15.2*	14.5*	5%
Tangible assets	7.7*	5.9*	31%
Working capital	16.9*	13.9*	22%
Working capital ratio**** (sales)	1.8*	2.1*	-14%
Non-current assets	25.0*	22.4*	12%
Current assets	32.8*	42.8*	-23%
Capital structure	**31.12.2014**	**31.12.2013**	**Change**
Total assets	57.9*	65.2***	-11%
Shareholders' equity	45.4*	47.0***	-3%
Equity ratio	79%*	72%***	
Debt coverage ratio (DCR)	2.0*	0.8*	100%
Interest coverage ratio (ICR)	16.8*	22.7*	-39%
Share***	**31.12.2014**	**31.12.2013**	**Change**
Total amount of shares (million pieces)	30.7	30.7	0%
Closing price (EUR)	2.38	2.15	11%
Market capitalization (EUR million)	72.9	65.9	11%
52 weeks average price (EUR)	2.75	1.45	90%
52 weeks high (EUR)	3.36	2.22	51%
52 weeks low (EUR)	2.07	1.22	70%
Average volume/day (pieces)	36,579	30,426	20%
Employees group	**31.12.2014**	**31.12.2013**	**Change**
Employees (Headcount)	241*	290***	-17%
Employees (FTE)	217*	274***	-21%

*Figures relate to continued operations
**Figures relate to continued operations incl. EMCM B.V.; considering EMCM B.V.'s results in 01-02/2014
***Figures relate to continued operations incl. EMCM B.V.; considering EMCM B.V.'s results in 01-12/2013
****Sales for the last four quarters
*****Closing prices XETRA

Table of Contents

Foreword by the Management Board 7
Group Management Report for 2014 11
A) Basic Principles of the Group *11*
1. Organizational and Legal Structure *11*
Subsidiaries 12
aap Biomaterials GmbH 12
MAGIC Implants GmbH 12
aap Implants Inc. 12
Shareholdings 12
aap Joints GmbH 12
AEQUOS Endoprothetik GmbH 12
Executive Bodies 12
Management Board 12
Supervisory Board 13
2. Segments *13*
3. Important Products and Business Processes *13*
4. Important Sales Markets and Competitive Positions *13*
5. Fundamental Legal and Economic Influencing Factors *15*
6. Research and Development Activities *16*
B) Economic Report *19*
Overall Economic and Industry-Related Framework Conditions *19*
Signing or Termination of Cooperation Agreements and Other Important Contracts *21*
Earnings Position *21*
(1) Presentation of Earnings Development/Earnings Structure *22*
(2) Development of Sales and Orders *24*
(3) Fundamental Changes in the Structure of Individual Income and Expense Items *26*
Financial Position *27*
Asset Position *29*
(4) Analysis of Key Financial and Non-Financial Performance Indicators *30*
Evaluation of the Management Agenda 2014 ..... *31*
C) Supplementary Report *34*
D) Risk and Opportunities Report *34*
1) Internal system of controlling and risk management relating to the (Group-wide) accounting procedure (report pursuant to Section 289 (5) and Section 315 (2) 5 of the German Commercial Code [HGB]) 34
2) Risk Management System 35
3) Description of Individual Risks and Explanation of Specific Countermeasures 36
a) Market, Competition, New Products and Technologies 36
b) Approval of Products 36
c) Patents and Intellectual Property 37
d) Dependence on Customers and Suppliers 37
e) Product Liability Risks 38
f) Capitalization of Development Costs 38
g) Personnel Risks 39
h) Data Protection 39
i) Legal Risks 39
4) Additional Disclosures Pursuant to Section 315 para. 2 sent. 2 letter b HGB 39
5) Summary of the Risk Situation of the Company 40
6) Opportunities 41

E) Other Disclosures *42*
1. Composition of Subscribed Capital 42
2. Basic Principles of the Remuneration System (Remuneration Report) 42
Management Board Remuneration 42
Supervisory Board Remuneration 43
2008 Stock Option Program 43
2010 Stock Option Program 44
2012 Stock Option Program 44
2013 Stock Option Program 44
2014 Stock Option Program 44
3. Direct and Indirect Shareholdings >10% of Voting Rights 45
4. Statutory Provisions and Provisions of the Articles of Association for Appointing and Dismissing Management Board Members and Amending Articles of Association 45
5. Management Board Authorization to Issue and Repurchase Shares 45
6. Important Agreements Concluded by the Company that are Conditional on a Change of Control Resulting from a Takeover Bid, and the Consequences 48
7. Compensation Agreements with Members of the Management Board or Employees in the Event of Takeover Bids 49
F) Forecast Report *49*
Consolidated Statement of Comprehensive Income according to IFRS for the period January 1 to December 31, 2014 55
Consolidated Cash Flow Statement according to IFRS 56
Consolidated Schedule of Changes in Equity 57
Notes to the Consolidated Annual Financial Statements to December 31, 2014 according to IFRS 58
A. Information About the Company 58
B. Accounting Methods 58
Basic Principles for the Preparation of the Consolidated Financial Statements *58*
Consolidation Principles *59*
Consolidation Entity 59
Accounting and Valuation Methods 59
Corporate Mergers and Goodwill 60
Significant Accounting Methods *60*
Shares in Joint Ventures and Associated Companies 60
Business Segments 60
Currency Conversion 61
Revenue Recognition 61
Taxes 62
Public Sector Grants 63
Non-current Assets Held for Sale and Discontinued Operations Segments 63
Fair Value 63
Intangible Assets 64
Tangible Assets 65
Financial Instruments 65
a) Financial Assets 65
b) Financial Liabilities 66
Inventories 66
Borrowing Costs 67
Cash and Cash Equivalents 67
Share-based Payments 67
Provisions 67
Other Assets and Liabilities 67
Leasing Transactions 67
Contingent Liabilities; Contingent Assets 68

Revisions in Accounting Methods *68*
New and Revised Standards and Interpretations without any significant Effect on the Group 68
Published Standards The Application of Which is Not Yet Mandatory 69
C. Material Discretionary Decisions, Estimates and Assumptions 70
D. Business Combinations, Acquisition and Sale of Shares 72
Establishment of Subsidiaries *72*
Sale of subsidiaries *72*
Liquidation of subsidiaries *73*
Changes in Shares in Joint Ventures and Associated Companies *73*
Joint Ventures 73
E. Notes on the Consolidated Statement of Comprehensive Income 73
1. Sales *74*
2. Capitalized own and development costs *74*
3. Other Operating Income *74*
4. Cost of materials *75*
5. Personnel Expenses *75*
6. Depreciation *76*
7. Other Operating Expenses *76*
8. Financial Result *76*
9. Exchange Rate Differences *76*
10. Income Tax *77*
11. Earnings per Share According to IAS 33 ..... *78*
F. Notes on the Consolidated Balance Sheet 79
1. Intangible Assets *79*
Goodwill 80
Development costs 81
2. Tangible Assets *82*
3. Financial Investments Accounted for Using the Equity Method *84*
4. Financial assets *85*
5. Deferred tax assets and liabilities *85*
6. Inventories *86*
7. Trade Receivables *87*
8. Receivables from Service Contracts *88*
9. Other Financial Assets *89*
10. Other Assets *90*
11. Cash and Cash Equivalents *90*
12. Equity *90*
13. Share-based Payments *93*
14. Provisions *96*
15. Liabilities *96*
16. Gross amount due to customers for contract work *97*
17. Other Financial Liabilities *98*
18. Other Liabilities *98*
19. Tax Liabilities *98*
20. Other Financial Liabilities *99*
21. Contingent Liabilities *99*
G. Reporting on Financial Instruments 100
1. Financial Instruments by Valuation Categories *100*
2. Expenses, Income, Losses and Profits from Financial Instruments *102*
3. Impairment of Financial Assets *102*
4. Management of Financial Risks *102*
5. Capital Management *105*
6. Cash Flow Statement *105*

H. Other Disclosures 106
1. Relationships with related enterprises and persons 106
2. Management Body, Supervisory Board 107
3. Disclosures in Accordance with Section 160 (1) (8) AktG 109
4. Auditor's Fees 113
5. Events occurring after the reporting date 113
6. Declaration on the German Corporate Governance Code 113
7. Publication 113
Responsibility Statement by the Legal Representatives pursuant to Section 37 (1) of the German Securities Trading Act (WpHG) 114
Glossary 116

Foreword by the Management Board

Ladies and Gentlemen,
Dear Shareholders, Employees, and Business Partners,

In fiscal year 2014, *aap* Implantate AG was able to continue its growth strategy and make headway in focusing on the trauma business. We have made significant progress in our effort to build up *aap* as a company with innovative, IP-protected products. This included significant growth in the trauma business, driven by our LOQTEQ® product portfolio, the further development of new product technologies, like silver coating, the divestment of our contract manufacturing business (EMCM B.V.) at the beginning of 2014, as well as the sale of our remaining 50% share in the dental joint venture, *aap* BM productions GmbH.

Another key event was the appointment of Bruke Seyoum Alemu as the new CEO with effect from June 1, 2014. With the conclusion of the sale of the Dutch EMCM B.V. at the end of April 2014, *app* was able to achieve yet another milestone in its transformation to become a focused trauma company. After fulfilling the required legal conditions, in June 2014, the Shareholders´ Meeting appointed Mr. Biense Visser to become the new Chairman of the Supervisory Board with a large majority. *aap* managed to execute the changeover whilst maintaining continuity in the management.

The Managing Board would once again like to thank Mr. Visser for his services over the last five years. It was under Mr. Visser´s strong leadership that *app* was successfully transformed from a diversified to a focused medTech company with a profitable growth and a very robust balance sheet.

Based on the Management Agenda 2014, the new management of *aap* has identified the following five action fields that are in harmony with the strategic and financial objectives outlined in the Management Agenda for 2014:

- Focusing on trauma: expanding *aap* Implantate AG to become a leading European trauma company
- Accelerating value-orientated innovation: developing technologies and products with both clinical and economic advantages
- Expanding market access: focusing on countries with strong growth rates such as BRICS, SMIT, and the USA
- Optimizing operational efficiency: optimizing costs, supply chain, distribution efficiency
- Supplementing organic growth by means of acquisitions: the reasons are cost synergies, portfolio enhancement, geographical coverage, and achieving a critical mass

The following highlights show the progress regarding the implementation of the measures mentioned above and summarize the most significant successes of 2014:

- The financial objectives were achieved: At EUR 31.6 million, sales lie within the guidance adjusted in October 2014 of between EUR 30 million and EUR 34 million; and at EUR 2.3 million, EBITDA was also as expected (target corridor October 2014: between EUR 2.0 million and EUR 4.5 million)

- Sales in the trauma business increased compared with the previous year by 27% to EUR 12.2 million

- Considerable sales growth with the LOQTEQ® portfolio demonstrates that the anatomical plate system is increasingly established on the market: Sales increased by 63% to EUR 8.2 million

- Planned expansion of the LOQTEQ® portfolio to cover further indication areas (such as polyaxial LOQTEQ® radius plate system and periprosthetic plate system)

- Key patent for LOQTEQ® system received from the American Patent and Trademark Office (USPTO)

- Patent for the silver coating technology received from the US American Patent and Trademark Office

- Sale of all shares in the Dutch subsidiary EMCM B.V. for EUR 18 million

- Sale of the remaining 50% share in the dental joint venture, *aap* BM productions GmbH, for EUR 1 million

- Conclusion of a supply agreement for a PMMA bone cement for the USA, Canada, and Puerto Rico with a leading US American company for health services

Maintaining good corporate governance is a high priority, as reflected in our Declaration of Compliance. We also support a diversity policy to ensure that our employees are diverse in age, cultural background, gender, and competency. We believe this will make the Company stronger and allow us to best meet our clients´ needs.

Evaluation of the Management Agenda 2014

Customers		
Targets of the 2014 Management Agenda	**Results of the 2014 Management Agenda**	**Target achieved?**
Growing trauma sales to > EUR 15 million (>50%); driven by LOQTEQ®	Trauma sales increased by 27% to EUR 12.2 million; LOQTEQ® as main driver with +63% to EUR 8.2 million	Partly
Expanding the LOQTEQ® portfolio; striving for >90% indication coverage	Scheduled expansion of LOQTEQ® portfolio to cover further indication areas (e.g. polyaxial LOQTEQ® radius plate system and periprosthetic plate system)	Yes
Appointing a distributor in the USA and further expansion of distribution network beyond BRICS and SMIT countries	Infrastructure set up with the founding of a US subsidiary and the signing of a contract with a logistics service provider; negotiations with different distributors	Partly

Appointing a new global partner for a bone cement	Conclusion of supply contract for PMMA bone cement to USA, Canada and Puerto Rico with a leading US healthcare services company	Yes

Innovation		
Targets of the 2014 Management Agenda	**Results of the 2014 Management Agenda**	**Target achieved?**
Sustain freshness index of at >20%	LOQTEQ® sales growth of 63%	Yes
Accelerate the development of silver coated trauma products; aiming for market introduction in 2015	Final reports on the results of initial animal experiments on toxicity and infection model received	Yes
Extend co-development network for resorbable magnesium products; aiming for market introduction in 2-3 years	Negotiations with leading companies in the magnesium sector	Partly
Interim analysis of the LOQTEQ® study for phase 1 products in the second quarter of 2014	Study of LOQTEQ® osteotomy plate's fatigue strength reveals outstanding proven properties compared with market leader; initial results of cold welding study show that no case of cold welding has been observed with LOQTEQ® plates and screws so far	Partly

Finance		
Targets of the 2014 Management Agenda	**Results of the 2014 Management Agenda**	**Target achieved?**
Profitable growth: sales of EUR 35 million (+22%) and EBITDA between EUR 5 million and EUR 6 million	Adjusted guidance; sales between EUR 30 million and EUR 34 million; EBITDA between EUR 2 million and EUR 4.5 million	Yes, within the adjusted guidance
Working capital ratio > 2.4 (in relation to sales)	Working capital ratio at 1.8; 2014 sales growth with 70% of Q4 sales in December 2014	No
Strengthening the balance sheet by ongoing reduction of the percentage of intangible assets as of the balance sheet total	Intangible assets as a proportion of the balance sheet total down to around 26%	No
DCR < 3 and ICR > 8	DCR = 2.0 and ICR = 16.8	Yes

Organisation/IT		
Targets of the 2014 Management Agenda	**Results of the 2014 Management Agenda**	**Target achieved?**
Further improvements of the ERP functionality	Planning and consolidation software implemented	Yes
Optimisation of supply chain management with a focus on trauma products	Improvement of supply capability in screw production and increase in plate production	Yes

Divestment/out licensing of non-core products and IP	Disposal of remaining 50% shareholding in dental joint venture *aap* BM productions GmbH for EUR 1 million	Yes

We have drawn up a new Management Agenda for the financial year 2015, which will allow all of our stakeholders to track the continuous implementation of our strategy in a transparent manner. We will provide updates on progress in meeting the goals of the Management Agenda in our quarterly reports.

We would like to thank our employees for their commitment and their creativity. We reiterate our commitment to improving our performance with regard to our products and services.

Bruke Seyoum Alemu
Managing Board Chairman/CEO

Marek Hahn
Managing Board member/CFO

In the following, relationships within the Group are reported using the terms "*aap*", "*aap* Group", "Group", "Company", or "Group of Companies".

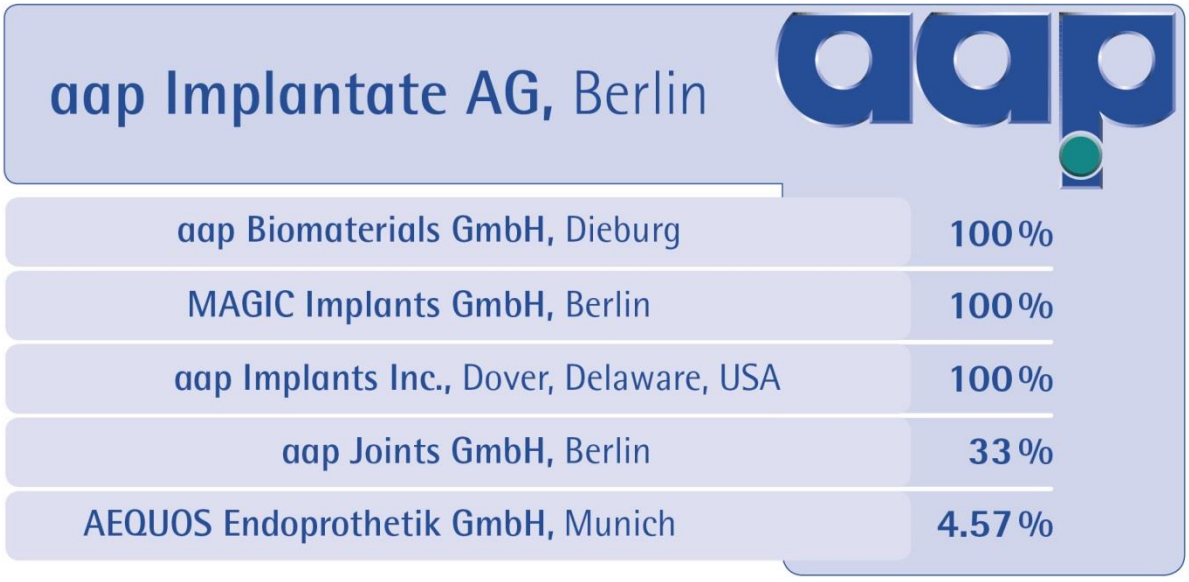
In February 2014, *aap* Implantate AG signed a share purchase agreement with a private equity company by means of the sale of the subsidiary, EMCM B.V., which was notarized at the beginning of March 2014 upon fulfillment of all other requirements. When, therefore, "*aap*", "*aap* Group", "Group", "Company" or "Group of Companies" are referred to in the following, the entire Group is being referred to, whereby the results of the EMCM B.V. were only taken into consideration for the months of January and February 2014. If, on the other hand, "continuing/continued operations" are mentioned, then this refers exclusively to *aap* Implantate AG headquartered in Berlin, in addition to all of its subsidiaries and shareholdings (see below). In the same way, "discontinued operations" refers to EMCM B.V.

There may be technical rounding differences in the following figures, however, these do not impair the overall information.

A) Basic Principles of the Group

1. Organizational and Legal Structure

aap Implantate AG is the *aap* Group´s parent company. The *aap* Group comprised the following fully consolidated subsidiaries as of December 31, 2014: *aap* Implantate AG, *aap* Biomaterials GmbH, MAGIC Implants GmbH and *aap* Implants Inc.



Subsidiaries

aap Biomaterials GmbH

All German development and manufacturing activities relating to medical biomaterials, as well as bone cements and cementing techniques, are subsumed in *aap* Biomaterials GmbH. The company is based in Dieburg, near Frankfurt am Main.

MAGIC Implants GmbH

MAGIC Implants GmbH is a shelf company in which all the development and also the marketing activities in the area of magnesium technology are bundled together with a potential partner. The company is based in Berlin.

aap Implants Inc.

aap Implants Inc., Dover, Delaware, USA was established on September 24, 2014. *aap* Implantate AG holds all the shares in the company. This is a distribution company for the US market. It has not yet had any economic operations having an effect on the Group in 2014.

Shareholdings

aap Joints GmbH

After the sale of 67% of the shares in June 2013, there is a participating interest of 33% in *aap* Joints GmbH. In *aap* Joints GmbH, all the orthopedic activities (knees, hips, and shoulders) are bundled together with the C~Ment® line. The company is based in Berlin.

AEQUOS Endoprothetik GmbH

aap Implantate AG holds a 4.57% share in AEQUOS Endoprothetik GmbH. The company distributed the innovative AEQUOS® knee system co-developed and manufactured by *aap* Implantate AG until the end of 2010. As of the beginning of 2011, all assets relating to the AEQUOS® knee system were sold to an Italian corporation in return for shares and a revenue-based licensing model. In the course of 2012, the overwhelming majority of shares held in the Italian corporation were sold to an investment company. In connection with this, the shares issued to AEQUOS were bought back. The funds received by AEQUOS were used in combination with a capital reduction to offset all financial liabilities and the repayment of the equity amounts to the shareholders. The company´s further development will now be determined solely by the Italian corporation´s marketing of the AEQUOS® knee system and the resulting license payments to the company. The company is headquartered in Munich.

Executive Bodies

Management Board

The Management Board of *aap* Implantate AG consists of two members.

Mr. Bruke Seyoum Alemu (49) is Chief Executive Officer (CEO) and responsible for Corporate Development, Research & Development, Production, Quality Assurance, Regulatory Affairs as well as Sales and Marketing.

Mr. Marek Hahn (40) is the Chief Financial Officer (CFO) and in addition to Finance/ Controlling is in charge of Human Resources, IT, Legal Affairs, Administration as well as Investor and Public Relations.

Supervisory Board

The Supervisory Board of *aap* Implantate AG consists of three members. Mr. Biense Visser is its chairman and Mr. Ronald Meersschaert is its deputy chairman.

2. Segments

At *aap*, there are no business segments identified for which regular reporting to the Managing Board would be performed. Instead, the goal of the corporate strategy that has been pursued since 2009 is to boost the company's enterprise value through the development and sale of IP-protected products. The monthly reporting system facilitating the management of the company consists exclusively of consolidated sales, progress with significant development projects of the Group, liquidity, and the working capital of the entire Group. The company is managed solely on the basis of this data. The *aap* Group is therefore managed both internally and externally as a company without separate segments.

3. Important Products and Business Processes

In Germany, *aap* has two manufacturing sites: Berlin and Dieburg. In Berlin, *aap* Implantate AG manufactures osteosynthesis (trauma) and endoprosthetic products. In Dieburg, *aap* has one of the world´s most efficient and state-of-the-art bone cement production facilities. Dieburg is also the site of the development and production capacity for medical biomaterials and bone cements as well as cementing techniques.

Along with the center of excellence for trauma, marketing, and sales at *aap´s* headquarters in Berlin, there is a further center of excellence for bone cements and cementing techniques located in Dieburg. A cross-location research and development body and a quality management body promoted synergy effects between metal implants and biomaterials in the reporting period. Cross-functional teams ensure that business processes are continuously optimized.

The development and sales activities of the Company focus on trauma and biomaterials (bone substitutes, bone cements and cementing techniques). Highlights of the fiscal year 2014 were the series release for the completed LOQTEQ® elbow treatment including olecranon system, as well as the FDA market releases for the LOQTEQ® clavicular system, the LOQTEQ® olecranon plate, the LOQTEQ® distal anterolateral tibia plate 3.5 and the optimized standard corticalis screws 3.5 and 4.5.

In fiscal year 2015, and in the next few years, *aap* aims to further develop the two product areas of trauma and biomaterials in a targeted manner and, especially in the trauma business, to enhance and therefore round off the LOQTEQ® portfolio to include further indication areas. In addition, the continued acceleration of the projects silver coating and magnesium technology shall remain in the fore so as to sustainably strengthen and further develop the competitiveness by means of innovations.

4. Important Sales Markets and Competitive Positions

aap makes use of three different channels to sell its products. In the German-speaking countries, products are sold directly to hospitals, buying syndicates and clinic groups. At the international level, the Company makes use of a broad distribution network in over 60 countries. In addition, sales are

also handled in OEM and private label cooperation with a series of selected international orthopedic and trauma companies. While the products in the trauma business are predominantly sold directly or via distributors under the brand name "*aap*", the biomaterials business is dominated by sales on an OEM and private label basis.

Direct sales in German-speaking countries to hospitals, purchasing syndicates, and clinic groups crontributed around 9% of sales in fiscal year 2014 (previous year: almost 9%). With regard to continued operations, the quota totals approx. 18% (previous year: almost 25%). In Germany, *aap* supplemented direct sales in 2014 by means of a cooperation with two established specialist dealers in order to further increase the market presence of the products. By the end of the fiscal year, two experienced service providers had been entrusted with the exclusive sale of *aap* products in Bavaria and in Baden-Württemberg.

International distribution activities in the past fiscal year focused predominantly on so-called BRICS countries, Europe and the USA. With the successful founding of a subsidiary in the USA, as well as initial talks and negotiations with potential distribution partners, the Company has laid a significant corner stone for its presence and future expansion in this strategic key market. In addition, we concluded exclusive agreements with Poland, Nigeria and Scandinavia for our trauma profile. In fiscal year 2015, the Company aims to continue its consistent focus on developing new markets. Key areas in this connection are the BRICS (especially Brazil), SMIT, and N10 countries, as well as the USA. In terms of the development and production for leading orthopedic and trauma companies who market the products under their own labels worldwide, also in 2014 *aap* managed to gain a new partner for the supply of a PMMA bone cement to the markets of USA, Canada, and Puerto Rico. Project sales (e.g. the conclusion of license and supply agreements, out licensing of IP-protected products and technologies) represent a further mainstay for the Company.

Particularly in the area of the strategically significant LOQTEQ® product family, *aap* Group was able to further expand its IP portfolio in fiscal year 2014. In this connection, among others the granting of a LOQTEQ® key patent in the USA represented a significant advance in the implementation of the *aap* IP strategy. Moreover, the Company identified further products and technologies that by virtue of their unique selling proposition could contribute toward strengthening the Group´s competitive position and thereby toward boosting its enterprise value. Also in 2014, *aap* was able to register a multitude of patents. As a whole, the continuous development of a strategic IP portfolio remains a central element of the development of *aap* into an innovation leader and therefore a leading European trauma company.

Also in fiscal year 2014, the *aap* Group presented its product portfolio at numerous significant national and international trade fairs and congress events. For example, the Company was represented at the Medica in Düsseldorf, the Arab Health in Dubai, the annual conference of AAOS (American Academy of Orthopedic Surgeons) in New Orleans, the 15th EFORT congress (European Federation of National Associations of Orthopedics and Traumatology) in London and the 15th ECTES congress (European Congress of Trauma & Emergency Surgery) in Frankfurt am Main. In Germany, in 2014 *aap* visited, among others, the German Congress for Orthopaedic and Accident Surgery (DKOU) in Berlin, the 21st German Association for Shoulder and Elbow Surgery (DVSE) congress in Wiesbaden, as well as the 23rd Thüringen Symposium on Accident and Orthopedic Surgery (VLOU) in Erfurt.

In fiscal year 2014, the interest in the LOQTEQ® portfolio of the *aap* Group continued to increase. As a result, numerous product trainings and workshop events were held. Right at the start of the year, the Company invited to Berlin its most important distributors along with their most influential doctors from around the world. 43 distributors and 29 doctors from a total of 26 countries were represented at this two-day event in which the entire LOQTEQ® portfolio was presented and training provided. Also in January, together with the development experts of the successful LOQTEQ® osteotomy system, the Company organized a new and independent osteotomy congress in Berlin. 52 doctors from the whole of Germany participated in lectures and workshops. The second training event, which *aap* developed together with its Spanish distributor, which introduced the general operation techniques of traumatology and how to handle LOQTEQ® systems, then took place already in March. 20 Spanish doctors travelled to Berlin for this event. Due to the positive response, the same event was then held in June and November and, once again, 25 clients and surgeons from Spain attended. As a result of the success of this series of events, in future the training sessions shall take the format of a scientific program that will be open to the entire international medical profession. In May, under the guidance of three renowned lecturers from German clinics, the Company organized a training event including a human preparation workshop close to Berlin. 20 young doctors from Germany took part. Further workshops with a delegation of six Turkish professors and doctors took place in Berlin in July. Courses with German, as well as Bosnian and Bulgarian OP personnel then followed in October and November in Berlin. In addition, also in the reporting year, the Company maintained an intensive, direct cooperation with its distributors in the traditional markets. Alongside the annual kick-off event, the *aap* Group organized, among others, a product training event for the LOQTEQ® portfolio for its Czech exclusive dealers, as well as two German specialist dealers. At the SICOT congress (International Society of Orthopedic Surgery and Traumatology) in Brazil, the company also accompanied and supported a distributor on-site.

Products that were approved or registered in international growth markets in the course of the fiscal year included the following:

- FDA market release for the LOQTEQ® clavicular system, the LOQTEQ® olecranon plate, the LOQTEQ® distal anterolateral tibia plate 3.5 and the optimized standard corticalis screws 3.5 and 4.5.
- CE marks for the LOQTEQ® olecranon plate (elbows), the LOQTEQ® clavicular shaft plate sterile, the LOQTEQ® osteotomy plates sterile, further plates of the LOQTEQ® clavicular plate system and the optimized standard corticalis screws 3.5 and 4.5.

5. Fundamental Legal and Economic Influencing Factors

Official registration and approval are a precondition for marketing medical products in every market in the world. As the basic aim is to market *aap* products all over the world, the quality management system is based on the requirements of harmonized international standards and European regulations, as well as national and international laws. The *aap* Group is regularly audited and certified accordingly so that its products can be CE-marked and sold. Furthermore, production is undertaken in compliance with FDA requirements.

All of the companies are certified according to the relevant, currently valid EN ISO 13485:2012 standard for manufacturers of medical devices and are also certified in accordance with the

European Medical Devices Directive 93/42/EEC (Appendix II). In addition, all of the Group´s companies have undergone voluntary EN ISO 9001:2008 certification. All relevant environmental protection regulations are observed within the scope of business activities. Neither the production nor the products manufactured by *aap* pose a direct or an indirect risk to the environment.

In fiscal year 2014, the Brazilian regulatory body, ANVISA, came to *aap* Implantate AG in Berlin to ensure that its requirements were being met and was satisfied that this was the case. Also, in the reporting period, *aap* Biomaterials GmbH passed the "inspection" performed by the FDA without any issues.

6. Research and Development Activities

Medical technology is a dynamic and highly innovative industry. According to the sector report medical technologies 2014[1] (Branchenbericht Medizintechnologien 2014) from the German Association of Medical Technology (Bundesverband Medizintechnologie e.V. (BVMed)), Germany is second in the world to the Unites States in terms of its world trade share and number of patents. Furthermore, according to the sector report, medtech companies who actively perform research invest an average of around 9% of sales in research & development. The medtech companies place a particularly high value on Germany as a location for innovation and research. In comparison, the share of sales spent on research and development in the chemical industry, which is generally considered very innovative is approximately 5%, while manufacturing companies spend around 3.8%.

Overall, around 17% of all companies in the medtech sector conduct research and development. The industry therefore only lies slightly below the industry average of around 20%. The reason for this is the low degree of research and development activity in many small companies (< 100 employees). Thus, the ten largest companies in the industry in the year 2000 made up approximately 80% of internal research and development costs. Nevertheless, small companies in the medtech sector are still considerably more active in the area of research and development than the average of small companies in the manufacturing industry. The number of patents also shows the high degree of innovation within medtech companies: In 2013, a total of 10,679 global patent applications were submitted to the European Patent Office in Munich from the medtch sector, which is more than from any other technological field.

a) Trends and Innovative Fields in Medical Technology

Medical technology is an area characterized by a very dynamic development. Different trends and innovation areas become evident and are set to characterize the medical technology sector in the years to come. Major trends of "Medical technology 2020" in technology fields regarded as being particularly forward-looking according to the sector report medical technologies 2014 from BVMed are:

- Interventional medical technologies
- Neuroengineering
- Cell and tissue engineering (skin, cartilage, bone etc.)
- Imaging methods
- Telemedicine
- IT - next generation information and communication

[1] The sector report medical technologies 2014 from the German Association of Medical Technology (BVMed) is available at the press center of the association.

- Modeling and simulation for diagnostics and treatment planning

BMBF's (Federal Ministry of Education and Research) medical technology study sees computerization, miniaturization and molecular functions as the most important trends in the industry.

Overall, research and development are the key activities for innovation processes in medical technology. Consequently, beneficial innovation framework conditions create the basis for a sustainable economic growth in the medical technology sector. These conditions are of supreme importance to the sector, as with high export quotas in international competition, technology and quality leadership are especially decisive. When developing innovative medical products, based on the information from the BVMed sector report medical technologies 2014, five priority innovation areas can be identified:

- Miniaturization
- Biologization
- Computerization
- Personalization
- Networking

The German Society for Biomedical Engineering (DGBMT) sees fields such as "prosthetics and implants" as important areas of technology, which are characterized by a high degree of innovative potential as well as a corresponding demand for research and development services. The following are specified in particular:

- Active, diagnostic and intelligent implants
- Theranostic implants
- Biological, biologized and biofunctionalized implants
- Neuroengineering and neurostimulation
- Rehabilitation technology
- Artificial joints, endoprostheses and passive implants

In all fields of medical technology, the USA is considered the global technology leader, while in Europe the leaders are often considered to be Germany and Great Britain.

b) Research and Development Activities

In the continued operations segment, *aap* once again reported significant expenses for the area of Research and Development (R&D) in fiscal year 2014. At 31/12/2014, 28% of the company's 216 employees worked in Research & Development (R&D), Clinical Affairs, and Regulatory and Quality Management (previous year: 29%). The company invested around 10% of sales in the development of new products (previous year: 10%). The ratio of capitalized costs to total costs was 44% (previous year: 37%).

Also, particularly in the new and further development of products, as well as with regard to clinical studies, the Company works together with various academic institutions such as, for example, research institutes and university clinics. Another promising pillar for generating sales and earnings is going to be based on cooperations with the market leaders at an early stage in the areas of

orthopedics and traumatology. In addition, this is intended to proactively secure existing technologies.

As a whole, *aap* aims to establish a sustainable innovation leadership and enterprise value development. With this in mind, the Company seeks to consistently create and develop so-called platform technologies. Its strategic IP portfolio is aimed at safeguarding these technologies and the resulting products:

Platform Technology	Derivative Products	
Locking compression fixation technology	Anatomical plates Radius, Humerus	LOQTEQ® tibia & femur & proximal humerus & distal humerus & clavicle & osteotomy
Silver technology	Ag coating	Ag cement
Magnesium technology	Interference screws	Small plates, screws & pins
Cement and cementing technology	PMMA cements HA-PMMA cements Vertebroplasty cements Vacuum mixing systems	Prepack mixing systems Disposable mixing and transfer systems Articles for modern cementing techniques

The Company strictly develops all products in close cooperation with medical users, and frequently at their initiative.

In fiscal year 2014, in trauma business, *aap* focused particularly on the expansion and completion of the LOQTEQ® plate portfolio. In doing so, the development of further LOQTEQ® plate systems (so-called “phase 3”) went according to plan. This has expanded the indication coverage in conjunction with the already successfully marketed and established systems. Here, the Company has aimed at covering around 90% of the common indications with the LOQTEQ® plate systems. Relevant products in “phase 3” are primarily a periprosthetic plate system, further anatomical plates to treat the lower and upper extremities, as well as a polyaxial LOQTEQ® radius plate system. Furthermore, the fiscal year 2014 saw the conclusion to the development of two extra plates for the clavicular plate system. This means that the entire clavicular system is now fully available on the market. In 2014, a LOQTEQ® fibula plate was also developed, and this will reach the market at the start of 2015, therefore rounding off the treatment of the ankle. In the reporting period, *aap* also entirely modified and renewed the LOQTEQ® sieves in the majority of the systems. All the instrument and implant sieves were revised so as to improve their user-friendliness, sterilizing efficiency and transport stability; and improvement suggestions from the data acquired from a LOQTEQ® study were implemented. The first deliveries of the new sieves took place at the beginning of 2015.

In fiscal year 2014, in the biomaterials business various development contracts were processed for renowned orthopedic companies in the fields of bone cements and cementing techniques as planned, and contractually defined milestones were achieved. Furthermore, the Company submitted the registration documents for various biomaterials products in countries such as Mexico, Turkey, Columbia, Taiwan, and New Zealand. In addition, the market approvals for a variety of products were pushed forward, among other places in Jordan and Indonesia. A clinical study, at a leading German university clinic, on shortening the post-operative antibiotic treatment after a local antibiosis with the use of the product, PerOssal®, for infectious spinal diseases continued as planned.

In fiscal year 2014, the Company focused particularly on its silver coating project. *aap* launched the first two series of animal testing and, in doing so, was able to achieve some very promising results. In the first four-week group it was proven that there was no increased silver content in the organism. For the long-term group (six months), the final results are not yet in but initial results already indicate that the silver coating has not yet resulted in any local or systemic toxic effects. Furthermore, various biomechanical tests were carried out using selected silver-coated LOQTEQ® products, which all produced positive results. In addition, the high antibacterial effect of the silver coating was able to be proven in numerous established test procedures conducted in independent laboratories. Parallel to this, the IP-protection of the technology was driven forward by submitting patents in the main markets (e.g. USA, Japan, or Russia). The Company intends to have performed and concluded all the approval-relevant work (CE) in the area of silver technology by the beginning of the third quarter of 2015; after this it plans to submit the approval application for the silver technology.

aap was also able to record further advances in the area of magnesium technology. In relation to this, the Company focused, on the one hand, on selecting the active material and, on the other hand, on choosing the preferred coating. In addition, various patent applications for the technology were tested in fiscal year 2014. At the beginning of 2015, it was announced that the European Patent Office was intending to grant the Company two key patents for the development of absorbable magnesium implants. While the one patent will protect an efficient way of producing magnesium implants, the other patent protection will refer to a coating technology for implants.

B) Economic Report

Overall Economic and Industry-Related Framework Conditions

The Management Board's opinion on how the overall economic and industry-specific development has affected the course of business

a) Macroeconomic Conditions

Overall, the global economic upturn has weakened in 2014. The background to this development is firstly the crisis in Ukraine, and secondly, the situation in the Middle East. At an international level, these have each caused a high level of geopolitical uncertainty. This subsequently cast a shadow over the investment and consumer climate and the corresponding economic indicators were also subject to slower growth. In line with this, the growth rate of the real, price-adjusted gross domestic product (GDP) in 2014 was, according to statistics platform statista, around 3.3%[2], which was roughly parallel with that of the previous year. In an ideal scenario, we can assume a moderately greater growth of the global economy for the year 2015. If the current crisis in Ukraine and in the Middle East should not escalate further, and the uncertainties mentioned should not place an even greater load on the investment and consumption climate, according to statistics platform statista, global economic growth of around 3.5%[3] is forecasted.

Economic development in the euro zone once again performed in a predominately heterogeneous manner. While some countries that had suffered crises such as Spain, Portugal, Ireland and, to some

[2] Internet source: http://de.statista.com/statistik/daten/studie/197039/umfrage/veraenderung-des-weltweiten-bruttoinlandsprodukts/
[3] Internet source: http://de.statista.com/statistik/daten/studie/197039/umfrage/veraenderung-des-weltweiten-bruttoinlandsprodukts/

extent, Greece were able to record further progress, states such as France or Italy were characterized by stagnation. Overall, growth in the euro zone was halted by the need for reforms in multiple member states. As a result, the growth rate for real GDP in 2014 amounted to 0.8%. For the year 2015, economic growth of 1.2% has been estimated, with forecasts tending downward.

Despite the geopolitical turbulences described, the German economy was able to record solid growth in 2014. Overall, the German economy was primarily carried by growth in internal demand, which is based on rising income and a stable job market. Nonetheless, the German economy was also influenced by weak growth experienced by its European neighbors, which had direct effects on export business, as well as crises in Ukraine and the Middle East. Overall, economic growth in 2014 was estimated at 1.5%[4] in comparison to the previous year in the annual economic report 2015 from the German Federal Government. Most recent estimates from the German government are also forecasting a year-on-year growth rate of 1.5%[5] for the real GDP in the year 2015.

b) Industry Framework Conditions

The medical technology industry is a growth market and will continue to be one for the foreseeable future.

According to the BVMed sector report medical technologies 2014, the "Innovation Impulses in the Healthcare Industry" study (2011) by the German Economic Affairs Ministry puts global annual growth rates in medical technology at around 5%. The most recent BVMed fall survey 2014 also came to a similar conclusion: On the basis of the sales data of the med tech companies surveyed, the year 2014 saw a global rate of growth of 4.6% compared to the previous year. Twelve months previously, this value still stood at 4.4%.

Based on the information in the BVMed sector report medical technologies 2014, positive growth prospects can also be derived for the German market. On the basis of the sales data of the participants in the survey, the year 2014 saw a growth rate of 3.4% compared to the previous year. In 2013, the companies estimated a rate of 2.6% and the previous three years in a row had displayed declining growth rates.

According to the estimations of ADvaMed (Advanced Medical Technology Association) and BVMed, the global market for medical technology had a total volume of approximately EUR 220 billion (2012). At EUR 90 billion, the USA had the largest global market share by far, followed by Japan with EUR 25 billion. With a market volume of EUR 22 billion, Germany is the third largest med tech market in the world. The German volume is also part of the European market with a volume of some EUR 70 billion.

A study by the Hamburg Institute of International Economics (HWWI) also concludes a positive development of demand over the coming years. A positive picture was painted for emerging countries in particular: The demand for medical technology in these countries is expected to grow by between 9% and 16% per year on average by the year 2020. Annual growth rates of between 3% and 4% are ancticipated for industrial countries.

[4] Internet source: http://www.bmwi.de/DE/Presse/pressemitteilungen,did=687306.html
[5] Internet source: http://www.bmwi.de/DE/Presse/pressemitteilungen,did=687306.html

Signing or Termination of Cooperation Agreements and Other Important Contracts

The sale of European Medical Contract Manufacturing B.V. (EMCM) to a private equity firm for the purchase price of EUR 18 million was notarized on March 4, 2014, with effect as of February 28, 2014. This represented the sale of the entire contract manufacturing business of the *aap* Group, which was comprised within EMCM. The sale resulted in a de-consolidation loss in the amount of TEUR 4,033 which was allocated to the discontinued operations segment in the consolidated statement of comprehensive income. TEUR 4,015 of this de-consolidation loss had already been recognized as an impairment of goodwill under depreciation of tangible assets and intangible assets as of December 31, 2013. The receivable for the payment of the purchase price was fully settled in three installments by April 30, 2014. Recognition of the contract manufacturing area was already carried out as a discontinued operations segment within the scope of the consolidated financial statements for 2013 and is also shown as such in the consolidated financial statements for 2014.

The remaining 50% of the shares in the dental joint venture, *aap* BM productions GmbH, were sold to botiss medical AG for EUR 1 million on the basis of a notarized agreement dated May 30, 2014. *aap* Biomaterials GmbH is set to become an OEM of bone cements and mixing systems as a result of this transaction. The conclusion of the transaction had a direct effect on the sales of *aap* Biomaterials GmbH. The sales decline in fiscal year 2014 was around EUR 0.7 million.

Also, in Q2, the subsidiary *aap* Biomaterials GmbH concluded a supply agreement for a PMMA bone cement with a leading service provider in the US American healthcare system. The subject matter is the production and supply of a bone cement to be primarily used as an artificial joint replacement under the label of the US partner. The term of the supply agreement is three years with an option to extend, and the contractual territory covers the USA, Canada, and Puerto Rico.

In May 2014, *aap* concluded two credit agreements for in each case EUR 1 million with a fixed interest. They serve to finance investments and equipment and have a term up to the end of 2017.

At the end of December 2014, the subsidiary, *aap* Biomaterials GmbH, concluded a framework agreement with an external company with whom various contractual relationships already exist. Under certain conditions, it intends to conclude a new development agreement and to change the existing supply agreement, which will then replace the former agreements.

Earnings Position

At the beginning of fiscal year 2014, *aap* sold its contract manufacturing business, which was bundled in the Netherlands-based EMCM B.V. (EMCM), to a private equity company with effect as of 02/28/2014. Because of the resulting deconsolidation at the end of February 2014, EMCM's sales and expenses are included in the consolidated statement of comprehensive income for 2014 only for the months of January and February. In the previous year, EMCM was still included in the consolidated statement of comprehensive income for the fiscal year 2013. This means that the performance in the two fiscal years cannot be compared on the basis of the consolidated statement of comprehensive income. In the first two months of the fiscal year, EMCM achieved sales of EUR 1.2 million with total comprehensive income after taxes of EUR 0.1 million.

The following notes on the income statement refer primarily to the continued operations segment.

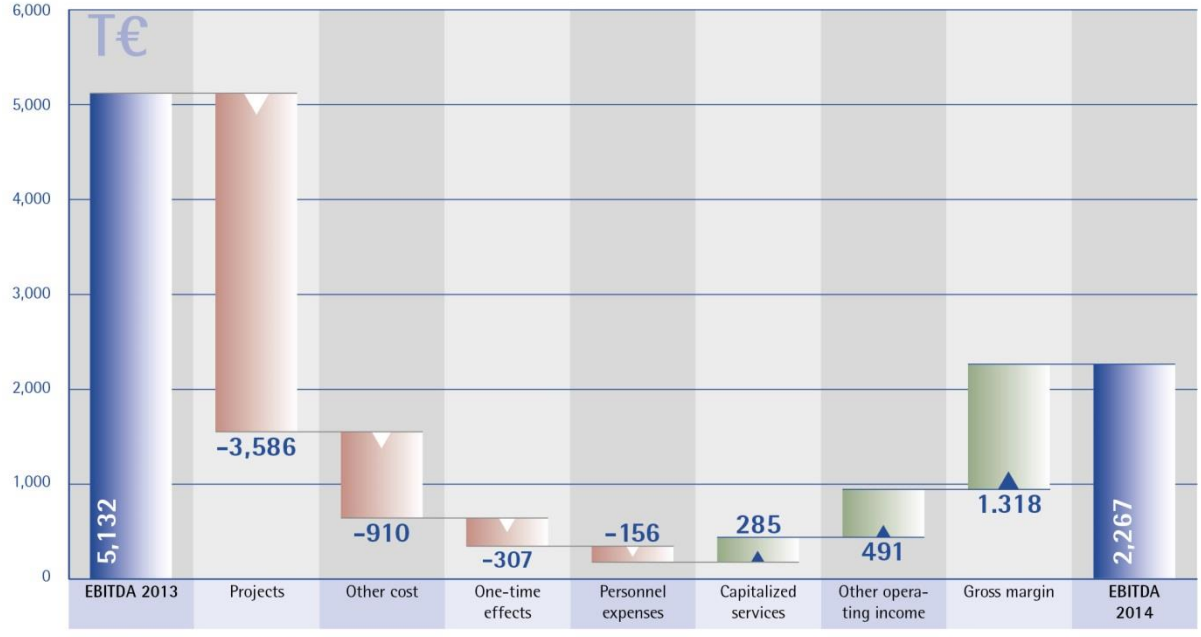
(1) Presentation of Earnings Development/Earnings Structure

The total operating output (the sum of sales, inventory changes and capitalized own and development costs) rose by 11% as a result of an increase in sales along with a slight increase in inventories and an increase in capitalized own and development costs from EUR 29.6 million to EUR 32.8 million.

In accordance with IFRS, *aap,* as a development-intensive company, capitalizes not only internally produced capital goods but also spending for in-house and development projects that are highly likely to secure approval and achieve commercial marketing success. In the current fiscal year, *aap* capitalized EUR 2.0 million (previous year: EUR 1.7 million) in own and development costs. After market launch, these capitalized development costs are depreciated over the products´ useful life.

The other operating income at EUR 2.9 million (previous year: EUR 4.2 million) fell significantly and mainly includes income from the sale of associated companies, income from services for associated companies, income from license agreements, income from governmental or European law grants as well as income from the release of provisions and the expiration of liabilities.

The analysis of the different cost categories results in the following: the cost of materials rose as a result of the increased volume of sales from EUR 8.3 million to EUR 11.8 million, and personnel expenses also increased to EUR 11.7 million (previous year: EUR 11.2 million) and increased other operating expenses at EUR 9.9 million (previous year: EUR 9.1 million). Depreciation decreased especially as a result of unscheduled impairment of development projects in the previous year at EUR 2.3 million (previous year: EUR 4.4 million).



EBITDA 2013 versus 2014

EBITDA reduced by 55 % from EUR 5.1 million to EUR 2.3 million and EBIT, or operating result, decreased from EUR 0.8 million to EUR -0.1 million. There were special effects in both fiscal years, which make comparison based on this information difficult. In order to facilitate comparison, the presentation of normalized EBITDA and EBIT separates one-time and project effects:

Continued operations	2014	2014	Change	Change
	in EUR million	in EUR million	in EUR million	%
EBITDA	2.3	5.1	-2.8	-55 %
of which projects	0.8	4.4	-3.6	-82 %
of which one-time effects	0.1	0.4	-0.3	-75 %
Normalized EBITDA	1.4	0.3	1.1	367 %

In fiscal year 2014, the Company reported project earnings of EUR 0.8 million from a development agreement for a bone cement, as well as an associated mixing system. In the previous year, *aap* Implantate AG realized project earnings of EUR 4.4 million based on the previously mentioned agreement, as well as a further agreement for the out-licensing of a bone cement to a Chinese partner. The two past fiscal years also recorded one-time effects: In fiscal year 2014, the Company sold the remaining 50% shares in its dental joint venture, including the associated equipment, which led to an EBITDA effect of EUR 1.2 million. Also, one-time expenses of around the same amount were recorded in the reporting period. These concerned, for example, up-front costs for the planned sale of *aap* Biomaterials GmbH, extensive negotiations regarding already existing agreements with various large clients, expenses in connection with structural measures at the executive Holding level, as well as consultation costs in conjunction with the ongoing testing work carried out by the German Financial Reporting Enforcement Panel for the previous years. The special effects included in the EBITDA for the fiscal year 2013 are based on a positive influence in connection with the sale of the shares in *aap* Joints GmbH (EUR 0.6 million), as well as the already accrued costs within the scope of the sale of the contract manufacturing area (EMCM B.V.; EUR 0.2 million). Without taking into consideration the special effects, the normalized EBITDA for fiscal year 2014 resulted in a value of EUR 1.4 million (previous year: EUR 0.4 million), which corresponds to a growth rate of more than 100% compared to the previous year. When we consider the operative development of the continued operations segment, as a whole and based on the normalized results, the two core areas of trauma and biomaterials were able to record profitable growth.

Continued operations	2014	2013	Change	Change
	in EUR million	in EUR million	in EUR million	%
EBIT	-0.1	0.8	-0.9	> -100 %
of which projects	0.8	4.4	-3.6	-82 %
of which one-time effects	0.1	-2.0	2.1	> -100 %
Normalized EBIT	-1.0	-1.6	0.6	38%

In addition to the aforementioned project and one-time effects on EBITDA, there were impairment losses on assets in the previous year. In the course of the sale process of EMCM B.V. and in line with the corporate strategy of focusing on the trauma and PMMA bone cement business, *aap* decided not to continue the development activities in other areas. This resulted in an one-time impairment change on capitalized development costs of EUR 2.3 million.

The investment result reduced slightly from TEUR 21 to TEUR -49 which resulted from the activities with the associated companies *aap* Joints GmbH and *aap* BM productions GmbH.

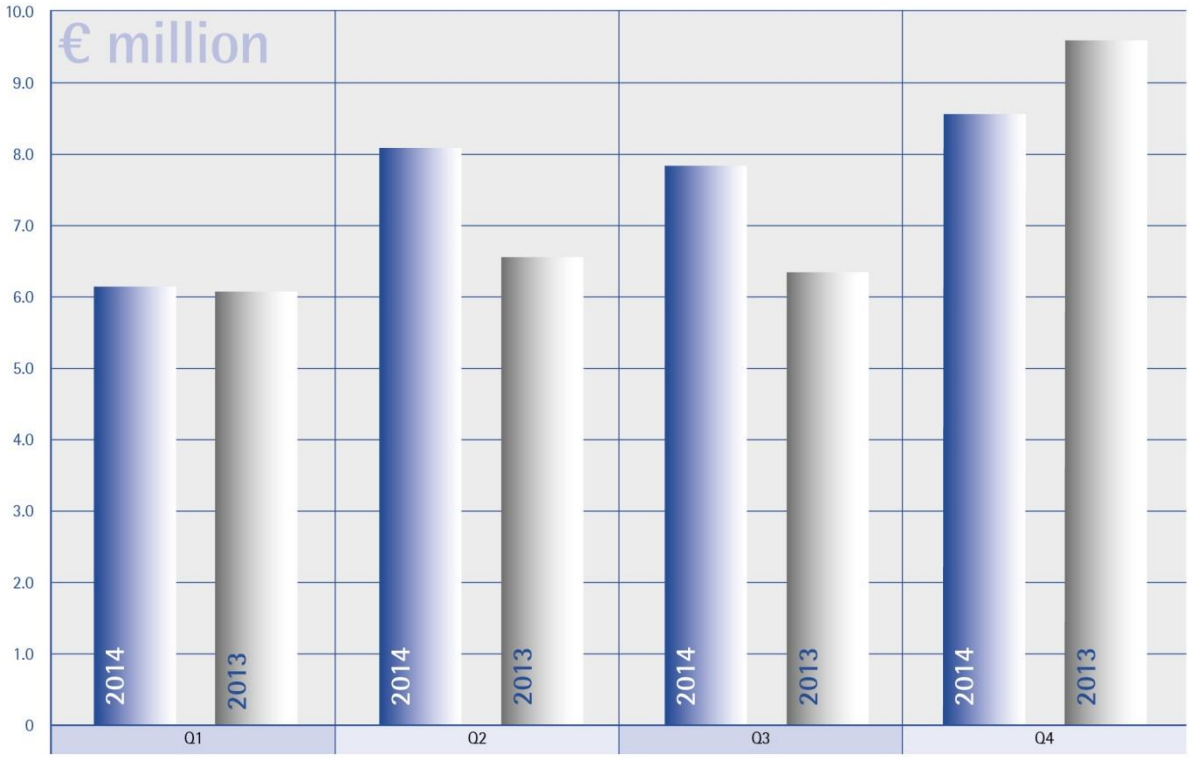
The financial result improved from EUR -0.2 million to EUR -0.1 million, which was mainly due to a decrease in financing costs.

Income tax stated at EUR -0.4 million is the result of the actual tax expenditure of EUR 0.1 million and the expenditure from the net change of deferred tax assets and liabilities. For the development of deferred taxes, see the information in the notes.

aap realized a reduced total result after taxes of EUR -0.5 million (previous year: EUR 0.9 million).

When we consider the operative development of the continued operations segment, as a whole and based on the normalized results, the two core areas of trauma and biomaterials were able to record a profitable growth.

(2) Development of Sales and Orders



Sales 2014 versus 2013 by quarters

The *aap* Group generates its total sales in two ways: the first is through product sales of biomaterials and implants distributed under its own label, as well as produced for OEM partners; the second is from project sales (e.g. out-licensing).

	2014	2013	Change	Change
	EUR million	EUR million	EUR million	%
Trauma	12.2	9.6	2.6	27%
of which LOQTEQ®	*8.2*	*5.0*	*3.2*	*63%*
Biomaterials	16.4	15.0	1.4	10%
Projects	1.2	2.8	-1.6	-58%
Other	0.8	1.2	-0.4	-31%

Sales continued operations	30.6	28.6	2.0	7%
Sales discontinued operations	1.0*	11.4*	-10.4	-91%
Total sales	31.6	40.0	-8.4	-21%

* EMCM B.V. sales 01-02/2014: EUR 1.2 million less consolidation effects (EUR 0.2 million)
** EMCM B.V. sales 01-12/2013: EUR 12.3 million less consolidation effects (EUR 0.9 million)

aap Implantate AG was able to generate sales amounting to EUR 31.6 million in fiscal year 2014. Of these EUR 31.6 million, EUR 30.6 million was attributed to the continued operations (*aap* Group without EMCM B.V.). As a result of the sale of EMCM B.V. on February 28, 2014, the sales for fiscal year 2014 included sales of EMCM B.V. for the months of January and February only, which amounted to EUR 1.0 million in total. At EUR 31.6 million, total sales for fiscal year 2014 are within the guidance of EUR 30 million to EUR 34 million communicated in October 2014.

Total sales from the continued operations of EUR 30.6 million for the fiscal year 2014 are made up of the sales from products and services, as well as a license agreement concluded in the fiscal year and the development agreements concluded in the previous years. Excluding project sales, the figure for 2014 at product level is comparable at EUR 29.5 million (previous year: EUR 25.8 million), representing a 14% increase over the previous year.

The EUR 3.7 million year-on-year increase in sales at product level were mainly due to higher sales in the trauma core competence area. In addition, *aap*'s biomaterials business also contributed to growth through its increase of EUR 1.4 million.

The trauma product area consists of fracture healing products for all major skeletal regions. In 2014, sales in this area rose by 27% to EUR 12.2 million (previous year: EUR 9.6 million). Sales growth in this product area is mainly characterized by the successful distribution of our innovative, patented LOQTEQ® system with sales totaling EUR 8.2 million in fiscal year 2014 (previous year: EUR 5.0 million). The significant LOQTEQ® growth of 63% shows that the IP-protected product family is gaining even greater market presence and is warmly received by a number of clients. Overall, the growth dynamic in fiscal year 2014 is due to the successful implementation of the strategy of sustainably focusing *aap* Implantate AG on the trauma segment.

In the biomaterials business with the core product areas of bone cement/cementing techniques, infection therapy and bone and tissue regeneration, sales increased by 10% from EUR 15.0 million to EUR 16.4 million. Decisive factors for this growth were increased sales with existing clients and the supply agreement concluded with a leading American health services company in the fiscal year.

Sales from project business fell from EUR 2.8 million to EUR 1.2 million in the year-on-year comparison. In fiscal year 2014, the company recorded project sales totaling EUR 1.2 million, primarily due to a development contract for a bone cement, as well as a related mixing system, as well as a further development contract for a bone cement. In the previous year, *aap* Implantate AG achieved project sales of a total of EUR 2.8 million on the basis of both contracts mentioned above, as well as an exclusive license and distribution agreement regarding a bone cement with a Chinese partner for the marketing of the cement in China, Hong Kong, and Macau, as well as the use of the corresponding brand name.

After the transfer of all assets (IP, expertise, brand names, client relationships and inventories) of our orthopedics (hips, knees and shoulders) product area to the *aap* Joints GmbH with subsequent sale of 67% of the shares to a Chinese private equity investor in the second quarter of 2013, *aap* now acts

only as contract manufacturer and service provider for specific administrative activities. In the fiscal year 2014, this area contributed to total sales with EUR 1.0 million (previous year: EUR 1.3 million). There is a clear understanding between the parties that *aap* will assume the role of the contract manufacturer during the transitional period only and that production possibilities (e.g., in China) will be evaluated parallel to the registration process.

(3) Fundamental Changes in the Structure of Individual Income and Expense Items

Total output (the sum of sales, inventory changes and capitalized own and development costs) rose by 4% from EUR 29.6 million to EUR 32.8 million as a result of increased sales, a slight increase in inventories, as well as in capitalized own work and development costs.

The absolute increase in inventory changes by EUR 0.9 million primarily resulted from a special effect at the end of fiscal year 2013. This means that our subsidiary generated around 42% of the project sales in the fourth quarter of 2013, which was accompanied by a sharp decrease in inventories. It is expected that inventory will increase in 2015, particularly in view of the goal of increasing our trauma sales by at least 20% and especially having adequate supply capability.

The capitalization of own work and development costs increased slightly from EUR 1.7 million to EUR 2.0 million. The largest additions relate to the development of our silver technology, as well as the expansion of our LOQTEQ® system to include additional plating systems for specific indication areas.

Other operating income was reduced by EUR 1.3 million to EUR 2.9 million. This included two special effects: *aap* generated EUR 1.2 million from the sale of the remaining 50% shares in the dental joint venture *aap* BM productions, as well as the business of associated warehouse remainders of raw materials and supplies and EUR 0.3 million from the collection of an advance fee from the conclusion of the supply contract for a PMMA bone cement with a leading American health services company. There were also considerable special effects in the previous year: firstly, the reflection of the collection of an one-time payment for research and development costs resulted from the license and supply agreement for a biomaterial and a related mixing and application device concluded in the first quarter of 2013 in the amount of EUR 2.2 million. Furthermore, the proceeds from the disposal of 67% of the shares in *aap* Joints GmbH amounted to EUR 0.8 million. Adjusted for these effects in both fiscal years, other operating income increased slightly from EUR 1.2 million to EUR 1.4 million and consisted mainly of income from services for associated companies, income from government or European grants, income from the reversal of provisions and obligations and from currency differences.

The adjusted cost of materials ratio (referring to the total of sales and inventory change) - excluding the project business (sales of EUR 1.2 million in 2014 and of EUR 2.8 million in 2013) was 40% (previous year: 33%). This increase was due mainly to a change in product mix and sales structure with higher cost of materials ratios, as well as a significant rise in external service costs, which were temporarily necessary in order to ensure delivery capability. We expect that the optimization of production processes in 2015 will lead to a fall in external service costs, and therefore to an improved cost of materials ratio.

The personnel cost ratio fell due to a sharp increase in total operating output and only a slight increase in absolute personnel expenses from 38% to 36%. In absolute terms, personnel costs rose from EUR 11.2 million to EUR 11.7 million.

During the sale of the contract manufacturing business, the number of employees fell from 290 (12/31/2013) to 241 by 12/31/2014. The continuing operations segment saw an increase in employee numbers from 215 (12/31/2013) to 241 by the end of 2014. The rise in the number of employees is primarily the result of the increase in personnel in production, as well as production-related areas. Despite the increase in the number of employees in absolute terms by 26, the absolute personnel expenses only increased from EUR 11.2 million to EUR 11.7 million. The backdrop to this is the majority of the new recruitments taking place in the second half of 2014. To ensure long-term production capabilities, *aap* Implantate AG continues to train its own skilled employees. A further increase in personnel costs is also to be expected in 2015 if we are to achieve our ambitious sales targets in the trauma business.

Other operating expenses increased from EUR 9.1 million to EUR 9.9 million with increased total operating output. The ratio of other operating expenses fell slightly from 31% to 30%. The main reasons for this absolute increase were increased consultancy expenses in connection with the preliminary costs for the planned sale of *aap* Biomaterials GmbH, the conclusion of the supply contract with an American service provider, extensive negotiations regarding existing contracts with various major clients, expenses in connection with structural measures on management holding level, costs related to the ongoing auditing by the German Financial Reporting Enforcement Panel and audits for previous years, the disposal of the remaining 50% of shares in *aap* productions GmbH, as well as an increase in advertising and travel costs through the further market rollout of our LOQTEQ® plate system.

Scheduled depreciation of fixed assets and intangible assets increased slightly from EUR 2.1 million to EUR 2.3 million. In the previous year, the discontinuation of development activities in the biomaterials business resulted in an impairment loss on capitalized development costs of EUR 2.3 million.

Our development activities are reviewed regularly for conformity to our strategy of focusing on the areas of trauma and bone cement/mixing systems and their economic application (cost/anticipated benefit, approval, etc.). Further depreciation may be required in the future if development projects no longer comply with the strict requirements of IAS 38.

Financial Position

The *aap* Group's operating cash flow fell in the fiscal year from EUR 3.5 million (previous year in continuing operations segment: EUR 2.0 million) to EUR -2.9 million. Based on a net income after tax of EUR -0.5 million, this change is greatly influenced by the significant increase in trade receivables and services, which alone represents an effect of EUR -3.1 million. The increase in receivables primarily resulted from the exceptionally strong fourth quarter, in which total sales of EUR 8.6 million were able to be achieved, of which approx. 70% were attributed to December 2014 alone, and then led to corresponding payments in 2015. In addition, the payments from stock options (cash settlement) lead to an outflow of EUR 1.4 million. The management of working capital will continue to be a central feature of management at *aap,* especially with a view to adequately reducing the amount of capital tied up in inventories according to the growth dynamic.

Cash flow from investment activities totaling EUR 13.2 million (previous year in continued operations: EUR -1.4 million) consisted mainly of investments in development projects, technical plant and machinery, office furniture and equipment, as well as payments from the sale of shares of subsidiaries. The main effects are as follows: An investment of EUR 3.2 million in tangible assets mainly applies to the expansion of capacity relating to the trauma business. In addition, EUR 1.9 million was invested in intangible assets (primarily capitalized development projects), while a total of EUR 17.7 million was received from the sale of Dutch company EMCM B.V. (contract manufacturing business) and from the disposal of 50% of the remaining shares in *aap* BM productions GmbH during the fiscal year.

Cash flow from financing activities increased by EUR 2.0 million to EUR -0.6 million (previous year: EUR -2.5 million) and is mainly attributable to scheduled repayments made in the fiscal year on loan/finance leasing liabilities (EUR -2.0 million), the complete repayment of credit lines (EUR -0.8 million), as well as the acceptance of long-term and low interest loans (EUR +2.2 million) to finance the capacity investments for trauma.

Net debt (total of all interest-bearing liabilities less credit balance at banks) changed into a positive net balance of EUR 7.7 million (previous year: net debt of EUR 3.4 million), particularly as a result of payments from the sale of EMCM B.V. *aap* will use the funds received from the sale of the subsidiary and the investment primarily to finance organic growth in the trauma business, to accelerate development in the area of silver coating, as well as for acquisitions.

Cash and cash equivalents in the Group as of December 31, 2014 came to EUR 12.2 million (previous year: EUR 2.5 million, of which EUR 1.6 million are attributable to the continuing operations segment). This sharp increase in comparison to December 31, 2013 is primarily the result of income from the sale of interests alongside a higher tie-up of working capital due to the significant expansion of the scope of the business.

As of December 31, 2012, the *aap* Group had at its disposal contractually guaranteed credit lines totaling EUR 4.5 million (previous year: EUR 4.5 million). These had not been taken up as of the balance sheet date (previous year: EUR 0.8 million taken up). As of December 31, 2014, *aap* had at its disposal freely available liquidity (the sum of cash and cash equivalents held and freely available lines of credit) amounting to EUR 16.7 million (previous year in continuing operations segment: EUR 5.3 million).

In EUR million – Continued operations	12/31/2014	12/31/2013
Gross utilization of credit lines	0.0	-0.8
Balances for credit lines	12.2	0.7
Net balance credit lines	12.2	-0.1

Until further notice, the *aap* Group has at its disposal in 2015 credit lines totaling EUR 4.5 million. Based on the budget for 2015, the Company's liquidity position as at December 31, 2014 is comfortable in order to finance the planned growth in 2015. The possibility that short-term funding of working capital may prove necessary to ensure sales growth in 2015 cannot, however, be ruled out.

The debt coverage ratio and interest coverage ratio, strategically important key financial figures for *aap*, continue to develop favorably. The result for the rolling debt coverage ratio (basis: last four

quarters) is 2.0 (12/31/2013: 0.9) and the rolling interest coverage ratio (basis: last four quarters) is 16.8 (12/31/2013: 22.7). With these figures *aap*'s ratios continue to be well above the minimum that the banks usually require and therefore provide a sound basis for ensuring ongoing profitable growth of the *aap* Group.

Asset Position

The balance sheet of the *aap* Group changed significantly based on the sale of EMCM B.V. Consequently, in connection with the sale of EMCM B.V., around EUR 22.9 million in assets and EUR 5.5 million in liabilities removed from the consolidated balance sheet. These were shown as held for sale according to IFRS 5 as of December 31, 2013. The balance sheet total dropped from EUR 65.2 million to EUR 57.9 million.

The increase in non-current intangible assets from EUR 14.5 million to EUR 15.2 million was due primarily to EUR 1.0 million in net additions to the capitalized development costs.

Tangible fixed assets increased by EUR 1.8 million to EUR 7.7 million. The increase is mainly attributable to the extensive investment in new capacity in the trauma business in 2014.

Under financial assets, a minority interest is shown based on the at equity method after the sale of 67% of the shares in *aap* Joints GmbH in 2013. At the time of the addition in the second quarter of 2013, this was measured at its fair value (EUR 1.4 million).

Despite a sharp increase in business volume, inventories remained unchanged at EUR 9.4 million.

Trade receivables, including receivables from service contracts, increased by EUR 3.2 million to EUR 10.5 million. The reason for this was the very strong fourth quarter with a high sales share in December 2014.

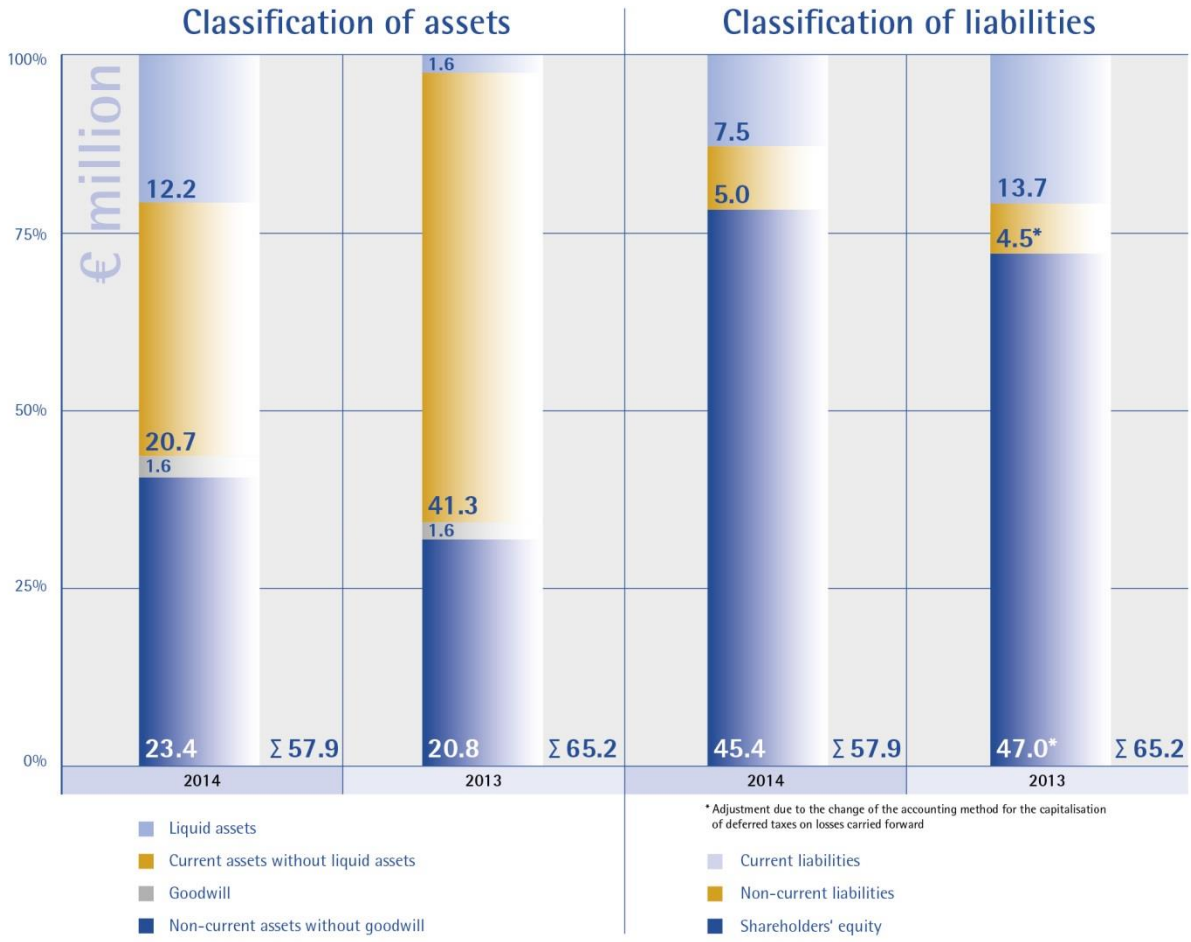
Cash and cash equivalents increased significantly from EUR 1.6 million to EUR 12.2 million, primarily as a result of the income from the sale of EMCM B.V. and the disposal of the remaining 50% of *aap* BM productions GmbH. Please refer to the notes on the financial position for further details.

Equity decreased from EUR 47.0 million to EUR 45.4 million as a result of the negative annual result and the cash settlement for stock options. In addition, the balance sheet result as of December 31, 2013 was adjusted as a result of the change in the accounting method for the capitalization of deferred taxes on loss carryforwards in the amount of EUR 1.5 million. The equity ratio increased to 79% (previous year: 72%).

The sum of current and non-current liabilities dropped from EUR 18.2 million to EUR 12.4 million, primarily as a result of the deconsolidation of EMCM B.V. through the outflow of liabilities in connection with the disposal of assets held available for sale.

Capitalized deferred taxes remained unchanged at a very low level. Deferred tax assets are stated if the realization of future tax benefits appears to be sufficiently assured. In the process and inter alia, the planned results of operative business and the effects on results of the reversal of taxable temporary differences are taken into account. The actual tax result in future reporting periods and with it the actual realizability of deferred tax assets may, however, differ significantly from the assessments at the time when the deferred taxes were capitalized.

The development of important items in the consolidated balance sheet as of December 31, 2014 compared with the previous year is summarized in the following chart:



(4) Analysis of Key Financial and Non-Financial Performance Indicators

As an innovative high-growth company, *aap* considers sustainable and profitable growth, the development of long-term partnerships with leading global orthopedics companies and the development of innovative products to be primary performance indicators. When focusing on trauma and bone cements as well as cementing techniques, the Company also concentrated on clients, costs and liquid funds.

As part of the *app* Group's monthly and quarterly reports, we mainly use the following financial indicators to manage the entire company:

- Target-performance comparison of sales
- Development of the key development projects measured by the freshness index
- Sufficient liquidity measured in terms of usable liquidity
- Gross margin (sum of sales and changes in inventories minus material costs)

The development and marketing of IP-protected products is an integral part of *app*'s strategy. The freshness index was introduced as an indicator to measure the innovativeness of the *app* Group. This

measures the percentage of total product sales that have been achieved by newly-approved products over the last three years in the USA and Europe.

As a growth company, *aap* is required to have always sufficient financial resources. These not only include bank balances, but also agreements with banks regarding the granting of daily usable credit lines. *aap* measures its financial flexibility by using so-called usable liquidity, which maps the used credit lines minus balances on accounts under credit lines, plus other bank balances.

Evaluation of the Management Agenda 2014

Summary of the Main Achievements in 2014:

- The financial objectives were achieved: At EUR 31.6 million, sales lie within the guidance adjusted in October 2014 of between EUR 30 million and EUR 34 million; and at EUR 2.3 million, EBITDA was also as expected (target corridor October 2014: between EUR 2.0 million and EUR 4.5 million)

- Sales in the trauma business increased compared with the previous year by 27% to EUR 12.2 million

- Considerable sales growth with the LOQTEQ® portfolio demonstrates that the anatomical plate system is increasingly established on the market: Sales increased by 63% to EUR 8.2 million

- Sale of all shares in the Dutch subsidiary EMCM B.V. for EUR 18 million

- Sale of the remaining 50% share in the dental joint venture, *aap* BM productions GmbH, for EUR 1 million

- "Notice of allowance" from the American Patent and Trademark Office (USPTO) for core patent claims to the LOQTEQ® system; planned expansion of the LOQTEQ® portfolio to cover further indication areas (such as polyaxial LOQTEQ® radius plate system and periprosthetic plate system)

- Patent for the silver coating technology received from the US American Patent and Trademark Office

- Conclusion of a supply agreement for a PMMA bone cement for the USA, Canada, and Puerto Rico with a leading US American company for health services

Customers		
Targets of the 2014 Management Agenda	**Results of the 2014 Management Agenda**	**Target achieved?**
Growing trauma sales to > EUR 15 million (>50%); driven by LOQTEQ®	Trauma sales increased by 27% to EUR 12.2 million; LOQTEQ® as main driver with +63% to EUR 8.2 million	Partly
Expanding the LOQTEQ® portfolio; striving for >90% indication coverage	Scheduled expansion of LOQTEQ® portfolio to cover further indication areas (e.g. polyaxial LOQTEQ® radius plate system and periprosthetic plate system)	Yes
Appointing a distributor in the USA and	Infrastructure set up with the founding of a	Partly

further expansion of distribution network beyond BRICS and SMIT countries	US subsidiary and the signing of a contract with a logistics service provider; negotiations with different distributors	
Appointing a new global partner for a bone cement	Conclusion of supply contract for PMMA bone cement to USA, Canada and Puerto Rico with a leading US healthcare services company	Yes

Innovation		
Targets of the 2014 Management Agenda	**Results of the 2014 Management Agenda**	**Target achieved?**
Sustain freshness index of at >20%	LOQTEQ® sales growth of 63%	Yes
Accelerate the development of silver coated trauma products; aiming for market introduction in 2015	Final reports on the results of initial animal experiments on toxicity and infection model received	Yes
Extend co-development network for resorbable magnesium products; aiming for market introduction in 2-3 years	Negotiations with leading companies in the magnesium sector	Partly
Interim analysis of the LOQTEQ® study for phase 1 products in the second quarter of 2014	Study of LOQTEQ® osteotomy plate's fatigue strength reveals outstanding proven properties compared with market leader; initial results of cold welding study show that no case of cold welding has been observed with LOQTEQ® plates and screws so far	Partly

Finance		
Targets of the 2014 Management Agenda	**Results of the 2014 Management Agenda**	**Target achieved?**
Profitable growth: sales of EUR 35 million (+22%) and EBITDA between EUR 5 million and EUR 6 million	Adjusted guidance; sales between EUR 30 million and EUR 34 million; EBITDA between EUR 2 million and EUR 4.5 million	Yes, within the adjusted guidance
Working capital ratio > 2.4 (in relation to sales)	Working capital ratio at 1.8; 2014 sales growth with 70% of Q4 sales in December 2014	No
Strengthening the balance sheet by ongoing reduction of the percentage of intangible assets as of the balance sheet total	Intangible assets as a proportion of the balance sheet total down to around 26%	No
DCR < 3 and ICR > 8	DCR = 2.0 and ICR = 16.8	Yes

Organisation/IT		
Targets of the 2014 Management Agenda	**Results of the 2014 Management Agenda**	**Target achieved?**
Further improvements of the ERP functionality	Planning and consolidation software implemented	Yes

Optimisation of supply chain management with a focus on trauma products	Improvement of supply capability in screw production and increase in plate production	Yes
Divestment/out licensing of non-core products and IP	Disposal of remaining 50% shareholding in dental joint venture *aap* BM productions GmbH for EUR 1 million	Yes

Based on the Management Agenda 2015 and our strategic direction to transform *app* into a focuses trauma company, the following performance indicators will be the focus in 2015:

- Sales growth with trauma products: As part of its strategy, *aap's* management has set itself the goal of developing *app* into a focused trauma company. An important indicator to measure success are the sales of *app*'s trauma portfolio, in particular the IP-protected LOQTEQ® system. In the trauma business, *app* aims to achieve a growth rate of over 20%, which is two to three times faster than the global trauma market with an average growth of 6% to 8%.

- Maintenance of a freshness index of over 20%: in order to achieve the planned sales growth in the medium-term, *app* needs to add to its range of products for trauma applications and come up with additional innovations. This is the only way to maintain a freshness index of over 20%. For 2015, this involves in particular the expansion of the LOQTEQ® portfolio with the aim of achieving an indication coverage of over 90%. At the same time, all approval relevant work for our silver technology is to be completed by the beginning of the third quarter, after which documents will be submitted for CE approval.

- Development of the gross margin (sales/inventory change/cost of materials): In 2011, our innovative LOQTEQ® system was introduced in the market and has since developed very positively. While sales with the anatomical plate system were only EUR 0.4 million in 2011, sales of EUR 8.2 million has already been achieved in the fiscal year 2014. As our LOQTEQ® system is set to be a key driver of future sales growth over the next few years, the gross margin needs to increase to achieve profitable growth. *aap* has already adopted a corresponding action plan as of the end of 2014 and intends to achieve significant gross margin improvements for the first time by the end of 2015.

We have not explicitly listed the performance indicators working capital ratio and interest and debt coverage ratio in the Management Agenda 2015. Since the beginning of the 2009 fiscal year, we have consequently worked towards transforming *app* into a focused and financially sound company. This has been a success as a result of numerous activities and transactions, most recently through the sale of the contract manufacturing business at the beginning of 2014. As of 31 December 2014, *aap* had a net positive balance and a strong balance sheet with an interest and debt coverage ratio lower than the minimum values usually required by the banks. The requirements for the next phase of the company development, namely the development of *aap* into a sustainably, profitably growing pure trauma company are therefore now in place. This growth will require investment in working capital and may potentially lead to an initial deterioration of the working capital ratio. A sustained increase in our working capital ratio will only be possible after reaching a critical mass and an associated higher sales rate of our inventory. The control and monitoring of the working capital development will still be a central aspect of daily management, in particular the adequate management of capital tied up in working capital.

C) Supplementary Report

At the end of the fiscal year up to the date of preparation of the consolidated financial statements, no new facts have emerged which have a significant effect on the earnings, assets, and financial position in the fiscal year 2014.

D) Risk and Opportunities Report

1) Internal system of controlling and risk management relating to the (Group-wide) accounting procedure (report pursuant to Section 289 (5) and Section 315 (2) 5 of the German Commercial Code [HGB])

The objective of the internal control system (ICS) in the accounting process is to provide reasonable assurance that the financial statements are prepared in compliance with regulations by implementing checks. As the parent company, *aap* Implants AG prepares the consolidated financial statements of the *aap* Group.

With regard to the accounting ICS, there can only be relative assurance - rather than absolute assurance - that material misstatements are prevented and detected in the accounts.

The Central Finance division at *aap* is responsible for controlling the processes used to prepare the consolidated financial statements and management report. Laws, accounting standards and other pronouncements are continuously analyzed with regard to their relevance and impact on the consolidated financial statements. Relevant requirements are communicated and, together with the Group-wide financial statement calendar, form the basis of the financial reporting process.

The Managing Board exercises overall responsibility for the organization of the ICS at Group level. Several of the various control processes in accounting are to be highlighted as essential. The key features include:

- Accounting policies for particularly relevant accounting regulations, both at Group level and in the individual Group companies
- Involvement of external experts - if required
- Use of suitable, extensively uniform IT financial systems and application of detailed authorization concepts to ensure authorizations appropriate for tasks
- Segregation of tasks between the entry of procedures and their review and approval
- Clear assignment of important tasks by planning operational accounting processes - e.g. coordinating assets and liabilities using balance confirmations
- Consideration of the risks in the financial statements which are identified and assessed in the risk management system, to the extent required by existing accounting regulations
- Strict powers of disposition when authorizing contracts, credit notes and similar, in addition to a consistently implemented "four-eyes principle"
- Allocation instructions for significant accounting transactions
- Clear instructions for the stock inventory process and the capitalization of development costs
- Regular training for employees involved in the consolidated accounting process

All structures and processes described are subject to ongoing review by the respective risk managers. Furthermore, *aap* performs active benchmarking of the best practice examples of other companies. We implement any identified potential improvements in a targeted way.

2) Risk Management System

aap sees itself as an internationally oriented and active group of companies naturally confronted with a variety of risks and opportunities that may influence the business development and consequently the share price.

The Company has therefore designed and implemented a comprehensive risk management system. This risk management system is primarily used to achieve the following objectives:

- Identification of risks
- Assessment of risks and
- Development and implementation of appropriate countermeasures

Explanation of the Risk Management Process:

The risk management system used by *aap* is an integral and essential part of corporate management and is therefore a responsibility of the Managing Board. Generally, potential risks that could jeopardize the continued existence of the Company are regularly recorded, systematized and analyzed within the scope of the risk management process, whereby the respective probabilities of occurrence and possible damage potentials in particular are determined. The analysis of opportunities is not part of *aap*'s risk management system. Specific countermeasures are developed as part of the risk management strategy. With the help of these countermeasures, the individual identified and assessed risks are actively managed or are reduced to an acceptable level within the scope of the intended business development. The actual risk management strategy for the fiscal year 2014 is therefore described in Section 3) below.

Internal risk reporting to the Managing Board of *aap* takes place as part of the coordination of the operative daily business, in which the Board is heavily involved. The Managing Board is therefore promptly informed about changes and current developments and can respond to these events and take them into account when making decisions. In addition to this risk reporting integrated into the operative business, regular risk reports presenting and evaluating risks on the basis of a risk matrix (probability of occurrence/loss amount) are submitted to the Managing Board of the *app* Group. Further information such as responsibilities, control mechanisms and control instruments are also described in a summary description of the risks. This risk matrix is prepared by the Managing Board for control and monitoring purposes and in order to provide information for the Supervisory Board.

The Company's risk management system also includes two other components that are presented below:

- Certified quality management system: Clearly structured and documented processes in quality management and quality control are a precondition for the approval and marketing of medical products. The aim is risk prevention. Quality management systems used by the Company are certified by DEKRA (*app* Implantate AG, Berlin) and TÜV (*app* Biomaterials GmbH).

- Controlling instruments: The Controlling division of *aap* regularly informs the Managing Board, Supervisory Board and other decision-makers of the Company in a timely manner using income, assets and liquidity illustrations and figures showing the economic situation of the Company and the level of potential risks.

3) Description of Individual Risks and Explanation of Specific Countermeasures

In the following section, the individual identified risks faced by *aap* have been shown and explained according to their classification. A quantification of the risks takes place only when the corresponding risks are also assessed quantitatively within the framework of internal control. Overall, however, qualitative information is mainly used for internal risk reporting. A quantification of the risks only takes place in individual cases in this section.

The individual risks are arranged in a hierarchy according to their gross risk to make their relative importance to the Company more transparent. The gross risk is the risk potential, which is inherent in the nature of business without considering the countermeasures already active. Accordingly, the most significant risk for the Group is listed first, while the subsequent risks decrease in their relative importance to the Company. The importance of each risk is also explained individually.

Furthermore, specific countermeasures are specified for the individual identified and evaluated risks. The aim is to actively deal with the risks with the help of these countermeasures or reduce them to an acceptable level within the scope of the intended business development.

The following risks that may have an impact on the *app* Group do not always describe all risks that the Company is or could be exposed to. Risks not known at the time of preparation of the consolidated financial statements or which are considered immaterial may, however, additionally influence the results and financial position of *app*.

a) Market, Competition, New Products and Technologies

Competition in the general medical technology market and in particular the markets for orthopedic and biological implants will continue to increase. There is consequently a risk that *app*, in comparison to competitors, may not react to market developments in a timely manner with new products or adaptations of existing products. This could have negative effects on the Company's assets, earnings and financial situation and result in a deterioration of its market position. The Company considers the gross risk to be moderate in terms of probability, with a severe potential level of damages. *aap* mitigates this risk by making substantial investments in research and development and performing ongoing market and technology screenings. *app* is also developing a worldwide network of experts to identify and track market trends from the perspective of users and implement corresponding new developments where there is sufficient potential.

Government intervention in the health care system can also have a negative impact on the sales volume and profitability of the Group. *app* estimates the gross risk to be moderate in terms of probability of occurrence, with a moderate potential level of damages. The Group mitigates this risk with an ongoing internationalization of sales and intensive observation of the German healthcare system with the aim of being able to anticipate and counteract adverse trends.

Corporate consolidation is still taking place on the world market, which may still affect *app* in terms of its client base. The *app* Group considers the gross risk to be low in terms of probability of occurrence, with a low potential level of damages. *aap* mitigates the risk of a sector consolidation by cooperating with a range of companies and is constantly building new partnerships.

b) Approval of Products

Strict licensing requirements apply in the medical technology and health care sectors, which vary from country to country. The refusal to grant licenses and licensing delays affecting the Company's

products could have a negative impact on future sales and profits of *app*. The Company considers the gross risk in terms of probability to be low, with a moderate potential level of damages. The *app* Group mitigates this risk by tracking developments in the field of licensing requirements with a high degree of accuracy and by monitoring regulatory changes within the scope of its implemented quality management system in great detail.

The requirements to bring medical devices to the market are increasing steadily. In the case of implants that remain in the patient's body (endoprostheses, bone cements, absorbable regeneration materials), advisory opinions on the basis of clinical data are required as a prerequisite for the CE label. *app* considers the gross risk in terms of probability to be low, with a moderate potential level of damages. The Company mitigates this risk by continuing to expand in the field of regulatory and clinical affairs and through the increasing internationalization of sales in order to cover increased costs with higher production volumes.

c) Patents and Intellectual Property

The possibility that third parties may assert claims against *aap* in the future due to the infringement of industrial property rights cannot be excluded. Such an infringement could delay the delivery of products under certain circumstances. In the event of a negative outcome of legal proceedings, *app* may be obliged to enter into fee or license agreements. In this way, a lawsuit resulting from the infringement of industrial property rights against *aap* could adversely affect the assets, earnings and financial situation of the Group. The Company assesses the gross risk in terms of probability to be low, with a moderate potential level of damage. *aap* mitigates this risk with a multi-site IP committee that regularly monitors the current developments in the patent and licensing market and secures the Group's own developments at an early stage with comprehensive patent protection. A policy has also been implemented for dealing with employee inventions in order to promote the innovativeness of the Company's employees while at the same time protecting the intellectual property of the employees and the *app* Group.

d) Dependence on Customers and Suppliers

In addition to the products developed and produced within the Group, *app* also rounds off the product portfolio by trading goods (e.g. instruments, lavage systems, acquisition of a biomaterial product). Various *app* products are developed by third-party suppliers if in-house production expertise is not available (e.g. injection molding, polymers and collagen). Such partnerships involve increased dependence on these suppliers' quality and readiness to deliver. The Group considers the gross risk of negative influences of the dependence in terms of probability to be low, with a low potential level of damage. The Company accepts this risk by strategically cooperating with a few qualified suppliers with consistent quality reviews in order to secure product quality.

aap generated 30% (previous year: 24%) of sales (including project sales generated for the respective clients) with the three largest clients of the Company in 2014. In this context, however, it should be noted that the increase in the share of sales to the three largest clients from total sales in the continued operations segment compared to the previous year is based on the deliberate expansion of business with LOQTEQ® products among existing clients. In contrast, 2012 and 2013 were marked by the acquisition of new clients following the launch of the product series, so that sales with the three largest clients were lower compared to overall sales. However, the Company will renew its focus on the acquisition of new clients during fiscal year 2015, so that the share of sales affected by risk could potentially fall again. Nevertheless, the short-term absence or potential insolvency of one

of the three largest clients could endanger the earnings and financial position of the continued operations segment. *aap* considers the gross risk in terms of probability to be moderate, with a moderate potential level of damages. *aap* is mitigating this risk by expanding the sales organization, along with further internationalization and the acquisition of additional major clients (stability, sales strength, financial strength).

e) Product Liability Risks

The products of the *aap* Group are intended for insertion into the human body and, in some cases, the products remain inside the body. As a result of different healing properties and varying experience of the doctors using the products, the malfunction of these products cannot be completely ruled out. To date, no significant claims for damages on the basis of product liability have been made against the Company. However, this cannot be ruled out for the future. *aap* considers the gross risk in terms of probability to be low, with a moderate potential level of damages. The Group mitigates this risk with strict quality controls and product liability insurance in the scope customary in the sector. There is a residual risk that the existing insurance coverage is not sufficient for protection against potential claims, particularly in the USA.

f) Capitalization of Development Costs

In addition to internally produced goods, *aap* capitalizes expenditures for internal and development projects as a med tech company intensively focusing on development. Based on the Company's own experiences and sector analysis, it has been shown that the average development cycles for a new medical product continue to be between three and eight years. Development projects should be approached as an asset when all six criteria of IAS 38 "Intangible assets" are met. All of these six criteria are of equal importance. One of the most challenging criterion is providing evidence that the asset is likely to generate future economic benefits. All capitalized development projects (those developed in-house and those which are purchased) are annually subjected to an impairment test. Any resulting impairment requirements are to be immediately recorded as extraordinary amortization in the statement of income in the year of occurrence.

Capitalized development projects must be subject to scheduled amortization over the respective duration of use upon completion of their development and initial use. The current amortization periods are between ten and 15 years. Management continually evaluates whether these amortization periods correspond to the estimated durations of use or if adjustments need to be made (e.g. amortization periods). In view of the development of the amortization of intangible assets, in particular capitalized development projects, it appears that these have increased steadily over the past few years due to the market maturity of the projects. Coupled with the increase in sales and earnings, this demonstrates the contribution of the development projects to the positive development of these indicators. *aap* estimates the gross risk of undesirable developments or project cancellations in terms of probability to be low, with a low potential level of damages. *app* has implemented comprehensive measures and processes to avoid negative developments in project cancellations. These include, among other things, the creation of centers of excellence and collaborations with reputable and leading international scientists and physicians, for example, during the development of new trauma plate systems, silver coatings for trauma products, and the development of medical devices made of magnesium. Management expectations for the contributions of capitalized development projects can be derived from our objective to further increase the freshness index for 2015/2016, mainly through increased sales with LOQTEQ® and the

bone cements and mixing systems developed in-house by the Company. It is our clear understanding that in the future, the income effect from capitalized development projects for the period of development until the end of their economic useful life should be balanced.

g) Personnel Risks

aap depends on the specialized knowledge of its employees in many areas of its activities. *app* relies on knowledge and skills of highly qualified key personnel, in particular for the development and approval of IP protected medical devices and the development and expansion of new business activities. The Company therefore faces the risk of personnel fluctuations of qualified employees and difficulties with the recruitment of sufficiently talented staff. The *app* Group considers the gross risk in terms of probability to be moderate, with a moderate potential level of damages. The Group mitigates this risk by creating a work environment where all employees can contribute their full potential. In order to achieve this, *app* positions itself as an attractive employer. The cornerstones of human resources work are supported in-service training, performance-based compensation, a positive working environment and measures to create a balance between work and family life. Despite these measures and high employee satisfaction, *aap* cannot guarantee that these employees will remain with the Company or work in the necessary way.

h) Data Protection

Major data loss could result in serious interruptions to business operations, including production. Data abuse could also lead to a loss of important expertise and consequently the competitive advantage of the Company. *aap* considers the gross risk to be low in terms of probability, with a moderate potential level of damages. The Group mitigates these risks by employing an external data protection officer and regularly instructing workers. The data protection officer was based at the sites of *app* Implantate AG in Berlin and *app* Biomaterials GmbH during the fiscal year 2014. At both sites, a high level of data protection was achieved during the reporting period. The proportion of processed personal data was reduced by optimizing processes. A majority of employees were instructed in the field of data protection. Employees made an effective commitment to maintain data confidentiality in accordance with Section 5 of the Federal Data Protection Act (BDSG). This process is maintained on a continuous basis to guarantee that data protection remains at a high level. The rights of individuals, in particular with regard to the rights of those affected to be kept informed, are implemented by the data protection officer in collaboration with the relevant departments.

i) Legal Risks

The legal disputes between the Company and a supplier of *app* Implantate AG, which were reported in fiscal year 2013, were ended upon withdrawal of the appeal by the supplier in December 2014. Thus no significant legal disputes currently exist.

4) Additional Disclosures Pursuant to Section 315 para. 2 sent. 2 letter b HGB

aap faces price risks at the client end. The Company estimates the gross risk in terms of probability to be low, with a low potential level of damages. The Group mitigates these risks by switching sales to product innovations with higher margins that are developed and produced in-house.

In addition, *app* is also exposed to the potential non-payment of accounts receivable. The Company considers the gross risk in terms of probability to be moderate, with a low potential level of damages. The *app* Group mitigates these risks through the active management of receivables. For this purpose,

app also creates sufficient risk provision in the form of specific and general allowances (2014: TEUR 237, previous year: TEUR 183).

Key financing indicators debt coverage ratio and interest coverage ratio, which are strategically important for the development of *app*, remain encouraging. This results in a value of 2.0 (12/31/2013 continued operations: 0.8) for the rolling debt coverage ratio (based on the last four quarters) and a value of 16.8 (12/31/2013 continued operations: 22.7) for the rolling interest coverage ratio. With these values, *app* remains above the minimum values usually required by the banks and has therefore formed a sound basis for further secure profitable growth of the *app* Group.

aap faces interest rate risks resulting from borrowings and investments. The Company considers the gross risk in terms of probability to be low, with a low potential level of damages. The *app* Group mitigates these risks with Group-wide cash management and the completion of primary financial transactions. Interest rate and price risks are controlled by combining maturities with fixed and floating interest positions. In the case of interest-bearing liabilities of the Group, all liabilities have a fixed rate, apart from the current account overdraft and a bank loan of EUR 1 million. As of 12/31/2014, approximately 36% (previous year: 30%) of the Group's borrowed capital had a fixed interest rate. Changes to market interest only have an impact if these financial instruments were to be entered onto the balance sheet at fair value. However, this is not the case. Sensitivity analyzes were performed for the floating rate liabilities. A similar change to the interest rate was applied to all financial liabilities and all currencies. Changing the interest rate by one percentage point resulted in an increase of income before income taxes by TEUR 7 (previous year: TEUR 40) and a decrease of TEUR 7 (previous year: TEUR 40).

The Company is also exposed to liquidity risks. Among other things, these result from a lack of availability of funding sources which, among other things, are caused by non-adherence to financial covenants which must be observed under the loan agreements. If these financial covenants are not observed, the financing bank has the right to terminate the loans and demand immediate repayment. For instance, according to the current long-term loan agreements, *app* is required to comply with certain maximum/minimum levels of equity ratio and net debt. *app* considers the risk of non-compliance with the financial covenants that may result from the retrograde calculation by the respective financing bank to be low. The *app* Group mitigates this risk by implementing a highly transparent and open communication policy with the banks that finance them, in order to identify potential risks at an early-stage and jointly develop risk-adequate solutions. In addition the covenant figures are observed continuously by *aap*.

In fiscal year 2014, *app* generally only arranged internal foreign currency hedging transactions, as there was only a low currency risk. Going forward, however, *app* plans to arrange external hedging for these receivables with higher sales on an US dollar basis

5) Summary of the Risk Situation of the Company

Overall, the previously reported individual risks have no effect on the survival of *app*. There are no further dependencies between risks to the extent that the mutually reinforcing effects may resulted in a threat to the existence of the Company. The risk-bearing capacity of the *app* Group is therefore in place. The Managing Board will continue to continuously and carefully monitor existing and new risks in the future.

6) Opportunities

In addition to the risks, *aap* regularly identifies and assesses the opportunities of the company. In principle, opportunities could arise as a result of the development of medical standards or the market launch of new products. Through close dialogue with the users of our products and our research and development integrated in the centers of excellence (CoE), we will continue to harness opportunities quickly as well as create new sales potential.

Opportunities through positive economic development

The general economic environment has an impact on the development of business at *aap*. Our statements on the continuing development of the Group are based on the expected overall economic environment described in the forecast report. If the global economy develops more dynamically than currently assumed, our forecast for the sales, earnings and financial position can be exceeded.

Opportunities through growth strategy

The expansion of capacities allows us to participate in the increasing demand for health care and medical technology products. The new, ultra-modern production processes continue to improve our competitive advantage. In addition, due to our comprehensive product portfolio and many years of experience, we are able to offer our customers efficient solutions. If the international health care markets develop more rapidly than currently expected, this could have a positive effect on our sales, earnings and cash flow situation.

Opportunities through research and development

Innovations on the product and process level are the foundation of our growth strategy. We work closely with our customers and users to bring new and improved products to the market. Earlier market readiness of our research and development projects than currently expected could improve our sales, earnings and cash flow situation.

Opportunities through international presence

Opening up additional health care markets (e.g., in Asia or the Middle East) for international medical technology companies can present further opportunities for *aap*. Due to our international orientation, we have the possibility to be part of this development. This would improve the development of sales and earnings of *aap* for the long term.

Financial opportunities

Favorable exchange rate trends can have a potentially positive impact on the Group's development of earnings. *aap* continuously analyzes the market environment in order to identify and realize opportunities in this respect.

Opportunities through employees

Our employees are the driving force of our innovations and generate added value for *aap* through the close dialogue with customers, users and patients. Their high identification with the company fosters their motivation and sense of personal responsibility, which we want to encourage further through human resources development measures. If our measures and methods achieve faster and better progress than currently expected, this could also strengthen our competitive position. This could result in positive effects on sales, earnings and cash flow.

E) Other Disclosures

1. Composition of Subscribed Capital

As of December 31, 2014, the Company's share capital amounted to EUR 30,670,056.00 divided into 30,670,056 fully paid-in bearer shares. Each share entitles the holder to one vote at the Company's Shareholders' Meeting. Only the statutory voting restrictions exist. There are no differences in voting rights.

2. Basic Principles of the Remuneration System (Remuneration Report)

Management Board Remuneration

The Supervisory Board resolved on September 26, 2012 to renew the terms of office of all three Management Board members, which were due to expire on December 31, 2012, for another three years until December 31, 2015. On October 8, 2012 the new management contracts, valid from January 1, 2013, were signed. The Supervisory Board resolved on April 28, 2014 to approve the early resignation of the previous acting CEO Mr. Biense Visser on May 31, 2014 and the appointment was thereby amicably canceled. By a decision of the same day, the appointment of the hitherto acting COO, Mr. Bruke Alemu, was amicably canceled while simultaneously being re-appointed as the CEO until December 31, 2017. All Management Board contracts comply with the recommendations of the German Corporate Governance Code, and the remuneration structure was re-oriented towards sustainable company development in accordance with the German Act on the Appropriateness of Managing Board Remuneration (VorstAG; Section 87 para. 1 AktG (German Stock Corporation Act))

The following Management Board remuneration provisions therefore apply as of January 1, 2013:

The total cash remuneration consists of a fixed and a performance-related variable component. The fixed component ensures a basic remuneration that enables the individual Management Board member to perform his duties in the best interests of the Company and to fulfill his obligations with the due care and diligence of a prudent businessman without becoming dependent on attaining only short-term performance targets. The variable component, in contrast, which depends on the Company's economic result, ensures a long-term incentive effect.

The variable remuneration relates to the attainment of both qualitative and quantitative targets. It is limited to a maximum amount and takes future corporate development into account by means of a three-year monitoring period. The qualitative targets laid down in the Management Agenda are set by the Supervisory Board in advance while approving the annual budget and account for 10% of the variable remuneration component.

The quantitative targets account for 90%. The reference values for the quantitative variable salary component are LOQTEQ® sales (partial bonus 1 – weighting 1/3) and cash flow target achievement (partial bonus 2 – weighting 2/3). Subject to the degree of target attainment the partial amounts are graduated and limited by an absolute amount or ceiling.

The qualitative bonus is paid in full on target attainment one week after the following year's Shareholders' Meeting, whereas only 50% of the quantitative bonus is paid out at that time. The remaining 50% is paid half after the second year's Shareholders' Meeting and half after the Shareholders' Meeting in the third year after the bonus year.

If the results for the year after the bonus year and/or the second year after the bonus year are more than 30% below the quantitative target, the part of the bonus that has been withheld will be forfeited. The bonus for 2013 could therefore be reduced if the targets are not met in 2015, the bonus for 2014 could be reduced if the targets are not met in 2015 and 2016, and the bonus for 2015 could be reduced if the targets for 2016 and 2017 are not met. The bonus is only forfeited in full if both quantitative targets are not met.

If the contract begins or ends during a fiscal year, the bonus is paid pro rata on the assumption that the target has been achieved in full.

The Supervisory Board is entitled to eliminate extraordinary business developments that have led to one-time additional earnings that are not the result of an increase in operating business in establishing the assessment basis for the quantitative targets.

In the event of a change of control over the Company, both Management Board members have a special right of termination that they can exercise at the end of the second month after the change of control (but not including the month in which the change of control occurred) to the end of the month with 14 days' notice. There are three cases in which a change of control entitles them to exercise this special right of termination: They are if an existing shareholder or a third party acquires at least 50% of the voting rights and thereby exceeds the mandatory offer threshold laid down in the German Acquisition and Takeover Act (WpÜG), if the Company concludes an affiliation agreement as a dependent company, or if it is merged with another company.

Management Board remuneration in the fiscal year 2014 was as follows:

	Remuneration components in EUR (th.)				
	Performance-unrelated	Performance-related	With long-term incentivizing effect	Total (2014)	Total (2013)
Biense Visser, CEO (until May 31, 2014)	169	37	244	449	384
Bruke Seyoum Alemu, COO (until May 31, 2014), CEO (as of June 1st, 2014)	310	54	129	493	402
Marek Hahn, CFO	218	34	41	292	275
	697	124	413	1,234	1,061

Supervisory Board Remuneration

Supervisory Board members receive, in addition to reimbursement of their expenses, a fixed remuneration of EUR 5,000 per Supervisory Board meeting. No remuneration is paid for meetings held by conference call.

2008 Stock Option Program

By resolution of the Shareholders' Meeting of September 29, 2008, the Management Board and – provided members of the Company's management are entitled – the Supervisory Board is authorized to issue stock option programs by September 28, 2013 for members of the Company's Management Board, selected executives of the Company and members of the Management and employees of the Company and affiliated enterprises and to grant up to 1,200,000 stock options with subscription rights to one share in the Company, each with a term of up to five years from the date of issue.

Shareholders in the Company do not have subscription rights. The stock options can also be taken over by a bank with the obligation to transfer them to the entitled parties as instructed by the Company. In this case too only the entitled persons may exercise the options. The fulfillment of exercised option rights may be effected at the Company's discretion either by recourse to contingent capital 2008/I or through own shares in the Company.

For further details, please see the Notes under (12) Equity.

2010 Stock Option Program

The Management Board of the Company and, if members of the Company's Management Board are among the entitled persons, the Supervisory Board are authorized to issue by December 19, 2011 a stock option program (the "2010 Stock Option Program") for employees and Board members of the Company, as well as for employees and members of the management of affiliated enterprises and to grant up to 1,486,000 stock options with subscription rights for one share in the Company ("subscription rights"), each with a term of up to eight years after the date of issue. Shareholders in the Company do not have subscription rights. The stock options can also be taken over by a bank with the obligation to transfer them to the entitled parties as instructed by the Company. In this case too only the entitled persons may exercise the options. The fulfillment of exercised option rights may be performed at the Company's discretion either by utilizing contingent capital, treasury shares in the Company, or a cash settlement.

For further details, please see the Notes under (12) Equity.

2012 Stock Option Program

The Management Board of the Company is authorized to issue by December 19, 2014 a stock option program (the "2012 Stock Option Program") for employees of the Company, as well as for employees of affiliated enterprises and to grant up to 300,000 stock options with subscription rights for one share in the Company ("subscription rights"), each with a term of up to eight years after the date of issue. Shareholders in the Company do not have subscription rights. The stock options can also be taken over by a bank with the obligation to transfer them to the entitled parties as instructed by the Company. In this case too only the entitled persons may exercise the options. The fulfillment of exercised option rights may be effected at the Company's discretion either by utilizing contingent capital proposed for resolution, treasury shares in the Company or a cash settlement.

For further details, please see the Notes under (12) Equity.

2013 Stock Option Program

The Management Board of the Company is authorized to issue by December 19, 2015 a stock option program (the "2013 Stock Option Program") for employees of the Company, as well as for employees of affiliated enterprises and to grant up to 300,000 stock options with subscription rights for one share in the Company ("subscription rights"), each with a term of up to eight years after the date of issue. Shareholders in the Company do not have subscription rights. The stock options can also be taken over by a bank with the obligation to transfer them to the entitled parties as instructed by the Company. In this case too only the entitled persons may exercise the options. The fulfillment of exercised option rights may be effected at the Company's discretion either by utilizing contingent capital proposed for resolution, treasury shares in the Company or a cash settlement.

For further details, please see the Notes under (12) Equity.

2014 Stock Option Program

The Management Board of the Company is authorized to issue by December 18, 2016 a stock option program (the "2014 Stock Option Program") for employees of the Company, as well as for employees of affiliated enterprises and to grant up to 300,000 stock options with subscription rights for one

share in the Company ("subscription rights"), each with a term of up to eight years after the date of issue. Shareholders in the Company do not have subscription rights. The stock options can also be taken over by a bank with the obligation to transfer them to the entitled parties as instructed by the Company. In this case too only the entitled persons may exercise the options. The fulfillment of exercised option rights may be effected at the Company's discretion either by utilizing contingent capital proposed for resolution, treasury shares in the Company or a cash settlement.

For further details, please see the Notes under (12) Equity.

3. Direct and Indirect Shareholdings >10% of Voting Rights

To the best of our knowledge, the following direct and indirect shareholdings of more than 10% of the share capital in *aap* Implantate AG totaling EUR 30,670,056.00 were held as of 12/31/14:

Name	Voting rights in %
1. Elocin B.V.	14.41
2. Jürgen W. Krebs	12.72
3. Noes Beheer B.V.	10.93

4. Statutory Provisions and Provisions of the Articles of Association for Appointing and Dismissing Management Board Members and Amending Articles of Association

The appointment and dismissal of members of the Management Board are governed by Section 84 f. of the German Stock Corporation Act (AktG) and by the company's articles of association. According to the company's articles of association, the Management Board consists of one or more members. The Supervisory Board specifies the number of members and appoints them. The Supervisory Board can appoint a member of the Management Board as chairman and another as deputy chairman. The Supervisory Board also dismisses members of the Management Board. Management Board members are appointed for a maximum of five years. Reappointment or extension of the term of office for an additional five years is also permissible. The Supervisory Board can revoke the appointment of a Management Board member before the term of office expires for good cause, such as a gross breach of duty, inability to properly perform management duties or if the Shareholders' Meeting passes a vote of no confidence in the Management Board member unless the vote of no confidence was passed for obviously arbitrary reasons.

Amendments to the articles of association must be made in accordance with the provisions set forth in Sections 179 ff. of the German Stock Corporation Act (AktG) and the company's articles of association. According to the company's articles of association, the Supervisory Board is authorized to adopt amendments to the articles that affect only the wording thereof.

5. Management Board Authorization to Issue and Repurchase Shares

With the consent of the Supervisory Board, the Managing Board is authorized to increase the share capital of the Company once or several times up to a total of EUR 4,192,786.00 until July 15, 2015 in an exchange for cash or investments in kind (authorized capital 2010/I) and to also establish the conditions of the share issue with the consent of the Supervisory Board. The subscription rights of shareholders can be excluded with the consent of the Supervisory Board.

With the consent of the Supervisory Board, the Managing Board is authorized to increase the share capital of the Company once or several times up to a total of EUR 4,182,279.00 until July 5, 2017 in an exchange for cash or investments in kind (authorized capital 2012/I) and to also establish the

conditions of the share issue with the consent of the Supervisory Board. The subscription rights of shareholders can be excluded with the consent of the Supervisory Board.

With the consent of the Supervisory Board, the Managing Board is authorized to increase the share capital of the Company once or several times up to a total of EUR 6,959,963.00 until July 12, 2019 in an exchange for cash or investments in kind (authorized capital 2014/I) and to also establish the conditions of the share issue with the consent of the Supervisory Board. The new shares are generally to be offered to the shareholders for subscription. They can also be offered by one or more financial institutions or by one or more equivalent institutions as long as they are offered to the shareholders for subscription (indirect subscription right). The Managing Board is authorized to exclude the subscription rights of shareholders with the consent of the Supervisory Board.

The Annual General Meeting of July 16, 2010 authorized the Company to acquire and use treasury shares in accordance with Section 71 Para. 1 no. 8 AktG and to exclude subscription rights. Treasury shares up to a total notional value of EUR 1,000,000.00 in the share capital could be acquired. The authorization granted by the Annual General Meeting on July 16, 2010 which ends on July 15, 2015 was prematurely canceled by a resolution of the Annual General Meeting of June 13, 2014 which authorized the Company again to acquire and use treasury shares in accordance with Section 71 Para. 1 (5) AktG and to exclude subscription rights. The Company is authorized to acquire treasury shares up to a total notional amount of 10% of the share capital. Generally, the level of the share capital on the date of the resolution is decisive for the calculation of this 10% limit.

The acquired shares, together with other shares held by the Company or attributable to it as defined under Section 71a et seq. AktG, must at no time exceed 10% of the share capital. The authorization must not be used for the purpose of trading in treasury shares.

The authorization can be exercised by the Company or by third parties, in full or partial amounts, on one or more occasions, on behalf of the Company for one or more purposes. The authorization is valid until June 12, 2019.

The acquisition takes place at the discretion of the Managing Board, either on the stock exchange, through a public offer or as a public invitation to make such an offer. If the acquisition of shares takes place on the stock exchange, the consideration paid by the Company per share (excluding transaction costs) must not exceed or fall below 10% the share price determined by the opening auction on the stock exchange trading day in the Xetra trading system (or a comparable successor system) on the stock exchange.

If the acquisition takes place through a public offer or as a public invitation to make a bid, the purchase price offered or the limits of the purchase price range per share (excluding transaction costs) must not exceed or fall below 10% of the closing prices in the Xetra trading system (or a comparable successor system) on the Frankfurt Stock Exchange Frankfurt/Main on the three trading days preceding the date of the public offer or public invitation to make a bid. If, after the publication of a public offer or public invitation to make a bid, there are significant variations in the relevant share price, the offer or invitation to make an offer can be adjusted. In this case, any adjustments will be made on the basis of the average price of the three trading days prior to the public announcement of the adjustment. The offer or invitation to make an offer can include further conditions. If the offer is oversubscribed or if, in the case of an invitation to make a bid, not all equal bids are accepted, the acceptance must be made proportionally. The preferential acceptance of low volumes of up to 100 pieces per shareholder for the acquisition of offered shares is permissible. The

provisions of the Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) are to be observed, insofar as and to the extent they apply.

The Managing Board is authorized to use company shares acquired on the basis of this authorization for all legally permissible purposes, in particular the following purposes:

I. The shares may be redeemed with no additional Annual General Meeting resolution required for their redemption or execution. They can also be redeemed using this implied process with no capital reduction by adjusting the proportional calculated amount of the remaining shares in the share capital of the Company. The redemption can be limited to a portion of the acquired shares. The authorization for withdrawal can be used on multiple occasions. If the redemption is performed using the simplified procedure, the Executive Board is authorized to adjust the number of shares in the Articles of Association.

II. The shares can be sold in a way other than on the stock exchange or through an offer to shareholders if the shares are sold for cash at a price that is not significantly lower than the market price of the shares in the same company with the same options at the time of the sale. In this case, the number of shares to be sold together with new shares issued after this authorization under exclusion of subscription rights or with the corresponding application of Section 186 Para. 3 (4) AktG must not exceed 10% of the share capital of the Company. Generally, the level of the share capital on the date of the Annual General Meeting's resolution is decisive for the calculation of this 10% limit. If the share capital figure is lower when the authorization is exercised, this value is relevant.

III. The shares can be sold for allowance in time, in particular also in connection with the acquisition of companies, parts of companies or investments in companies, company mergers (within the context of measures under the Reorganization Act (*Umwandlungsgesetz*) and other assets, to the extent that these acquisitions are in the best interests of the Company.

IV. Instead of the use of conditional capital of the Company, the shares can be issued to employees of the Company and its affiliates, including members of the management bodies of affiliated companies and members of the Managing Board in order to satisfy rights obligations to purchase shares in the Company, in accordance with the existing stock options or employee stock option plans of the Company adopted by the Annual General Meetings of September 29 2008, July 16, 2010, July 6, 2012, June 14, 2013 and June 13, 2014. If treasury shares are to be accordingly issued to members of the Managing Board instead of using conditional capital of the Company, this authorization is valid for the Supervisory Board.

V. The Managing Board is also authorized to use treasury shares to use bonds with option or conversion rights or obligations issued by the Company or affiliated companies within the meaning of Section 17 AktG.

The authorizations under II. to V. also include the use of company shares acquired on the basis of Section 71d (5) AktG.

The authorizations can be used on one or more occasions, fully or in part, individually or jointly. The authorizations under II. to V. can be used by dependent companies, companies those majority-owned by the Company, on their behalf or by third parties acting on its behalf of the Company.

The right of shareholders to subscribe to these treasury shares is excluded insofar as these shares are used in accordance with the authorizations under II. to V. or if compensation for fractional amounts is required in a sale to all shareholders.

The Supervisory Board may determine that measures of the Managing Board can only be implemented with the consent of the Supervisory Board.

6. Important Agreements Concluded by the Company that are Conditional on a Change of Control Resulting from a Takeover Bid, and the Consequences

A service and distribution agreement for the provision of specific services for the performance of a certain services or delivery of certain products has been concluded between a subsidiary and an external company, which represents a significant business relationship for the (subsidiary) company. In the event of a change of control, the external company is entitled to a right of termination if the subsidiary has a change of ownership structure which involves another individual, group, or company taking over more than 50% of the voting rights, or if it is determined that they hold this amount.

A supply agreement and a development and delivery agreement for certain products of the subsidiary have been concluded between a subsidiary and another external company, which represents a significant business relationship for the (subsidiary) company. In the event of a change of control, the external company is entitled to a right of termination if the subsidiary has a change of ownership structure which involves a competing company taking over, acquiring or otherwise gaining possession of more than 50% of the voting rights.

A distribution and license agreement and a development agreement on specific products and development services of the subsidiary have been concluded between a subsidiary and an external company, which represents a significant business relationship for the (subsidiary) company. In the event of a change of control, the external company is entitled to a right of termination. If the external company exercises its right of termination and the purchaser of the (subsidiary) company is a company included in an exhaustive list in this agreement, *app* is required to refund all one-off and sales-based license fees paid under this agreement. A change of control under this distribution and license agreement takes place when, in one or several transactions, an individual or company or different individuals or companies, gain control of the Company or acquire assets which individually or jointly have a significant effect on the provision of the services owed under this contract. Control in this context means holding (directly or indirectly) the right to determine the business policy and guidance of the management.

A joint venture contract was concluded between a subsidiary and a distributor in December 2012. If a third party acquires more than 50% of the shares in the subsidiary or a third party holds more than 50% of the voting rights in the Company who did not already hold an at least 10% share in the Company on the closing date, the distributor has a call option for all shares in the joint venture. This call option was exercised on May 30, 2014.

Apart from this, there are no significant agreements of the Company that are conditional on a change of control.

7. Compensation Agreements with Members of the Management Board or Employees in the Event of Takeover Bids

In the event of a (change of control), the directors have a special right of termination and will receive a payment amounting to 90% of their capitalized total annual payments for the remaining term of their employment contracts, totaling a maximum of three years' total remuneration.

F) Forecast Report

Forward-Looking Statements

The statements made here about overall economic trends and the company's development are forward-looking statements. The actual results may therefore differ materially – positively and negatively – from expectations of likely developments.

Macroeconomic Environment

As a result of the current geopolitical risks and the increased insecurities with regard to economic conditions, fiscal year 2015 should be viewed with a certain amount of caution. Overall, moderately higher growth of the world economy is at best expected for the ongoing year. Provided that the current crisis in Ukraine and in the Middle East does not escalate any further and further burden the investment and consumption environment, according to statistics platform statista, global economic growth forecasts are currently at 3.5%[6]. Predominantly heterogeneous development is also expected in the eurozone for the 2015 year. In this declining forecast, economic growth of 1.2% is currently anticipated. In Germany, however, the situation is looking somewhat more positive. This is how the Federal Government, in its 2015 annual economic report, forecasted a GDP increase in real terms of 1.5%[7]. Here, the particular driving force is consumer demand, which is strengthened by the minimum wage along with the increase and expansion of pension benefits. The IKB Leasing sees thoroughly positive perspectives for industrial production in Germany in its report "Entrepreneurs' topics February 2015"[8]. While a moderate production growth is expected for 2015, the upward trend should continue to grow in the year 2016.

The MedTech Environment

There are many different predictions about continuing development in the medical technology industry, making it difficult to state a clear prediction for fiscal year 2015. According to a study by the Hamburg Institute of International Economics (HWWI) which is referred to in the BVMed sector report medical technologies 2014, demand for medical technology in industrialized countries will increase around 3% to 4% per year by the year 2020. For emerging markets, a yearly increase of 9% to 16% is predicted for the same time period. There is a significant difference between expectations for the German and the global MedTech market when analyzing the earliest BVMed 2014 fall questionnaires. Only 33% of the surveyed companies expect a positive domestic development for the year 2015. On the other hand, 64% of the participants expect a more favorable worldwide business

[6] Internet source: http://de.statista.com/statistik/daten/studie/197039/umfrage/veraenderung-des-weltweiten-bruttoinlandsprodukts/
[7] Internet source: http://www.bmwi.de/DE/Presse/pressemitteilungen,did=687306.html
[8] The report "Entrepreneurs' topics February 2015" is available at IKB Leasing.

situation in 2015. These results imply that MedTech companies that operate internationally could register significantly higher growth abroad than in Germany.

Worldwide healthcare markets altogether are undergoing significant structural changes: This especially applies to the USA, which, according to estimates by ADvaMed and BVMed, by far holds the greatest world market share with EUR 90 billion (total world market volume of EUR 220 billion in the year 2012). Here we will briefly outline the most important factors of this change on the basis of information taken from the "2014 Annual Strategic Healthcare M&A Report"[9] of Walden Group:

1.) Demographic change and a new health concept as a growth driver
Worldwide health care systems will become increasingly more influenced by business developments irrespective of economic conditions and political decisions. Demographic change is reflected in an overall aging population. In addition, people are becoming increasingly older due to advances in medicine, and chronic illnesses are of greater importance at an older age. These illnesses are, e.g., heart failure, cancer, strokes, diabetes, obesity, arthritis, orthopedic illnesses and dementia. Medical technology, biopharmaceutical and diagnostics companies will continue to focus on these markets in the coming years.

2.) Consolidation of the healthcare market could limit competition and lead to increased costs
Mergers in the healthcare market are partly driven by the implementation of great advantages, but also by tendencies towards greater negotiating power towards payers in healthcare. From the viewpoint of many critics, consolidation in this industry leads not only to higher prices and decreased competition, but also to lower quality of patient care because doctors must handle greater workloads when receiving lower pay. Large healthcare consortiums reduce the negotiating power of suppliers. Conversely, this means advantages for large medical technology providers and established company networks. All things considered, this creates numerous competitive advantages over smaller providers.

3.) Consolidation of larger companies creates innovation opportunities for smaller providers.
Since large companies concentrate on high-volume production lines, the work of their research and development departments is often limited by organizational rules. This creates opportunities for smaller, more innovative companies. This can fill created niches and skim the appropriate retirement benefits. Since young and innovative companies evaluate success using clinical data and develop very dynamically as a whole, they, in turn, end up on large companies' acquisition radar.

4.) Healthcare reform continues to have a strong influence on US healthcare
The US healthcare reform ensured healthcare provision for millions of people who were previously uninsured. However, financing this reform created great challenges for the Medicare program there, which is responsible for reimbursing healthcare services. The controversial taxes under discussion for medical products have taken their toll and newer models with greater deductibles have become more popular, resulting in companies and employers paying higher monthly premiums. Healthcare reform has led to numerous misallocations without directly addressing increasing costs.

5.) Uncertainty in healthcare continues to decrease after the economic crisis
After a multi-year phase of instability, analysts now forecast higher growth rates again and less price pressure in the orthopedic sector. The entire industry's volume should increase.

[9] The "2014 Annual Strategic Healthcare M&A Report" is available at Walden Group.

6.) Uncertainty phase promotes separating unprofitable company parts

Many larger companies have separated themselves from unprofitable business units or parts that are not part of the core business in order to adapt to a cost-sensitive environment. This led to enormous cost savings and the focus has now been shifted once again, and stronger than before, to the Company's own core competencies.

In the year 2014, both the number and the total value of mergers and takeovers in the healthcare industry have increased compared to the previous year. All in all, more than 40 merger and acquisition transactions valued at over $1 billion were announced or carried out in 2014. Eight transactions even went beyond the $10 billion mark. As far as the medical technology industry is concerned, the acquisition of the Irish device manufacturer Covidien plc by Medtronic, Inc. for $42.9 billion must be emphasized. But the takeover of Biomet, Inc. by Zimmer Holdings, Inc. for $13.5 billion is also worth mentioning in this respect.

Strategy and Long Term Outlook

The core element of the Managing Board's strategy is to transform *aap* into a leading European trauma company and to focus on these core competencies. The sustainable increase of the enterprise value is still the basis by developing and selling IP-protected products, which allow value oriented innovations. Value oriented means innovations which offer both clinical and economical advantages for the patient, the user and the customer. The Company's products should contribute to better and more affordable healthcare. From a geographic standpoint, *aap* wants to particularly focus on entering new markets, in addition to consolidating and expanding existing market shares. The BRICS (particularly Brazil), SMIT and N10 countries, along with the USA, are worth mentioning in this regard.

In fiscal year 2014, the Managing Board was able to make good progress in implementing the strategy. In February 2014, a share purchase agreement was signed with a private equity company regarding the sale of the Company's contract manufacturing business, which was bundled in the Dutch subsidiary European Medical Contract Manufacturing B.V. (EMCM). The selling price for all shares in EMCM was at EUR 18 million. Furthermore, *aap* announced at the beginning of June 2014 that the remaining 50% shares in the Dental Joint Venture, *aap* BM productions GmbH, was sold to botiss medical AG for EUR 1 million.

After negotiations with a private equity bidder consortium regarding the sale of *aap* Biomaterials GmbH were abandoned shortly before conclusion, the subsidiary is to be expanded further as originally planned. *aap* wants to evaluate the advances of this process during the latter half of 2015 and derive specific courses of action from it.

On the path to becoming a pure trauma company, *aap* wants to specifically advance the trauma business and particularly amend or complete the LOQTEQ® portfolio by including additional indication regions. In additional, continual acceleration of the silver coating project is a priority in order to sustainably increase and expand competitiveness via innovations. The *aap* Group especially wants to focus on sustainable sales increases with its trauma products in fiscal year 2015. The Company's goal is to achieve a yearly sales growth of more than 20% in the trauma business for the coming years. This growth rate is to be achieved by entering new markets, which will be reflected in higher costs in the short term. Increased sales and achieving critical mass will also bring about a

noticeable improvement in results. Furthermore, *aap* is also exploring the market with regards to possible target companies for smaller, supplementary acquisitions.

On the basis of the 2014 Management Agenda the Management Board of the Company has identified five action areas that have been combined to constitute the new Management Agenda for the financial year 2015: "Accelerating value-based innovation," "Enhancing market access," "Optimising operational efficiency," "Focus on trauma" and "Growth supplemented with acquisitions." The Management Agenda is intended to summarize the strategic directions so that the capital market and the general public have an even better understanding of the framework, in which targets are set and implementations are evaluated.

Goals for the Management Agenda 2015

Accelerating value-based innovation
Further expansion of the LOQTEQ® portfolio with a view to exceeding a 90% indication coverage
Implementation and conclusion of all approval-relevant work (CE) in the silver technology area by H2/2015 as well as submission of approval application for silver technology
Maintenance of a freshness index of at least 20%

Enhancing market access
Increase in trauma sales by 20% to 25%
Development of the US market
Appointment of distributors in previously uncovered BRICS and SMIT countries

Optimising operational efficiency
Implementation of action plan to reduce manufacturing costs
Implementation of action plan to improve timely delivery capability
Further improvements in ERP functionalities as well as implementation of action plan to improve IT infrastructure and utilisation

Focus on trauma / Growth supplemented with acquisitions
Conclusion of a transaction for *aap* Biomaterials GmbH (bone cements and mixing systems and biomaterials) insofar as achievable on terms and conditions that reflect the right value from a comparable transaction point of view
Divestment/outlicensing of products/IP/investments that are not part of the company's core business
Active market screening for suitable acquisition targets (companies and technologies) to speed up organic growth and, possibly, conclusion of a transaction

Outlook for 2015

aap also wants to continue to implement the growth strategy in fiscal year 2015. Thus, the Company consequently strives for strong sales growth in the trauma business, whereas the LOQTEQ® product family will still continue to act as the main driving force of this development. The biomaterials business will also contribute to overall sales growth with a sales increase of 10%.

The Managing Board has concretely set the following goals for fiscal year 2015:

- Sales growth to a value of between EUR 33 million and EUR 35 million (FY 2014: EUR 30.6 million)
- EBITDA of between EUR 2.5 million and EUR 3.5 million (FY 2014: EUR 2.3 million)

- Trauma sales growth of between 20% and 25% to between EUR 14.8 million and EUR 15.4 million (FY 2014: EUR 12.3 million)
- Development of US market; appointment of distributors in BRICS and SMIT countries not yet covered; impact on business development expected for the second half of 2015
- Implementation and conclusion of all approval-relevant work (CE) in the silver technology sector and submission of approval application for silver technology
- Further expansion of LOQTEQ® portfolio with target of >90% indication coverage
- Maintenance of a freshness index of at least 20%
- Increase in biomaterials sales by 10%

General Outlook on the Expected Development of the Company

Based on the assumptions explained with regard to the development of the global economy in general and the med tech sector in particular, we are expecting an overall positive performance of *aap*. For fiscal years 2015 and beyond we are expecting to see increasing sales, with strong growth in the trauma business in particular. Our clear focus on sustainable innovations and the continual improvement of our products and processes make it possible for us to be able to participate in the growing med tech industry. It is our aim to maintain and improve the mobility of patients and as a result make a decisive contribution to increasing their quality of life.

Bruke Seyoum Alemu
Managing Board Chairman/CEO

Marek Hahn
Managing Board member/CFO

Consolidated Balance Sheet according to IFRS as of December 31, 2014

	31.12.2014	31.12.2013	01.01.2013
Assets	**TEUR**	**TEUR**	**TEUR**
Non-current assets	**25,017**	**22,394**	**44,921**
Intangible assets	15,198	14,502	39,403
Goodwill	*1,568*	*1,568*	*12,490*
Capitalized services	*13,118*	*12,074*	*21,858*
Other intangible assets	*512*	*860*	*5,055*
Tangible assets	7,690	5,906	5,107
Accounts receivable (trade debtors)	461	170	0
At-Equity financial assets	1,464	1,554	55
Financial assets	192	238	356
Deferred taxes	12	24	0
Current assets	**32,840**	**42,843**	**23,669**
Inventories	9,400	9,429	13,943
Accounts receivable (trade debtors)	8,838	6,866	4,226
Receivables from service contracts	1,158	281	0
Other financial assets	865	1,405	1,331
Other assets	414	348	471
Cash and cash equivalents	12,165	1,580	3,698
Assets classified as held for sale	0	22,934	0
Total assets	**57,857**	**65,237**	**68,590**

	31.12.2014	31.12.2013	01.01.2013
Liabilities and shareholders' equity	**TEUR**	**TEUR**	**TEUR**
Shareholders´equity	**45,424**	**47,039**	**49,047**
Subscribed capital	30,670	30,670	30,670
Capital reserve	17,609	18,768	18,611
Revenue reserve	228	228	228
Other reserves	490	490	608
Consolidated balance sheet profit/loss	-3,573	-3,117*	-1,070*
Non-current liabilities (above 1 year)	**4,981**	**4,527**	**6,525**
Due to banks	2,258	2,144	2,000
Other financial liabilities	126	190	388
Deferred taxes	1,583	1,412*	3,909*
Provisions	112	27	27
Other liabilities	902	754	201
Current liabilities (up to 1 year)	**7,452**	**13,671**	**13,018**
Due to banks	1,997	2,568	4,486
Gross amount due to customers for contract work	0	25	1,125
Trade accounts payable	2,949	2,853	0
Other financial liabilities	1,308	1,491	3,259
Provisions	299	230	1,057
Tax liabilities	177	0	1,753
Other liabilities	722	558	205
Liabilities due to discontinued operation	0	419	1,133
Liabilities directly associated with assets classified as held for sale	0	5,527	0
Total liabilities and shareholders' equity	**57,857**	**65,237**	**68,590**

*Adjustment due to the change of the accounting method for the capitalization of deferred taxes on losses carried forward

Consolidated Statement of Comprehensive Income according to IFRS for the period January 1 to December 31, 2014

	2014	2013	2014	2013	2014	2013	2014	2013
	Continued operations		Discontinued operation		Consolidation		Group total	
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Sales	30,633	28,573	1,180	12,317	-219	-901	31,594	39,989
Changes in inventories of finished goods and work in progress	186	-704	157	-265	0	0	343	-969
Other own work capitalized	2,027	1,742	45	280	0	0	2,072	2,022
Total revenue	**32,846**	**29,611**	**1,382**	**12,332**	**-219**	**-901**	**34,009**	**41,042**
Other operating income	2,869	4,164	230	380	-45	-268	3,054	4,276
Cost of purchased materials and services	-11,834	-8,282	-650	-4,565	219	897	-12,265	-11,950
Personnel expenses	-11,704	-11,295	-541	-3,293			-12,245	-14,588
Other operating expenses	-9,906	-9,063	-413	-2,580	45	272	-10,274	-11,371*
Other taxes	-4	-54	0	0			-4	-54
EBITDA	**2,267**	**5,081**	**8**	**2,273**	**0**	**0**	**2,275**	**7,354**
Depreciation of tangible assets and intangible assets	-2,321	-4,362	0	-5,107			-2,321	-9,469
EBIT	**-54**	**719**	**8**	**-2,834**	**0**	**0**	**-46**	**-2,115**
Financial result	-74	-179	-5	-2			-79	-181
Income / Expenses from joint ventures and associates	-49	21	0	0			-49	21
EBT	**-177**	**561**	**3**	**-2,836**	**0**	**0**	**-174**	**-2,275**
Income tax	-361	538	79*	-310			-282	228*
Net result after tax/ Total comprehensive income	**-538**	**1,099**	**82**	**-3,146**	**0**	**0**	**-456**	**-2,047**
Valuation of available-for-sale assets	0	-117	0	0	0	0	0	-117
Income tax effect**	0	0	0	0	0	0	0	0
Total comprehensive income after tax	**-538**	**982**	**82**	**-3,146**	**0**	**0**	**-456**	**-2,164**
Net income per share (undiluted) in EUR	-0.02	0.04	0.00	-0.10	-	-	-0.01	-0.07
Net income per share (diluted) in EUR	-0.02	0.04	0.00	-0.10	-	-	-0.01	-0.07
Weighted average shares outstanding (undiluted) in thousand pieces	30,670	30,670	30,670	30,670	-	-	30,670	30,670
Weighted average shares outstanding (diluted) in thousand pieces	31,350	31,011	31,350	31,011	-	-	31,350	31,011

* Adjustment due to the change of the accounting method for the capitalisation of deferred taxes on losses carried forward

** In the next period possibly to be reclassified as other comprehensive income in the income and loss statement

Consolidated Cash Flow Statement according to IFRS

	01.01. - 31.12.2014 TEUR	01.01. - 31.12.2013 TEUR
Net income (after tax) from continued operations	-538	1,099*
Net income (after tax) from discontinued operations	82	-3,146
Net income after tax	**-456**	**-2,047**
Changes in working capital	**-3,132**	**-3,538**
Stock options expenses without effect on payments	-1,159	158
thereof:		
Cash settlement	*-1,409*	*0*
Stock option expenses	*250*	*158*
Depreciation and impairment loss fixed assets/ current assets	2,321	9,469
Changes in deferred taxes	190	-528*
Changes in provisions	155	95
Gain/loss from retirement of financial assets	-959	0
Gain/loss from disposal of subsidiary	-167	-782
Gain/loss from disposal of fixed assets	169	679
Share of net loss/profit of associates	49	-21
Changes in other assets	96	-944
Changes in other liabilities	-52	1,006
Cash flow from operating activities	**-2,945**	**3,547**
Outgoing payments from investing activities	-5,133	-5,719
Incoming payments from disposal of fixed assets	59	0
Incoming payments for the sale of assets	1,046	24
Incoming payments from grants	507	0
Outgoing payments from investing in subsidiaries	0	0
Incoming payments from disposal of shares from subsidiaries less cash disposed of	16,679	3,475
Cash flow from investing activities	**13,158**	**-2,220**
Inflow from loans	2,219	2,262
Redemption of loans	-2,676	-3,815
Redemption of finance leases	-93	-217
Redemption of shareholder loans	0	-750
Cash flow from financing activities	**-550**	**-2,520**
Decrease / Increase in cash & cash equivalents	9,660	-1,193
Cash & cash equivalents at beginning of the period	2,505	3,698
Cash & cash equivalents at end of the period	**12,165**	**2,505**

* Adjustment due to the change of the accounting method for the capitalization of deferred taxes on losses carried forward

Consolidated Schedule of Changes in Equity

			Revenue reserves		Non-cash changes in equity						
in EUR	Subscribed capital	Capital reserve	Legal reserves	Other revenue reserves	Revaluation reserve	Reserve for available-for-sale assets	Total	Balance sheet result	Shares of the group	Minority interests	Total
Status 01.01.2014	**30,670**	**18,768**	**42**	**186**	**490**		**490**	**-3,117**	**47,039**	**0**	**47,039**
Increase in shares	0	0							0		0
Stock options		-1,159							-1,159		-1,159
Raising ownership shares in subsidiaries									0		0
Income of the group per 31.12.2014								-456	-456	0	-456
Other comprehensive income									0		0
Total comprehensive income								(-456)	(-456)		(-456)
Status 31.12.2014	**30,670**	**17,609**	**42**	**186**	**490**		**-490**	**-3,573**	**45,424**	**0**	**45,424**
Status 01.01.2013*	**30,670**	**18,611**	**42**	**186**	**608**		**608**	**-1,070**	**49,047**	**0**	**49,047**
Increase in shares	0	0							0		0
Stock options		157							157		157
Valuation of available-for-sale assets					-118		118	0	-118		-118
Raising ownership shares in subsidiaries									0		0
Income of the group per 31.12.2013								-2,047	-2,047	0	-2,047
Other comprehensive income									0		0
Total comprehensive income								(-2,047)	(-2,047)		(-2,047)
Status 31.12.2013	**30,670**	**18,768**	**42**	**186**	**490**		**490**	**-3,117**	**47,039**	**0**	**47,039**

*Adjustment due to the change of the accounting method for the capitalization of deferred taxes on losses carried forward

Notes to the Consolidated Annual Financial Statements to December 31, 2014 according to IFRS

A. Information About the Company

The parent company of the Group, *aap* Implantate AG, is headquartered in Germany, 12099 Berlin, Lorenzweg 5. The company's shares are traded on the Frankfurt Stock Exchange under the securities identification number (WKN) 506 660. Since May 16, 2003, the company's shares have been listed under the same WKN on the Prime Standard, a regulated market segment that imposes further post-admission obligations. The company is registered at the Berlin-Charlottenburg district court under HR B 64083 and was entered into the court's commercial register on September 10, 1997.

The consolidated financial statements for the financial year from January 1, 2014 to December 31, 2014 comprise *aap* Implantate AG and its subsidiaries. The Group is a company in the medical technology sector. Its business activities consist of research, development, manufacture and sale of implants, medical instruments, bone cements and replacement materials. Until the end of 2013, the Group's production facilities were located in Germany and the Netherlands, from March 2014 in Germany only. Its principal sales areas are the European Union, Asia and the United States.

B. Accounting Methods

Basic Principles for the Preparation of the Consolidated Financial Statements

The consolidated financial statements of *aap* Implantate AG as of December 31, 2014 were drawn up in accordance with the International Financial Reporting Standards (IFRS) as applied in the European Union and the additional provisions required under German commercial law as specified in Section 315a para. 1 of the German Commercial Code (Handelsgesetzbuch/HGB). In principle, all International Financial Reporting Standards (IFRS) that are mandatory as of the reporting date and all interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC) are applied in the consolidated financial statements.

The consolidated financial statements consist of the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated balance sheet, the consolidated statement of changes in equity and the notes to the consolidated financial statements.

The consolidated financial statements are based on the annual financial statements of the Group companies, which were prepared using the uniform accounting and valuation methods of the parent company, in accordance with the German Commercial Code and the German Stock Corporation Act (Aktiengesetz/AktG). The conversion to IFRS was made at the level of the individual companies.

The consolidated statement of comprehensive income is structured in accordance with the total cost (nature of expense) method. The balance sheet is structured in accordance with the maturities of assets and liabilities. An asset or liability is classified as current if its realization, consumption or sale is expected within the customary business cycle, if the asset or liability is held primarily for trading purposes or if realization is expected within 12 months.

The consolidated cash flow statement was prepared in accordance with IAS 7 using the indirect method. It is structured according to the payment flows from operating, investing and financing activities. There are no fixed-term disposal restrictions. The effects of exchange rate fluctuations are shown separately.

The consolidated financial statements are prepared in euros. Unless otherwise indicated, all amounts are presented rounded to thousand euros (TEUR).

The consolidated financial statements of *aap* were drawn up on the basis of the historic costs of acquisition and manufacture. In general, the historic costs of acquisition and manufacture are based on the fair value of the financial consideration given in return for the asset. The significant accounting methods are discussed below. Unless otherwise stated, the methods described were applied consistently during the reporting periods presented.

The consolidated financial statements contain comparative information relating to the preceding reporting periods. In addition, the Group provides an additional balance sheet as of the beginning of the earliest comparative period where it applies an accounting method retroactively or retroactively adjusts or reclassifies line items in the financial statements. An additional balance sheet as of January 1, 2013 has been included in these consolidated financial statements due to the retroactive application of an accounting method (see changes in accounting methods).

The Management Board of *aap* Implantate AG is responsible for the preparation, completeness and accuracy of the consolidated financial statements and the Group management report. The management continues to assume that the company will continue its activities as a going concern.

Consolidation Principles

Consolidation Entity

The consolidated financial statements include, in addition to the parent company *aap* Implantate AG, all subsidiaries in which *aap* Implantate AG directly or indirectly holds a controlling interest via a majority of the voting rights.

Consolidated subsidiaries:

	2014 Shareholding	2013 Shareholding
aap Biomaterials GmbH, Dieburg	100%	100%
Osartis Verwaltungs-GmbH, Dieburg	-	100%
European Medical Contract Manufacturing B.V., Nijmegen, Netherlands	-	100%
MAGIC Implants GmbH, Berlin	100%	100%
aap Implants Inc., Dover, Delaware, USA	100%	-

For the preparation of its management report and disclosure and audit of its annual financial statements, *aap* Biomaterials GmbH made use of the exemption provision pursuant to Section 264 para. 3 HGB. OSARTIS Verwaltungs-GmbH was liquidated as of December 31, 2014. Please refer to Section D for information regarding the sale of European Medical Contract Manufacturing B.V. and the founding of *aap* Implants Inc.

Accounting and Valuation Methods

The financial statements of the companies included in the consolidated financial statements were drawn up applying uniform accounting and valuation methods as used by the parent company. At all subsidiaries, the financial year corresponds to the calendar year.

All intra-Group business transactions, balances and interim results are eliminated in full during consolidation insofar as they are of minor importance. Possible balancing differences are stated with effect on results.

Corporate Mergers and Goodwill

Financial statements for mergers are prepared in accordance with IFRS 3 "Business Combinations" on the basis of the purchase method. Capital consolidation is thereby undertaken at the time of purchase by netting out the purchase price against the revalued pro rata net assets of the subsidiary acquired.

At the time of initial consolidation, the allowable assets, liabilities and contingent liabilities of the subsidiaries are stated at their full fair value, irrespective of minority interests. Remaining asset differences are capitalized as goodwill. Negative differential amounts arising from initial consolidation are reviewed and re-transferred with effect on results. After initial capitalization, goodwill is tested annually for impairment. It is also allocated to the cash-generating unit or cash-generating units that will, in the opinion of the management, benefit the most from the merger. If there are any indications of impairment, an unscheduled impairment test is made. If the recoverable amount of a cash-generating unit is less than its book value, the impairment charge is initially allocated to the book value of each goodwill attributed to the unit, and then pro rata to the other assets on the basis of the book value of each asset within the unit. An impairment charge on goodwill may not be recovered in a future period. In the case of a disposal of a subsidiary, its share of goodwill is taken into account in determining the net proceeds of disposal.

Significant Accounting Methods

Shares in Joint Ventures and Associated Companies

A joint venture is a contractual arrangement whereby the Group and other contracting parties engage in commercial activity under joint control. This is the case if the strategic financial and business policy associated with the joint venture's commercial activity is subject to the approval of all parties that share control. The Group recognizes its holdings in jointly controlled entities using the equity method.

The Group's holdings in associated companies, on which it can exert significant influence, are recognized using the equity method.

The equity method requires shares in joint ventures or associated companies to be stated at the time alongside the cost of acquisition. On first-time inclusion of participating interests stated using the equity method, a difference is drawn between the cost of acquisition of the interest and its Group share of identifiable assets, liabilities and contingent liabilities calculated at fair values in accordance with the principles of full consolidation. Goodwill is a part of the interest's book value and is not tested separately for impairment. There is, however, an annual test of whether impairment may apply to the entire book value of the participating interest. In this case, the difference between the book value and the recoverable amount is posted as an impairment and shown in the income statement under the results of participating interests stated at equity. The Group's share of earnings of a company valued using the equity method is stated with effect on results. Changes to reserves are stated pro rata in the consolidated reserves. Cumulative changes are offset against the carrying amount for the participating interest.

The financial statements of the participating interest included by applying the equity method are prepared on the basis of uniform accounting and valuation methods.

Business Segments

At *aap*, there are no business segments identified for which regular reporting to the Management Board would be carried out. Instead, the goal of the corporate strategy that has been pursued since 2009 is to boost the company's enterprise value through the development and sale of IP-protected

products. The monthly reporting system facilitating the management of the company consists exclusively of the consolidated sales, progress with significant development projects, liquidity and the working capital of the entire Group. The company is managed solely on the basis of this data. The *aap* Group is therefore managed both internally and externally as a company without separate segments.

Currency Conversion

Foreign currency transactions are converted into the Group's functional currency at the valid spot rate on the day of the transaction. The functional currency for the consolidated financial statements is EUR. Balances of monetary assets and liabilities are converted on the reporting date at the mean spot rate that is valid on that date. Gains and losses arising by the reporting date from the valuation of monetary balance sheet items in a foreign currency are stated with effect on results under other operating income or expenses.

The consolidated companies prepare their financial statements in the national currency in which they do most of their business.

Revenue Recognition

Group sales consist of product sales, license fees and services. Sales are realized when due delivery or performance has been rendered or the terms of the work contract have been fulfilled. In the case of deliveries, this will be once the ownership risk has been transferred to the purchaser. The transfer of risk is regarded as completed either with the physical delivery of the goods or, under certain limited conditions, with "bill and hold" contracts. With "bill and hold" contracts, the customer requests that delivery of the goods be delayed. The products are then warehoused separately, held ready for shipping and labeled separately until the planned delivery. Their sale to other customers is not permitted. Furthermore, the economic benefit must be sufficiently probable and the costs incurred must be reliably ascertainable. Work contracts are considered to have been fulfilled when all performance obligations have essentially been discharged and the customer has accepted the goods or services as being in accordance with the contract.

Sales from the provision of services in connection with customer-specific development projects are recognized in accordance with IAS 18 depending on the respective percentage of completion of the project. The percentage of completion is determined based on the ratio of the incurred project costs to the planned contract costs (cost-to-cost method). If the amount of income can be estimated reliably, income is recognized in accordance with the percentage-of-completion method. Otherwise, income is recognized only in the amount of expenses incurred (zero-profit method). If the entire cost of the contract is likely to exceed income earned from it, the anticipated loss is recognized immediately as an expense. Payments by the customer that exceed the value of the degree of completion or that are made prior to service provision are stated as a liability toward the customer (development contract with a net debit balance). Payments based on progress billing that do not exceed the degree of completion are deducted from receivables due from the customer. The balance of contract costs incurred plus partially realized profits that exceeds payments received is stated separately as a service contract receivable.

If rights of use are transferred, income recognition is evaluated according to the economic substance of the agreement. If licensing that is limited in time or purpose is involved, the license fees are earned in the reporting period. If, on the other hand, exclusive rights of use to a technology or a worldwide, unlimited license is granted so that no future economic benefit is expected from the underlying asset, the revenue is recognized immediately with effect on the result or as other operating income. If and when earnings are subject to further uncertain future conditions, such as

exceeding specific delivery targets or granting holding rights of rescission to the purchaser, for which the likelihood of them being exercised cannot be assessed by the *aap* Group, these earnings are only realized when the condition is fulfilled.

Customer discounts and returns are taken into account in accordance with the reporting period and the underlying sales.

Taxes

Income tax expenses in the reporting period consist of current and deferred taxes. Taxes are recognized in the statement of comprehensive income unless they relate to items that were recognized directly in equity or in other comprehensive income. In this case, the taxes are also recognized in equity or other comprehensive income.

Current tax expense is calculated on the basis of the tax regulations of the countries in which the subsidiaries do business and earn taxable income that is due on the balance sheet date or shortly thereafter. The management inspects tax returns regularly, especially with regard to issues that are open to interpretation and, when appropriate, creates provisions based on the amounts that are expected to be due to the tax authorities.

Deferred taxes are stated for all temporary differences between the tax base of assets/liabilities and their book value in the IFRS financial statements (known as the liabilities method). However, if, in connection with a transaction that is not a corporate merger, a deferred tax arises from the initial recognition of an asset or a liability that at the time of the transaction has an effect on neither the balance sheet nor the tax profit or loss, there is no tax deferral either at the time of initial recognition or thereafter.

Deferred taxes are assessed on the basis of the tax rates (and tax regulations) that are either in force on the reporting date or have largely been legally approved and are expected to apply when the deferred tax demand or tax liability is due.

Deferred tax assets arising from deductible temporary differences, tax credits and loss carryforwards are capitalized insofar as there is a sufficient likelihood that use can be made of the economic benefits involved. Deferred tax assets in the form of tax reduction entitlements arising from the expected use of existing loss carryforwards are only taken into consideration, as in the previous year, in view of the history of losses in the recent past insofar as they were already covered as of the reporting date by deferred tax liabilities arising from temporary differences even if the tax carryforwards seem more likely to be used.

The book value of deferred tax entitlements is reviewed on every reporting date and is reduced by the extent to which a sufficient amount in taxable income is no longer likely to be available against which the deferred tax entitlement can at least be offset in part. Unrecognized deferred tax entitlements are reviewed on every reporting date and stated at the amount to which it has become likely that a future taxable result will enable the deferred tax asset to be realized.

Deferred tax liabilities arising from temporary differences in connection with shareholdings in subsidiaries are stated unless the Group can determine the time when the temporary differences will be reversed and it is likely that, in view of this influence, the temporary differences will not be reversed in the foreseeable future.

Deferred tax receivables and liabilities are netted out against each other if a legal entitlement to netting out is enforceable and the deferred tax receivables and liabilities relate to income taxes raised by the same tax authority from the same tax entity or from different tax entities that intended to net out the differences.

Deferred tax benefits acquired as part of a merger that fail to fulfill the criteria for separate statement at the time of acquisition are stated in subsequent periods insofar as this arises from new information about facts and circumstances obtained at the time of acquisition. The adjustment is undertaken either as a reduction of goodwill if it occurs during the valuation period and does not exceed the goodwill, or in the result.

Public Sector Grants

Public sector grants are only stated if there is a reasonable certainty that the conditions associated with them will be fulfilled and the grants will actually be received.

Investment allowances and investment grants received are carried as liabilities under the heading special investment allowances items. They are written down, with the resulting effect on earnings, in a straight line in accordance with the weighted useful economic life of the assets they helped to acquire.

Other public sector grants are stated as income in the period that is required to allocate them to the expenses they are intended to offset. Grants received to offset expenses already incurred are stated with an effect on the operating result for the period in which their entitlement originated.

Non-current Assets Held for Sale and Discontinued Operations Segments

The classification is applied exclusively to non-current assets and groups of assets and liabilities (disposal group), which are intended and are available for sale and whose future economic benefit does not involve continued use. Further classification criteria in accordance with IFRS 5.7 are the resolution of the management to sell and its expected execution within one year. The valuation is based on the lower of book value and fair value less selling costs unless the items in the disposal group do not fall under the valuation rules of IFRS 5. Presentation as a "discontinued operations segment" is required if the planned sale of a major line of business or geographic business segment is involved. In addition, a cash-generating unit or a group of cash-generating units must be involved. All of the concerned assets must be subjected to an impairment test immediately prior to reclassification. A possible impairment loss is initially attributed to goodwill and then pro rata to the assets and liabilities to be disposed. Intangible assets and tangible assets are no longer amortized or depreciated following reclassification.

Fair Value

Fair value is the market price that the company receives in connection with a normal transaction on the valuation date upon sale of the asset or which must be paid for the transfer of a liability. Here, the relevant market is assumed to be either the market with the largest sales volume or the most advantageous market for the company.

In determining the fair value of an asset or liability, the *aap* Group takes into account certain characteristics of the asset or the liability (for example, the condition and location of the asset or restrictions on sale or use), if market participants would similarly take into account these characteristics in setting the price for the acquisition of the respective asset or the transfer of the liability as of the valuation date. In these consolidated financial statements, fair value is determined on this basis. Exceptions include:

- Leases to which IAS 17 Leases applies, and
- Valuation standards that are similar to, but not the same as, fair value, e.g. net realizable value in IAS 2 Inventories or useful value in IAS 36 Impairment of Assets.

Fair value is not always available as the market price. Frequently it must be determined on the basis of various valuation parameters. Depending on the availability of observable parameters and the significance of these parameters for determining the overall fair value, fair value is classified as level 1, 2, or 3. The classification is made according to the following standard:

- Level 1 – Quoted (unadjusted) prices on active markets for identical assets or liabilities.
- Level 2 – Valuation techniques in which fair value is determined by means of input parameters that are directly or indirectly observable and which are not quoted prices as in Level 1.
- Level 3 – Recognized valuation techniques if no determination of fair value is possible according to Level 1 or 2 insofar as they ensure an appropriate approximation of the market value.

Intangible Assets

Intangible assets are stated at amortized cost of acquisition or manufacture. All intangible assets except goodwill have a limited useful life and are depreciated using the straight line method. Industrial property rights and similar rights and assets disclosed under other intangible assets are depreciated over a useful life of between three and 12.5 years; customer relationships identified in the course of the purchase price allocation are depreciated over a period of 15 years.

Development costs for a new product or process are capitalized as intangible assets if the Group can meet the following requirements:

- Technical feasibility through economic realization or internal use
- Intention to complete and the capacity for future use
- Presentation and documentation of future economic use
- Availability of resources for completion
- Guarantee of the determination of the attributable costs

Capitalized development costs also include borrowing costs. They are depreciated according to schedule using the straight line method over their useful life, between ten and 15 years from the date on which they were first put to use. Research costs are recorded as expenses in the period in which they are incurred.

Irrespective of specific indications, goodwill and capitalized development costs not yet in use undergo annual impairment tests. Assets, except for goodwill, are written up if and when there is no longer a reason for any previously undertaken extraordinary depreciation, whereby the increased book value from the write-up may not exceed the amortized cost of acquisition or manufacture. Write-downs and write-ups are recorded with an effect on results in principle unless they are the result of a revaluation. Write-downs and write-ups of this kind are stated directly under equity in the revaluation reserve.

Intangible assets are subject to extraordinary depreciation if the amount recoverable from the assets is less than their book value.

Intangible assets are written off at the time of their disposal or if no further economic use is expected.

Tangible Assets

Tangible assets are valued at cost of acquisition or manufacture and, where depreciable, taking linear depreciation into account. The manufacturing costs of tangible assets are the full costs. Costs of borrowing are capitalized as part of acquisition or manufacturing costs insofar as they relate to the purchase, construction or manufacture of a qualified asset. Tangible assets that are financed by way of financial leases are capitalized at the lesser of either their fair value or the cash value of the leasing installments and depreciated using the straight line method over their likely useful life.

Useful lives are:	Years
Land and buildings	50
Technical plant and machinery	4 - 15
Other plant, office and factory equipment	3 - 13

Tangible assets are written off either upon disposal or if no further benefit is expected from the further use or the sale of the asset. The profit or loss resulting from writing off an asset is established as the difference between the net proceeds of the sale and the residual book value and is stated with effect on results.

Tangible assets are subject to extraordinary depreciation if the amount recoverable from the assets is less than their book values.

Residual values, useful lives and methods of depreciation used for non-current assets are reviewed at the end of the financial year and adjusted if necessary.

Financial Instruments

Financial instruments are all contracts leading at one and the same time to a financial asset at one company and to a financial liability or an equity instrument at another company. The reporting in accordance with IFRS 7 is shown under G Financial instruments.

a) Financial Assets

Financial assets as defined by IAS 39 are to be classified either as

- Financial assets, which are to be valued at fair value (financial assets held for trading (FAHfT))
- Financial investments held to maturity (HtM)
- Loans and Receivables (LaR)
- Available-for-sale (AfS) assets

The classification occurs at the time of initial recognition and depends on the type and use of the financial assets. Financial assets are recognized and written off on the trading day if they are assets supplied within the usual time frame for the relevant market. The trading day is the day on which all material risks and opportunities that accompany ownership of the asset are transferred or the power of disposal over the asset is relinquished. Initial valuation for all categories is at fair value. Transaction costs that are directly attributable to the acquisition of financial assets and that must be valued with effect on results at their fair value are recorded immediately with effect on results. For all other financial assets, the directly attributable transaction costs reduce the fair value of those financial assets. The subsequent valuation of financial assets depends on their categorization.

Loans and receivables are non-derivative financial assets with fixed or definable payments that are not listed in an active market. Loans and receivables are subsequently valued at amortized cost using

the effective interest model less any write-downs. Write-downs are in line with the actual risk of default. Write-downs of trade receivables are shown in separate value adjustment accounts.

Income resulting from the application of the effective interest model is recognized as interest income with effect on results.

Financial assets held available for sale are similarly non-derivative financial assets which are assigned either to this category or none of the other represented categories. The subsequent valuation of financial assets held available for sale is at fair value, insofar as this can be reliably determined. Unrealized profits or losses are shown under equity (revaluation reserve) with no effect on results. On disposal, the profit or loss affects results. If substantial objective indications of impairment of an asset exist, it is written off with effect on results.

In the consolidated financial statements of *aap* as of December 31, 2014, financial assets are disclosed as "loans and receivables" or as "available for sale." The investment included in financial assets, which was classified as "available for sale" under IAS 39, may be reported at amortized cost due to the lack of an active market and the fact that the fair value cannot reliably be determined. Unlike the previous year, the information required to determine the fair value was not available.

b) Financial Liabilities

Financial liabilities as defined by IAS 39 are to be classified either as

- Financial liabilities, which are to be valued at fair value (financial liabilities held for trading (FLHfT)), or as
- Other financial liabilities (financial liabilities measured at amortized costs (FLAC))

The classification occurs upon initial recognition. Initial valuation is always at fair value. The fair value of money owed to banks and other financial debts, liabilities arising from financial leasing and other financial liabilities is valued by discounting the anticipated future payment streams at the going market rates of interest for similar financial liabilities with comparable terms to maturity.

Comments regarding the treatment of transaction costs also apply to financial liabilities. The subsequent valuation of financial assets depends on their categorization.

The subsequent valuation of the category "Other financial liabilities" is at amortized cost using the effective interest model.

Financial liabilities are written off if the underlying obligation has been fulfilled or waived or has expired.

In these consolidated financial statements, solely "other financial liabilities" are disclosed.

The *aap* Group holds only primary financial instruments.

Holdings of primary financial instruments are shown on the balance sheet. The level of financial assets corresponds to the maximum risk of default.

Inventories

Inventories are stated at the lower of cost of acquisition or production or net sale value. The costs of production are the production-related full costs as established on the basis of normal employment. In detail, the costs of production include, along with directly attributable costs, an appropriate proportion of the production overheads. These include material and production overheads, production-related administrative costs and straight-line depreciation of production facilities. Borrowing costs are not capitalized as part of the costs of acquisition or production. Valuation is

based on the FIFO assumed sequence of consumption. Inventory risks that arise from reduced usability are taken into account by means of appropriate valuation discounts. Lower values on the reporting date due to lower net losses on disposal are recognized. The net selling price is the estimated achievable selling price in the normal course of business less estimated costs up to and until completion and less sales costs. If the net selling price of inventories that were written down in previous periods has risen again, the impairment loss is reversed and stated as an inventory change.

Borrowing Costs

Borrowing costs that relate to qualified intangible assets (capitalized development costs) are capitalized. All other borrowing costs are stated as expenses in the period in which they were incurred.

Cash and Cash Equivalents

The item includes cash on hand and bank deposits.

Share-based Payments

Company stock option programs are shown as share-based payments by means of equity capital instruments. Stock options granted to employees and executives are stated as personnel expenses on the one hand and at fair value as a contribution toward capital reserves on the other. The transfer to capital reserves takes place over a period that corresponds to the contractually agreed two- to five-year blocking period. The fair value of stock options granted is calculated on their grant date by means of an option price model. See F. 13 Share-based payments for details.

Provisions

Provisions are created for existing legal or factual liabilities to third parties arising from a past event, if a claim is likely and if the foreseeable level of provision required can be estimated reliably. Provisions are stated at the settlement amount that is likeliest to be determined and are not netted out against claims to reimbursement. The original estimate of costs is reviewed annually. If the discounting effect is significant, provisions are created with an interest rate before taxes that reflects the specific risks that the debt involves. In the case of discounting, the increase in the amount of the provision over time is recorded as a financial expense.

Other Assets and Liabilities

Other assets and liabilities do not have a contractual basis between companies, or they are not settled through cash assets or financial assets/liabilities. They are shown on the balance sheet at cost of acquisition, if necessary less essential value adjustments, in line with the actual risk of default.

Leasing Transactions

Leasing transactions are classified as either finance leases or operating leases. They are treated as finance leases if the Group as the lessee bears all the opportunities and risks arising from the use of the leasing item, which therefore counts as its economic property. In this case, the leasing item and the corresponding liability are stated on the balance sheet. The leasing item is stated at its fair value or the lesser cash value of the leasing rate. Leasing payments are divided into financing costs and a repayment portion of the residual debt so that there is a constant interest rate for the term of the leasing agreement. The financing costs are stated in the financial result with effect on expenses. In the case of an “operating lease”, the leasing item is not capitalized and the lease payments are stated with effect on expenses at the time at which they occurred.

Contingent Liabilities; Contingent Assets

Contingent assets and liabilities are possible or existing receivables or liabilities based on past events that are not likely to involve an inflow or outflow of funds. They are not recorded on the balance sheet. The amounts stated as contingent liabilities correspond to the extent of liability on the reporting date.

Contingent assets do not exist as of the date of the financial statements.

Revisions in Accounting Methods

In fiscal year 2014, as a result of a statement by IFRS IC, an accounting method for the capitalization of tax loss carryforwards that *aap* had previously considered to be permissible was declared to be no longer applicable. *aap* therefore adjusted the method for the capitalization of tax loss carryforwards taking into account the minimum taxation that applies in Germany. As of 01/01/2013 an amount of TEUR 1,819 was recorded under equity with no effect on income due the change of the accounting method. Consequently the balance sheet result was reduced as of 01/01/2013 from TEUR 749 to TEUR 1,070. The previous year's figures for the balance sheet amount of deferred tax liabilities after netting out with capitalized tax loss carryforwards were adjusted in the presentation of the balance sheet as of 01/01/2013 by TEUR 1,819 (from TEUR 2,090 to TEUR 3,909) and as of 12/31/2013 by TEUR 1,412 (from TEUR 0 to TEUR 1,412). In the comprehensive statement of income, this resulted in tax income of TEUR 407 in fiscal year 2013, which was similarly taken into account in the presentation of the comprehensive statement of income.

New and Revised Standards and Interpretations without any significant Effect on the Group

The following overview covers new and revised standards which could be relevant for the Group and must be applied in the financial year in EU-IFRS financial statements (EU endorsement). The revisions do not have any impact or only a minor impact on the assets, financial and earnings position of the Group.

Revised IAS/IFRS standard	Brief explanation	Mandatory application
IAS 36 Impairment of financial assets	Clarifies that the disclosure of the recoverable amount for cash generating units is required only on actual impairment.	From January 01, 2014
IAS 39 Financial instruments: approach and valuation	Derivatives are still designated as hedging instruments in ongoing hedging relationships despite a novation under certain conditions.	From January 01, 2014
IFRS 10 Consolidated financial statements	Introduction of a new, uniform concept of control, which is applied to subsidiaries included in the consolidation entity	From January 01, 2014
IFRS 11 Joint arrangements	IFRS 11 governs accounting by entities that jointly control an arrangement based on the nature of the parties´ rights and duties arising from the arrangement. The joint arrangement can extend to a joint business activities or a joint venture. IFRS 11 states that the equity method must be applied to the inclusion of joint ventures; proportional consolidation is no longer permissible.	From January 01, 2014

IFRS 12 Disclosure of interests in other entities	IFRS 12 governs the disclosure requirements for all kinds of participating interests in other companies, including subsidiaries, joint ventures, associated companies, structured enterprises and off balance sheet entities. The disclosure requirements are much more far-reaching than hitherto and intended to enable the addressees of financial statements to assess the nature of the investment, the risks involved and the effects on the assets, financial and earnings position.	From January 01, 2014
Revisions to IFRS 10,12, IAS 27	The revision affects the exclusion from the consolidation obligation for investment companies	From January 01; 2014
Revisions to IAS 27 Individual financial statements	Restriction of the standard to individual financial statements	From January 01, 2014
Revisions to IAS 28 Investments in associates and joint ventures	Standardized accounting according to the equity method, withdrawal of the proportional consolidation for associated companies	From January 01, 2014
IAS 32 Offsetting of financial assets and financial liabilities	Amendments to IAS 32 involve the requirements for the offsetting of financial assets and financial liabilities	From January 01, 2014

Published Standards The Application of Which is Not Yet Mandatory

The following overview covers new and revised standards which could be relevant for the Group and are to be applied only in the financial years beginning after January 01, 2014. *aap* Implantate AG does not yet apply them. The effects of the following standards on *aap*'s consolidated financial statements are currently under review.

Revised IAS/IFRS standard	**Brief explanation**	**Mandatory application in the EU**
IAS 19 Employee benefits	Affects contributions from employees or third parties	From February 01, 2015
IFRIC 21 Taxes	Affects the time of the payment of a public tax	From June 17, 2014
AIP 2010 -2012 Amendments made by way of the Annual Improvements Project 2010-2012 Cycle	As a result of the EU endorsement thereof on December 17, 2014, the following improvements to the following standards, among others, have been adopted: IFRS 3 (accounting of contingent consideration in business combinations), IFRS 13 (current receivables and liabilities) and IAS 24 (members of management)	From February 01, 2015
AIP 2011 -2013 Amendments by way of the	As a result of the EU endorsement thereof on December 18, 2014, the following improvements to the following	From January 01, 2015

Annual Improvements Project 2011-2013 Cycle.	standards, among others, have been adopted: IFRS 3 (exclusion of joint ventures from its scope), IFRS 13 (scope of the so-called portfolio exception)
IAS 1 Presentation of the financial statements	Improvement of financial reporting with regard to the disclosure in the notes, with a particular focus on the materiality principle.
IAS 16/ IAS 38 Tangible fixed assets/intangible assets	Revenue-based method is not considered to be an appropriate depreciation method pursuant to IAS 16 and its use is subject to certain conditions pursuant to IAS 38.
IAS 27 Individual financial statements	Reinstatement of the option to use the equity method to measure investments in subsidiaries, joint ventures and associates in the separate financial statements
IFRS 9 Financial instruments	Reconsideration of the reporting procedure for financial instruments and abolition of IAS 39 Financial instruments: Approach and valuation
IFRS 10, IAS 28 Consolidated financial statements/investments in associates and joint ventures	In a transaction involving an associate or joint venture, the extent of gain or loss recognition will depend on whether the assets sold or contributed constitute a business.
IFRS 10, IFRS 12, IAS 28 Consolidated financial statements/Investments in associates and joint ventures	Clarifies the exemption of subsidiaries from inclusion in consolidated financial statements of an investment entity where those subsidiaries are themselves parent companies.
IFRS 11 Joint arrangements	Clarifies that an acquisition of shares in a joint operation constituting a business within the meaning of in IFRS 3 is to be accounted for in accordance with the acquisition method.
IFRS 15 Revenue from contracts with customers	New standard for the reporting of revenue; replaces IAS 18, IAS 11 and the corresponding interpretations thereof.
AIP 2012-2014 Amendments made by way of the Annual Improvements Project 2012-2014 Cycle	The improvements published on September 25, 2014 relate to the following standards, among others: IFRS 5 Non-current assets held for sale and discontinued operations, IFRS 7 Financial instruments: disclosures, IAS 34 Interim financial reporting

C. Material Discretionary Decisions, Estimates and Assumptions

The discretionary decisions, estimates and assumptions made by the management affect the amount of reported income, expenses, assets and (contingent) liabilities. In later periods, related uncertainties can lead to adjustments with a significant impact on the assets, financial and earnings position.

Liabilities arising from original financial instruments can be stated either at amortized costs or at fair value through profit or loss. In principle, *aap* values all financial liabilities at amortized costs.

The estimates and assumptions made by the management and used in preparing the consolidated financial statements, for which there is a considerable risk that they will require a material adjustment to the book values of assets and liabilities within the next financial year are outlined in the following.

First-time capitalization of development costs is based on the management's estimate that technical and economic feasibility is a proven fact. In determining the amounts to be capitalized and for the annual impairment test, assumptions must be made about the future cash flow to be expected from the project, the discount rates to be applied and the period when future benefits are to be expected from it. As of December 31, 2014, the book value of capitalized development costs was EUR 13,118 thousand (previous year: EUR 12,074 thousand). Project progress made in the reporting year along with customer response to date has confirmed the estimates of future earnings. However, uncertainties as to future market shares and profit margins remain – partly against the background of increasingly exacting approval requirements – and could lead to a need for adjustment over the next financial years. For further details, see the risk report in the Management Report (Section D).

Goodwill and capitalized development costs are subjected to annual impairment tests. To determine possible impairment of goodwill, the value in use of the cash-generating unit (CGU) to which the goodwill has been allocated must be determined. To calculate the value in use, future cash flows of the CGU and suitable discount factors for cash value determination must be established. This is bound to involve estimates and assumptions. They mainly include market developments, including changes in legislative framework conditions, future medical developments, growth rates, selling prices, weighted average capital costs and tax rates. Cash flow forecasts taking past experience into account are based on management assessments of future developments. These premises and the underlying methodology can exercise considerable influence on the values and amounts of possible impairments. At December 31, 2014, the book value of the goodwill is EUR 1,568 thousand (previous year: EUR 1,568 thousand).

Impairments of doubtful receivables are determined on the basis of the maturity thereof, and also by means of estimates and assessments as to the credit and default risk posed by the customer in question in the case of individual receivables. Impairments in the amount of EUR 237 thousand were recognized as of the reporting date. The quantification of provisions is subject to uncertainty as to future increases in costs and the probability of the occurrence of the events for which the provisions were established. The book value of the provisions as of December 31, 2014 was EUR 412 thousand (previous year: EUR 257 thousand).

Personnel expenses from granting share-based compensations are valued at the time of granting at fair value. For parameters entering into the valuation process such as option term, volatility, fluctuation, or exercise value, assumptions are made that are presented in detail under F. 12 Share-based Compensations.

In stating income taxes in the balance sheet, uncertainties exist on the interpretation of complex fiscal regulations, amendments to tax law and the opinions held by the tax authorities. Furthermore, the fiscal regulations can also be subject to different interpretations by taxpayers and the tax authorities that require judicial clarification at the highest level. It is therefore possible that differences between the actual results and the assumptions made or future changes to these assumptions may require adjustments to stated tax income and tax expenses.

In stating **income taxes** in the balance sheet, uncertainties exist on the interpretation of complex fiscal regulations, amendments to tax law and the opinions held by the tax authorities. Furthermore, the fiscal regulations can also be subject to different interpretations by taxpayers and the tax authorities that require judicial clarification at the highest level. It is therefore possible that differences between the actual results and the assumptions made or future changes to these assumptions may require adjustments to stated tax income and tax expenses.

Deferred tax assets are stated if the realization of future tax benefits appears to be sufficiently assured. In the process and inter alia, the planned results of operative business and the effects on results of the reversal of taxable temporary differences are taken into account under consideration of the minimum taxation in Germany. The actual tax result in future reporting periods and with it the actual realizability of deferred tax assets may, however, differ significantly from the assessments at the time when the deferred taxes were capitalized.

All such assumptions and estimates are based on circumstances and assessments as of the balance sheet date and on future business development anticipated for the *aap* Group, taking into account realistic expectations of the future development of its economic environment. If these framework conditions develop differently, the assumptions and, if necessary, book values of the assets and debts affected will be adjusted accordingly.

According to the information available at the time of the preparation of the consolidated financial statements, no significant changes in the underlying assumptions and estimates are likely to occur; nor is an adjustment of the book values of the reported assets and liabilities likely to prove necessary in the 2015 financial year.

D. Business Combinations, Acquisition and Sale of Shares

Establishment of Subsidiaries

aap Implants Inc., Delaware, USA was established on September 24, 2014. *aap* Implantate AG holds all of the shares in the company, which is simply a distribution company for the US market and did not yet have any economic operations having an effect on the Group in 2014.

Sale of subsidiaries

The sale of European Medical Contract Manufacturing B.V. (EMCM) to a private equity firm for the purchase price of EUR 18 million was notarized on March 4, 2014, with effect as of February 28, 2014. This represented the sale of the entire contract manufacturing business of the *aap* Group, which was comprised within EMCM.

The sale resulted in a de-consolidation loss in the amount of EUR 4,033 thousand, which was allocated to the discontinued operations segment in the consolidated statement of comprehensive income. EUR 4,015 thousand of this de-consolidation loss had already been recognized as an impairment of goodwill under depreciation of tangible assets and intangible assets as of December 31, 2013.

The receivable for the payment of the purchase price was fully settled in three installments by April 30, 2014. The cash inflows generated by the sale were reported in the cash flow statement under cash flow from investing activities. The cash inflow as of the reporting date is shown in the following overview:

	TEUR
Advance payments received	18,000
Outflows of cash items	-229
Costs of sale	-1,092
	16,679

Given that EMCM was sold on February 28, 2014, the assets held available for sale and liabilities in connection with assets held available for sale as of December 31, 2013 are no longer reported on the balance sheet as of the reporting date.

As of February 28, 2014 and December 31, 2013, the primary groups of assets and liabilities of EMCM, which was classified as a discontinued operations segment, were as follows:

	February 28, 2014	December 31, 2013
	TEUR	TEUR
Intangible assets	15,172	15,127
Tangible assets	2,065	1,915
Inventories	1,747	1,759
Trade receivables and other assets	2,483	3,208
Cash	229	925
Disposals of assets	**21,697**	**22,934**
Deferred taxes	-1,999	-1,993
Trade liabilities	-1,145	-1,356
Financial liabilities	-1,475	-1,407
Other liabilities	-336	-771
Disposals of liabilities	**-4,955**	**-5,527**

Liquidation of subsidiaries

OSARTIS Verwaltungs-GmbH was liquidated as of December 31, 2014. The de-consolidation resulted in de-consolidation income in the amount of EUR 3 thousand.

Changes in Shares in Joint Ventures and Associated Companies

Joint Ventures

The remaining 50% of the shares in the dental joint venture, *aap* BM productions GmbH, were sold to botiss medical AG for EUR 1 million by way of notarized agreement dated May 30, 2014. *aap* Biomaterials GmbH is set to become an OEM of bone cements and mixing systems as a result of this transaction.

E. Notes on the Consolidated Statement of Comprehensive Income

All disclosures on items in the income statement apply exclusively to the continued areas.

1. *Sales*

All disclosures on items in the income statement apply exclusively to the continued operations segment. Disclosures from the previous years have been adjusted.

By region	2014 TEUR	2013 TEUR
Germany	8,424	7,607
Europe	14,657	12,481
America	3,376	3,918
Other	4,176	4,567
	30,633	**28,573**

By category	2014 TEUR	2013 TEUR
Products	29,242	26,554
Services	220	1,529
Order development	1,051	370
Use-of-system charges	120	120
	30,633	**28,573**

By product group	2014 TEUR	2013 TEUR
Trauma	12,248	9,644
Biomaterials	16,431	14,980
Projects	1,145	2,773
Other	809	1,176
	30,633	**28,573**

In the financial year 2014, three of the company's major customers accounted for EUR 9,512 thousand (previous year: EUR 9,591 thousand) in sales.

2. *Capitalized own and development costs*

Capitalized internally produced assets and development work in the amount of EUR 2,027 thousand (previous year: EUR 1,742 thousand) primarily involve assets capitalized in connection with development projects.

3. *Other Operating Income*

	2014 TEUR	2013 TEUR
Income from the disposal of associated companies (previous year: subsidiaries)	943	786
Income from the services of associated companies	487	340
Income from licensing and development agreements	292	2,220
Income from one-off sales of end-of-line stock	269	0

Income from investment allowances	98	75
Income from the release of provisions and the expiration of liabilities	211	178
Expenditure grants	162	156
Currency differences	172	23
Leasing income	96	93
Income relating to other reporting periods	20	46
Other	119	247
Total	**2,869**	**4,164**

4. Cost of materials

	2014 TEUR	2013 TEUR
Raw materials, consumables, supplies and purchased goods	8,712	6,428
Expenses for purchased materials and services	3,122	1,854
Total	**11,834**	**8,282**

5. Personnel Expenses

	2014 TEUR	2013 TEUR
Salaries and wages	9,737	9,736
Social security contributions	909	678
Pension benefits, contribution-oriented	860	697
Stock options granted to employees	198	184
Total	**11,704**	**11,295**

The *aap* Group makes contribution-oriented pension provisions to government pension insurance schemes on the basis of statutory obligations. Over and above these payments the Group has no further commitments.

Annual average number of employees	**2014**	**2013***
Production	106	87
Research & Development	29	28
Quality management	30	26
Sales	26	25
Administration	20	19
Total	**211**	**185**
Executives	106	98

Manual workers**	105	87
Total	**211**	**185**

* Previous year's data adjusted not to include trainees
** Technical workers

6. Depreciation

Scheduled depreciation in the continued operations segment amounted to EUR 1,048 thousand (previous year: EUR 881 thousand) for tangible fixed assets and EUR 1,273 thousand (previous year: EUR 1,142 thousand) for intangible assets.

7. Other Operating Expenses

	2014 TEUR	2013 TEUR
Consultancy fees	2,259	1,720
Cost of premises	1,566	1,488
Advertising costs and travel expenses	1,154	1,066
Research, analysis, experiments and sterilization	907	773
Repairs, maintenance	516	513
Outgoing freight, packaging materials, delivery costs	514	521
Insurance, contributions, duties	432	452
Vehicle costs	393	446
Patent and other fees	364	357
Office supplies, telephone, fax, postage	355	394
Sales commissions	345	340
Other	1,100	993
Total	**9,905**	**9,063**

8. Financial Result

	2014 TEUR	2013 TEUR
Other interest and similar income	61	7
Other interest and similar income expense		
- Interest on non-current loan liabilities	-90	-59
- Interest on current liabilities to banks	-45	-119
Other interest and expenditure on current liabilities	0	-8
Total	**-74**	**-179**

9. Exchange Rate Differences

Exchange rate differences offset with effect on results in the accounting period were as follows:

	2014 TEUR	2013 TEUR
Income from exchange rate	172	23

differences		
Expenditure on exchange rate differences	-40	-122
Total	**132**	**-99**

10. Income Tax

The income statement includes the following income taxes from continuing operations segments:

Income tax expense by origin	**2014 TEUR**	**2013 TEUR**
Income tax paid or owed		
- Germany	-177	0
- Other countries	0	0
	-177	0
Deferred taxes		
- From company acquisitions	0	0
- Arising from time differences	-136	1,011
- From tax loss carryforwards, affecting net income	-48	-611
- Consolidation between continuing and discontinued operations	0	138
	-184	538
Total	**-361**	**538**

In order to calculate deferred taxes in Germany, a tax rate of 30.2% (previous year: 30.2%) was applied, which results from corporation tax of 15%, the solidarity surcharge of 5.5% on the corporation tax liability and the trade tax rate of 14.4%.

Reconciliation of income tax expenses in accordance with IFRS with theoretical tax expenses is as follows.

	Continuing Operations	**Discontinued Operations**	**Group**	**Continuing Operations**	**Discontinued Operations**	**Group**
	2014 TEUR	**2014 TEUR**	**2014 TEUR**	**2013 TEUR**	**2013 TEUR**	**2013 TEUR**
Earnings before taxes	-177	3	-174	561	-2,836	-2,275
Theoretical tax expense (income) 30.2% (previous year: 30.2%)	54	-1	53	-169	856	687
Tax effects on						
Amortization of goodwill	0	0	0	0	-1,213	-1,213

Non-utilizable loss carryforwards or utilization of off-balance sheet loss carryforwards and depreciation of loss carryforwards	-1,036	85	-952	552	0	552
Tax rate differences within the Group	-68	-4	-72	86	48	134
Permanent differences	1,468	0	1,468	-286	0	-286
Non-tax-deductible expenses and additional amounts for trade tax	-32	-1	-33	-33	-1	-34
Tax-exempt income	-746	0	-746	388	0	388
Total tax effects	-415	80	-335	707	-1,166	-459
Income tax expenses according to IFRS	-361	79	-282	538	-309	229
Effective tax rate in (%)	204%	2633%	162%	96%	11%	-10%

11. Earnings per Share According to IAS 33

Undiluted earnings per share are calculated by dividing earnings by the shares for the period by the average weighted number of shares. The share-based remuneration programs have a dilutive effect.

		Jan - Dec. 2014	Jan - Dec. 2013*	Jan - Dec. 2013
Undiluted share count (in thousands)		30,670	30,670	30,670
Earnings from the continued operations segment	TEUR	-538	1,099	575
Undiluted earnings per share	EUR	-0.02	0.03	0.02
Earnings from the discontinued operations segment	TEUR	82	-3,146	-3,146
Undiluted earnings per share	EUR	0.00	-0.10	-0.10
Consolidated total earnings	TEUR	-456	-2,165	-2,165
Undiluted earnings per share	EUR	-0.01	-0.07	-0.07
Diluted share count (in thousands)		31,363	31,598	31,598
Earnings from the continued operations segment	TEUR	-538	1,099	575
Diluted earnings per share	EUR	-0.02	0.03	0.02

Earnings from the continued operations segment	TEUR	82	-3,146	-3,146
Diluted earnings per share	EUR	0.00	-0.10	-0.10
Consolidated total earnings	TEUR	-456	-2,165	2,571
Diluted earnings per share	EUR	-0.01	-0.07	-0.08

*Adjustment resulting from the change in the accounting method for the capitalization of deferred taxes on loss carryforwards

F. Notes on the Consolidated Balance Sheet

1. Intangible Assets

	Goodwill	Develop-ment costs	Concessions, industrial property rights, licenses and similar rights	Customer relationships and similar assets	Advance payments made	Subtotal
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Costs of acquisition and manufacture						
As of January 01, 2014	5,535	20,774	11,855	0	150	38,314
Additions	0	2,045	80	0	25	2,150
Disposals	0	-31	-329	0	-150	-510
Transfers	0	0	0	0	0	0
As of December 31, 2014	**5,535**	**22,789**	**11,606**	**0**	**25**	**39,954**
Cumulative depreciation						
As of January 01, 2014	-3,967	-8,701	-11,145	0	0	-23,813
Depreciation of the continued operation segment	0	-970	-303	0	0	-1,273
Impairment	0	0	0	0	0	0
Disposals	0	0	329	0	0	329
Reversal of asset impairment	0	0	0	0	0	0
Transfer	0	0	0	0	0	0
As of December 31, 2014	**-3,967**	**-9,671**	**-11,119**	**0**	**0**	**-24,757**
Book values						
As of December 31, 2014	**1,568**	**13,118**	**487**	**0**	**25**	**15,198**

	Goodwill	Develop-ment costs	Concessions, industrial property rights, licenses and similar rights	Customer relationships and similar assets	Advance payments made	Subtotal
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Costs of acquisition and manufacture						
As of January 01, 2013	16,508	35,115	15,839	3,661	150	71,273
Additions	0	2,020	83	0	0	2,103
Disposals	-51	-3,730	-2,667	0	0	-6,449
Disposals in discontinued operations segment	-10,922	-12,630	-1,440	-3,661	0	-28,653
Transfers	0	0	41	0	0	41
As of December 31, 2013	**5,535**	**20,775**	**11,856**	**0**	**150**	**38,315**
Cumulative depreciation						
As of January 01, 2013	-4,018	-13,257	-13,333	-1,261	0	-31,868
Depreciation of the continued operations segment	0	-923	-220	0	0	-1,142
Depreciation of the discontinued operations segment	0	-479	-63	-244	0	-786
Impairment	-4,015	-2,338	0	0	0	-6,353
Disposals	51	1,472	1,288	0	0	2,811
Disposals in discontinued operations segment	4,015	6,824	1,182	1,505	0	13,526
Reversal of asset impairment	0	0	0	0	0	0
Transfer	0	0	0	0	0	0
As of December 31, 2013	**-3,967**	**-8,701**	**-11,146**	**0**	**0**	**-23,813**
Book values						
As of December 31, 2013	**1,568**	**12,074**	**710**	**0**	**150**	**14,502**

The non-current intangible assets are located exclusively in Germany. No restrictions on disposal or use are in place.

Goodwill

Goodwill results from various past acquisitions:

- On January 01, 2011, *aap* bio implants Netherlands B.V. was merged with its subsidiary, European Medical Contract Manufacturing B.V. (EMCM B.V.). The goodwill was depreciated by EUR 4,015 thousand to the lower fair value and allocated to the discontinued operations

segment on December 31, 2013, and first deducted within the scope of the de-consolidation of EMCM B.V.

- OSARTIS GmbH & Co. KG and ADC Advanced Dental Care GmbH & Co. KG (since July 1, 2008: ADC Advanced Dental Care GmbH). Both sets of goodwill have been allocated to the biomaterials segment.

Goodwill is allocated at the respective time of acquisition to the cash-generating units which demonstrate the greatest expected benefit from the corporate mergers. All of the goodwill uncovered in the purchase price allocation is allocated to the biomaterials area.

The *aap* Group checks the reported goodwill for impairment by comparing the book value and the amount that can be achieved from the corresponding cash-generating units on an annual basis at the reporting date on 12/31. The goodwill of TEUR 1,568 reported in the consolidated annual financial statements was allocated to the cash-generating unit *aap* Biomaterials GmbH. The amount that can be achieved by the corresponding cash-generating units was determined on the basis of its useful value. Useful value is the cash value of the future cash flows that a cash-generating unit is likely to achieve in the future.

With regard to the remaining goodwill of TEUR 1,568, the intrinsic value has been sufficiently proven as a result of the positive earnings situation of *aap* Biomaterials GmbH. In addition, impairment was tested on the basis of a four-year plan and a discount rate of 11.0% in the same way as in the previous year. The discount rate after taxes totals 7.63% (previous year: 7.2%). There were no indications of a decrease in value.

Development costs

The additions to development costs in the continued operations segment include directly attributable borrowing costs of EUR 119 thousand (previous year: EUR 186 thousand), determined based on the average group financing cost rate of 2.64% (previous year: 4.41%). Added development costs related for the most part to the following projects:

	Book value December 31, 2014 TEUR	Book value December 31, 2013 TEUR	Addition 2014 TEUR
Development of LOQTEQ®	3,159	2,635	801
Development of nano silver-coated osteosynthesis products	2,231	1,479	735
Development of resorbable metal implants based on magnesium alloys	2,681	2,418	293
Development of silver cement	786	736	50
	8,857	7,268	1,879

Furthermore, costs for the provision of additional research and development services by either external providers or the company's own personnel were incurred in the amount of EUR 1,668 thousand (previous year: EUR 1,802 thousand).

In addition, on December 31, 2014 the *aap* Group conducted an annual impairment test for development projects by determining their useful value. The useful value of a development project is the cash value of the cash flows that the project is likely to generate in the future. It is determined internally. The determination of useful value is based on cash flow plans until the end of their expected useful life of ten years. Anticipated sales are based on a planning horizon of four years approved by the Management Board. Gross profit margins are derived as far as possible from historical data for comparable products or based on the assumptions of the Management Board.

The discount rates used were derived from market data and the project-specific risk run by the underlying development project and amount to between 12.3% and 23.6% p.a. (previous year: between 11.8% and 21.7%) before and between 6.7% and 9.84% p.a. (previous year: between 7.3% and 11.7%) after taxes.

2. Tangible Assets

	Land, land rights and buildings, incl. buildings on third-party land	**Technical plants and machinery**	**Other plant, office and factory equipment**	**Advance payments made**	**Subtotal**
	TEUR	TEUR	TEUR	TEUR	TEUR
Costs of acquisition and manufacture					
As of January 01, 2014	1,282	8,927	3,996	135	14,340
Additions	0	2,114	622	142	2,878
Disposals	0	-259	-245	0	-504
Transfers	0	62	61	-123	0
As of December 31, 2014	**1,282**	**10,844**	**4,435**	**154**	**16,714**
Cumulative depreciation					
As of January 01, 2014	-820	-4,985	-2,629	0	-8,434
Depreciation of the continued operations segment	-13	-747	-287	0	-1,048
Impairment	0	0	0	0	0
Disposals	0	253	204	0	457
Reversal of asset impairment	0	0	0	0	0
Transfer	0	0	0	0	0
As of December 31, 2014	-833	-5,479	-2,713	0	-9,025
Book values					
As of December 31, 2014	**449**	**5,365**	**1,722**	**154**	**7,690**

	Land, land rights and buildings, incl. buildings on third-party land	Technical plants and machinery	Other plant, office and factory equipment	Advance payments made	Subtotal
	TEUR	TEUR	TEUR	TEUR	TEUR
Costs of acquisition and manufacture					
As of January 01, 2013	2,451	14,329	4,870	47	21,697
Additions	95	3,081	633	135	3,944
Disposals	-88	-4,061	-1,046	0	-5,195
Disposals of discontinued operations segment	-1,176	-4,423	-466	0	-6,065
Transfers	0	0	6	-47	-41
As of December 31, 2013	**1,282**	**8,926**	**3,997**	**135**	**14,340**
Cumulative depreciation					
As of January 01, 2013	-1,780	-11,099	-3,711	0	-16,590
Depreciation of the continued operations segment	-13	-555	-313	0	-881
Depreciation of the discontinued operations segment	-57	-233	-16	0	-306
Impairment	0	0	0	0	0
Disposals	88	4,060	1,046	0	5,194
Disposals of discontinued operations segment	942	2,842	365	0	4,149
Reversal of asset impairment	0	0	0	0	0
Transfer	0	0	0	0	0
As of December 31, 2013	**-820**	**-4,985**	**-2,629**	**0**	**-8,434**
Book values					
As of December 31, 2013	**462**	**3,941**	**1,368**	**135**	**5,906**

The book value of leased fixed assets as of December 31, 2014 was EUR 274 thousand (previous year: EUR 302 thousand). The Group's commitments arising from these finance leases in the amount of EUR 190 thousand (previous year: EUR 255 thousand) are covered by the lessors' rights to the leasing items.

The book value of tangible assets assigned as collateral for liabilities is EUR 2,082 thousand (previous year: EUR 2,029 thousand).

The tangible assets are located in the financial year exclusively in Germany.

3. Financial Investments Accounted for Using the Equity Method

The book values of the financial investments measured using the equity method are comprised as follows:

	2014	2013
	TEUR	TEUR
Shares in joint ventures	0	47
Shares in associated companies	1,464	1,507
	1,464	1,554

The shares in BM productions GmbH were disposed of in full in the reporting year.

The book value of the shares in associated companies relates to *aap* Joints GmbH headquartered in Berlin. *aap* Implantate AG holds 33% of the shares in *aap* Joints GmbH, which is continuing the operations of *aap* Implantate AG in the area of endoprosthetics and further developing the product portfolio.

The following table shows the 100% values of the assets, liabilities, income, expenses and the annual earnings of the associated companies (previous year: associated companies and joint ventures).

in TEUR	***aap* Joints GmbH December 31, 2014**	***aap* Joints GmbH December 31, 2013**	***aap* BM productions GmbH December 31, 2013**
Non-current assets	1,031	1,177	890
Current assets	2,896	2,504	225
Non-current liabilities	0	0	0
Current liabilities	-764	-420	-108
Net assets	3,162	3,261	1,007
The Group's share of net assets	1,043	1,076	504
Fair value measurement within the Group	431	431	-456
Elimination of the unrealized gain from "downstream sales"	-10	0	0
Book value of shares in associated companies (previous year: associated companies and joint ventures)	1,464	1,507	48

EUR	**December 31, 2014**	**December 31, 2013**	**December 31, 2013**
Sales	2,016,537	1,105,595	0
Other operating income	0	40	170,500
Expenses	-2,133,534	-981,042	-177,778
Income tax	18,380	-36,814	0

Annual earnings (100%)	-98,617	87,779	-7,278
The Group's share of profits	-32,544	28,967	-3,639
Elimination of the unrealized gain from "downstream sales"	-10,143	0	0
Dividends received	0	0	0

4. Financial assets

The investment listed under financial assets belongs to the "available for sale" category.

	2014		2013	
	Book value in TEUR	Share in %	Book value in TEUR	Share in %
AEQUOS Endoprothetik GmbH, Munich	192	4.57	238	4.57
	192		238	

Payments of EUR 46 thousand occurred in the reporting year (previous year: EUR 0 thousand).

5. Deferred tax assets and liabilities

Tax deferrals and accruals result from the following balance sheet items:

	12/31/2014		12/31/2013	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	TEUR	TEUR	TEUR	TEUR
Intangible assets	2	0	1	0
Development costs	0	-3,431	0	-3,464
Financial assets	12	0	0	0
Inventories	94	-23	24	-71
Trade receivables	10	0	0	0
Receivables from development orders	0	-329	0	-12
Provisions	24	0	16	0
Loss carryforwards	2,070	0	2,118	0
Total	2,212	-3,783	2,159	-3,547
Netting	-2,200	2,200	-2,135	2,135
Total	**12**	**-1,583**	**24**	**-1,412**

The income tax total after netting out tax accruals and deferrals is broken down as follows:

	12/31/2014		12/31/2013	
	Deferred tax assets	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
	TEUR	**TEUR**	**TEUR**	**TEUR**
Intangible assets	2	0	1	0
Development costs	0	-3,431	0	-3,464
Fixed assets	0	0	0	0
Financial assets	12	0	0	0
Inventories	94	-23	24	-71
Trade receivables	10	0	0	0
Receivables from development orders	0	-329	0	-12
Provisions	24	0	16	0
Loss carryforwards	2,070	0	2,118	0
Total	2,212	-3,783	2,159	-3,547
Netting	-2,200	2,200	-2,135	2,135
Total	**12**	**-1,583**	**24**	**-1,412**

The amount of corporation tax and trade tax loss carryforwards for which no deferred tax claims were capitalized totals approx. EUR 13.9 million and EUR 13.7 million respectively as of the end of the reporting year (previous year: EUR 13.7 million and EUR 13.5 million).

These tax loss carryforwards do not lapse and can, taking account of the rules relating to minimum taxation, be netted out indefinitely against future taxable results of the companies in which the losses were incurred or against taxable income of other Group companies within the tax group. In the reporting year, the tax group consisted of *aap* Implantate AG and *aap* Biomaterials GmbH.

The tax loss carryforwards exist however for Group companies with a history of losses. These Group companies do not have sufficient taxable temporary differences or tax planning opportunities that could result in a full application of deferred tax assets at this time.

Deferred tax assets in connection with consolidation were calculated on the basis of an average tax rate for the Group of 30.2% (previous year: 30.2%).

6. Inventories

	2014	2013
	TEUR	TEUR
Raw materials, consumables and supplies	1,862	2,068
Work in progress	2,617	1,887
Finished goods and commercial products	4,822	5,387
Advance payments made	99	87
Total	9,400	9,429

Value adjustments of inventories shown in the cost of materials developed as follows:

	2014 TEUR	2013 TEUR
Cumulative value adjustments as of January 01	3,049	3,894
Thereof		
- Marketability discounts	2,906	3,637
- Reported net realizable value	143	257
Expense for marketability discounts	204	349
Expense for net realizable price	0	0
Utilization through the disposal of inventories	0	-1,080
Reversal of impairment/utilization of net realizable price	-8	-114
Cumulative value adjustments as of December 31	3,245	3,049
Thereof		
- Marketability discounts	3,110	2,906
- Reported net sale value	135	143

The book value of inventories stated at their net realizable value amounts to EUR 532 thousand (previous year: EUR 395 thousand). No inventories (previous year: EUR 0 thousand) were assigned as collateral for liabilities. No reversals of asset impairment were carried out in the reporting year 2014 (previous year: EUR 114 thousand), as the circumstances that led to their impairment in previous years have changed.

7. Trade Receivables

Trade receivables less write-downs totaled EUR 9,299 thousand as of the reporting date (previous year: EUR 7,036 thousand). As in the previous year, all of these receivables were due within one year. Individual value adjustments are made if customers are likely to have payment difficulties. Furthermore, lump-sum value adjustments are made in respect of general interest, processing and credit risks.

Value adjustments for trade receivables stated under other operating expenses developed as follows:

	2014 TEUR	2013 TEUR
Cumulative value adjustments as of January 01	**183**	**311**
Disposals due to changes in scope of consolidation	0	-10
Expenditure in the reporting period	58	89
Use of value adjustments	0	-188
Payments received and impairment reversal of receivables originally written off	4	-19
Cumulative value adjustments as of December 31	**237**	**183**

The maturities of the trade receivables as of December 31, 2014 are as follows:

Book value	Neither overdue nor value-adjusted	Thereof: not value-adjusted as of the date of the financial statements and overdue in the following periods				
December 31, 2014		up to 3 months	up to 6 months	up to 9 months	up to 12 months	more than 1 year
TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
9,299	6,574	2,078	416	81	146	4

Book value	Neither overdue nor value-adjusted	Thereof: not value-adjusted as of the date of the financial statements and overdue in the following periods				
December 31, 2013		up to 3 months	up to 6 months	up to 9 months	up to 12 months	more than 1 year
TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
7,036	5,752	996	62	24	6	196

Trade receivables do not bear interest and generally have a term of 30 to 45 days for domestic customers. Trade receivables from customers abroad usually have a term of 45 to 120 days.

For receivables not value-adjusted but overdue, there were no indications as of the date of the financial statements that payment might not be received.

Current and future trade receivables are ceded as collateral for the working capital credit line used up to a maximum of EUR 4,500 thousand. As of the reporting date, the blanket assignment amounted to EUR 0 thousand (previous year: EUR 750 thousand).

8. Receivables from Service Contracts

This item includes receivables from long-term construction contracts.

	December 31, 2014	**December 31, 2013**
	TEUR	**TEUR**
Accrued order costs, including partial profits	1,158	281
Partial billing	0	0
Development orders with credit balance from customers	**1,158**	**281**
Netted advances received for development orders with credit balance from customers	189	0
Total	**1,346**	**281**

As of the reporting date, 90% of a partial contract (definition of design specification) for the development of a prefabricated mixing system in the amount of EUR 1,112 thousand had been completed.

9. Other Financial Assets

	December 31, 2014 TEUR	December 31, 2013 TEUR
Receivables from associated companies	110	103
Public sector grants	139	652
Warranty claims	0	53
Other	616	597
	865	1,405

The claim for breach of warranty is against the contributing partners of holdings in CORIMED Kundenorientierte Medizinprodukte GmbH, CORIPHARM Medizinprodukte-Verwaltungs-GmbH and CORIPHARM Medizinprodukte GmbH & Co. KG. This receivable was called in and settled in full in the reporting year.

Of the financial assets, EUR 863 thousand were due within a year (previous year: EUR 1,403 thousand). Non-current financial assets in the amount of EUR 1 thousand (previous year: EUR 2 thousand) are due within the next two years.

The value adjustments to other financial assets stated under other operating expenses developed as follows:

	2014 TEUR	2013 TEUR
Cumulative value adjustments as of January 01	**20**	**0**
Expenditure in the reporting period	**0**	**20**
Reversal of asset impairment/utilization	**20**	**0**
Cumulative value adjustments as of December 31	**0**	**20**

The maturities of the other financial assets as of December 31, 2014 are as follows:

		Neither overdue nor value-adjusted	Thereof: not value-adjusted as of the date of the financial statements and overdue in the following periods				
December 31, 2014			up to 3 months	up to 6 months	up to 9 months	up to 12 months	more than 1 year
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
	865	865	0	0	0	0	0

		Neither overdue nor value-adjusted	Thereof: not value-adjusted as of the date of the financial statements and overdue in the following periods				
December 31, 2013			up to 3 months	up to 6 months	up to 9 months	up to 12 months	more than 1 year
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
	1,405	1,352	0	0	0	0	53

10. Other Assets

	December 31, 2014 TEUR	December 31, 2013 TEUR
Tax refund entitlements	246	150
Deferred expenses and accrued income	167	198
	414	**348**

The tax refund entitlements are mainly sales tax (VAT) credits. The other assets are neither overdue nor value adjusted.

Income tax receivables as of December 31, 2014 totaled EUR 8 thousand (previous year: EUR 1 thousand).

11. Cash and Cash Equivalents

Also for the purposes of the cash flow statement, cash and bank balances consist solely of cash in hand and with banks totaling EUR 12,165 thousand (previous year: EUR 1,580 thousand).

12. Equity

The company's subscribed capital as of December 31, 2014 amounted to EUR 30,670,056.00 (previous year: EUR 30,670,056.00) and was divided into 30,670,056 (previous year: 30,670,056) fully paid-up bearer shares each with a nominal value of EUR 1.00 (previous year: EUR 1.00).

The statutory reserve amounted to EUR 41,703.95 as of the end of the financial year and together with the capital reserve exceeded one tenth of the capital stock.

The capital reserve contains premiums from share issues, voluntary additional payments by shareholders and shareholders' contributions arising from the issue of stock options.

Conditional capital

As of December 31, 2014, *aap* Implantate AG had conditional capital of up to a nominal EUR 2,849,100.00 or up to 2,849,100 shares to fulfill exercised stock options issued in the context of various of stock option programs. Specifically:

The Shareholders' Meeting held on September 29, 2008 approved a conditional increase in the capital stock by up to EUR 1,200,000.00 by the issue of up to 1,200,000 new bearer shares in the company. The new shares are entitled to a share in profits from the beginning of the financial year in which they are issued (Conditional Capital 2008/I). The Conditional Capital 2008/I was most recently partially waived by the Shareholders' Meeting held on July 6, 2012, such that the company's capital stock was therefore increased conditionally by up to EUR 602,500 by the issue of up to 602,500 new bearer shares in the company. The Conditional Capital 2008/I serves the purpose of fulfilling the exercise of option rights granted by September 28, 2013 on the basis of the authorization approved by the Shareholders' Meeting held on September 29, 2008.

The Shareholders' Meeting held on July 16, 2010 approved a conditional increase in the capital stock by up to EUR 1,486,000.00 by the issue of up to 1,486,000 new bearer shares in the company. The new shares are entitled to a share in profits from the beginning of the financial year in which they are issued (Conditional Capital 2010/I). The General Meeting held on July 6, 2012 waived the Conditional Capital 2010/I by EUR 139,400. The company's capital stock was therefore increased conditionally by

up to EUR 1,346,000.00 by the issue of up to 1,346,000 new bearer shares. The Conditional Capital 2010/I serves the purpose of fulfilling the exercise of subscription rights granted by December 19, 2011 on the basis of the authorization approved by the Shareholders' Meeting held on July 16, 2010.

The Shareholders' Meeting held on July 6, 2012 approved a conditional increase in the capital stock by up to EUR 300,000.00 by the issue of up to 300,000 new bearer shares in the company. The new shares are entitled to a share in profits from the beginning of the financial year in which they are issued (Conditional Capital 2012/I). The Conditional Capital 2012/I serves the purpose of fulfilling the exercise of subscription rights granted by December 19, 2014 on the basis of the authorization approved by the Shareholders' Meeting held on July 6, 2012.

The Shareholders' Meeting held on June 14, 2013 approved a conditional increase in the capital stock by up to EUR 300,000.00 by the issue of up to 300,000 new bearer shares in the company. The new shares are entitled to a share in profits from the beginning of the financial year in which they are issued (Conditional Capital 2013/I). The Conditional Capital 2013/I serves the purpose of fulfilling the exercise of subscription rights granted by December 19, 2015 on the basis of the authorization approved by the Shareholders' Meeting held on June 14, 2013.

The Shareholders' Meeting held on June 13, 2014 approved a conditional increase in the capital stock by up to EUR 300,000.00 by the issue of up to 300,000 new bearer shares in the company. The new shares are entitled to a share in profits from the beginning of the financial year in which they are issued (Conditional Capital 2014/I). The Conditional Capital 2014/I serves the purpose of fulfilling the exercise of subscription rights granted by December 18, 2016 on the basis of the authorization approved by the Shareholders' Meeting held on June 13, 2014.

Authorizations

By resolution of the Shareholders' Meetings on September 29, 2008, July 16, 2010, July 6, 2012, June 14, 2013 and June 13, 2014, the Management Board or the Supervisory Board was authorized to establish stock option programs and to issue them to entitled persons within defined issuing periods. There are currently authorizations in force pursuant to the resolutions of the Shareholders' Meetings held on June 14, 2013 and June 13, 2014. The conditions for the exercise thereof are described under F. 13. Share-based compensations.

Treasury shares

The Shareholders' Meeting held on June 13, 2014 authorized the company to buy treasury shares in a notional amount of 10% of the capital stock of the company existing at the time of the adoption of the resolution in question. The shares acquired together with the other treasury shares held by or attributed to the company in accordance with Section 71a et seq. AktG may at no time exceed 10% of the capital stock. The authorization may not be used for trading in the treasury shares.

Use may be made of the authorization wholly or in part, once or several times, in pursuit of one or more objectives by the company or third parties on account of the company. The authorization is valid until June 12, 2019.

The shares may be purchased, at the Management Board's discretion, through a stock exchange, or by means of a public tender or a public call for submission of such a tender.

Approved capital

As of December 31, 2014, *aap* Implantate AG held approved capital with a total face value of EUR 15,335,028 that may be issued in tranches with different time limitations totaling up to 15,335,028

bearer shares. The Shareholders' Meeting held on June 13, 2014 cancelled the Approved Capital 2007/I as it had expired and waived the Approved Capital 2009/I.

	Authorization of the Management Board by the Shareholders' Meeting resolution of	Period of validity of the authorization	Approved capital in EUR	Utilization to date in EUR	Remaining approved capital in EUR
Approved Capital 2010/1	July 16, 2010	July 15, 2015	4,192,786	0	4,192,786
Approved Capital 2012/I	July 6, 2012	July 5, 2017	4,182,279	0	4,182,279
Approved Capital 2014/I	June 13, 2014	June 12, 2019	6,959,963	0	6,959,963
			15,335,028	**0**	**15,335,028**

The requirements for the increase in approved capital are nearly identical in all tranches. The capital stock of the company can be increased on one or more occasions against cash contributions or contributions in kind.

Approved Capital 2010/I and 2012/I:

Subject to Supervisory Board approval, the subscription rights of the shareholders may be excluded:

a) in order to offset fractional amounts,

b) if the capital increase against cash contributions does not exceed 10% of the capital stock and the issue price of the new shares is not substantially lower than the market price (Section 186 para. 3 sentence 4 AktG),

c) in order to enable the issuance of shares in return for contributions in kind as part of the acquisition of companies, parts of companies or shareholdings in companies as well as company mergers (also in the context of company transformations pursuant to the German Law Regulating Transformation of Companies (Umwandlungsgesetz),

d) in order to enable the issuance of shares to strategic partners,

e) in order to enable payments to be made for consultancy services,

f) in order to enable the issuance of shares to lenders in place of interest payments in cash or in addition thereto (so-called equity kickers), especially in connection with mezzanine financing,

g) in order to enable the repayment of loans or other liabilities.

Approved Capital 2014/I:

The new shares must generally be offered to the shareholders for subscription; they may also be acquired by one or more bank(s) or one or more equivalent institution(s) on the condition that they are then offered to the shareholders for subscription (indirect subscription right).

Subject to Supervisory Board approval, the subscription rights of the shareholders may be excluded

a) up to an amount not exceeding 10% of the current capital stock in order to enable the new shares to be issued against cash contributions in an amount which is not significantly lower than the stock market value of equivalent shares already listed on a stock exchange. Shares which are

acquired on the basis of an authorization approved by the Shareholders' Meeting in accordance with Section 71 para. 1 no. 8 AktG and sold to the exclusion of the subscription rights of the shareholders in accordance with Section 186 para. 3 sentence 4 AktG during the period of validity of the authorization will be offset against this 10% threshold. Furthermore, shares which have been or will be issued for the purposes of servicing convertible and/or warrant bonds during the period of validity of the authorization, provided that the bonds were correspondingly issued to the exclusion of the subscription rights of the shareholders in accordance with Section 186 para. 3 sentence 4 AktG, are also to be offset;

b) for the purposes of the realization of contributions in kind, in particular through the acquisition of companies or shareholdings in companies, or through the acquisition of other assets, where the acquisition or the shareholding is in the best interests of the company and is to be effected in return for the issue of shares;

c) to the extent that this is necessary in order to grant holders of convertible and/or warrant bonds issued by the company or its subsidiaries a right to subscribe for new shares in the amount to which they would be entitled upon the exercise of their conversion or option rights;

d) in order to offset fractional amounts.

13. Share-based Payments

The essential conditions of the programs in effect in the financial year are summarized in the following overview:

<table>
<tr><th colspan="4">Essential conditions of the option programs in effect</th></tr>
<tr><th></th><th>2008</th><th>2010</th><th>2012, 2013, 2014</th></tr>
<tr><td rowspan="2">Subscription right</td><td colspan="3">Each option gives the beneficiaries the right to purchase one bearer share of aap Implantate AG in return for payment of the exercise price</td></tr>
<tr><td></td><td colspan="2">The pecuniary advantage is restricted to four times the exercise price</td></tr>
<tr><td>Beneficiaries</td><td colspan="2">• Employees and members of the Management Board of the company
• Employees and members of the management of associated companies in accordance with Sections 15 et seq. AktG</td><td>• Employees of the company
• Employees of associated companies in accordance with Sections 15 et seq. AktG</td></tr>
<tr><td>Issue period</td><td>Until September 28, 2013</td><td>Until December 19, 2011</td><td>2012: Until December 19, 2014
2013: Until December 19, 2015
2014: Until December 18, 2016</td></tr>
<tr><td>Waiting period</td><td>2 years from the issue date for 25%, 3 years, 4 years and 5 years from the issue date for every further 25%</td><td colspan="2">4 years from the issue date</td></tr>
<tr><td>Term</td><td>5 years from the issue date</td><td colspan="2">8 years from the issue date</td></tr>
<tr><td>Exercise periods</td><td colspan="3"><u>2008</u>
Possible at any time after the expiration of the waiting period, however not within the following periods:
• From the last day on which shareholders can register to attend the company's Shareholders' Meeting until the third bank working day in Frankfurt am Main after that Shareholders' Meeting;
• From the day of publication in an official journal of the Frankfurt Stock Exchange of a subscription offer for new shares or bonds with conversion and/or option warrant on aap shares until the day on which the subscription period ends;</td></tr>
</table>

	• Within four weeks prior to publication of the relevant quarterly or annual report	
	2010, 2012, 2013, 2014 Within four weeks beginning at the second trading day on the Frankfurt Stock Exchange • After the company's Shareholders' Meeting • After the day on which the management of the Stock Exchange makes the company's annual financial statements, the half-yearly financial statements or the interim reports for the first or third quarter of the financial year available to the general public	
Exercise price	(Average) closing price of the *aap* share in electronic trading (Xetra or a successor system) on the Frankfurt Stock Exchange	
	On the last 20 trading days before the issue date, at least at the lowest issue price according to Section 9 para. 1 AktG, not less than each share's EUR 1.00 pro rata share of the capital stock	On the 5 trading days preceding the first day of the acquisition period, at least at the lowest issue price according to Section 9 para. 1 AktG
Performance target	(Average) closing auction price of the *aap* share in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange	
	in the last 20 trading days	on the last trading day
	before the exercise date on which the subscription right exceeds the exercise price by at least	
	20%	10%
Fulfillment	The company has the option of fulfilling the obligation by issuing equity instruments or by cash settlement.	

All option programs were granted in two or more tranches.

Options program	**Date option tranche was confirmed**	**Number of options granted**	**Expiration date**	**Exercise price in EUR**	**Fair value at the time of the grant in EUR**
2010	July 29, 2010	360,000	July 28, 2018	1.29	0.58
2010	November 17, 2010	505,000	November 16, 2018	1.17	0.50
2010	July 15, 2011	481,600	July 14, 2019	1.01	0.40
2010	November 15, 2011	55,000	November 14, 2019	1.00	0.39
2012	July 25, 2012	65,000	July 24, 2020	1.00	0.51
2012	November 28, 2012	180,000	November 27, 2020	1.30	0.63
2012	July 3, 2013	65,000	July 2, 2021	1.27	0.64
2012	November 25, 2013	5,000	November 24, 2021	1.78	1.02
2013	July 3, 2013	165,000	July 2, 2021	1.27	0.64
2013	November 25, 2013	135,000	November 24, 2021	1.78	1.02

The range of exercise prices for the stock options outstanding as of December 31, 2014 extended from EUR 1.00 to EUR 1.78 (previous year: EUR 1.00 to EUR 1.78).

The fair values were determined in the reporting year using a binomial model. The following parameters were taken into account in the measurement:

Stock option program 2012	**07/2013 Tranche**	**11/2013 Tranche**
Grant date	July 3, 2013	November 25, 2013
Performance target in EUR	1.40	1.96
Risk free discount rate	0.68%	0.68%
Expected volatility	48.11%	45.31%
Expected income from dividends	0 EUR	0 EUR
Share price on the measurement date	1.35	2.12
Expected option term	5 years	5 years

Stock option program 2013	**07/2013 Tranche**	**11/2013 Tranche**
Grant date	July 3,2013	November 25, 2013
Performance target in EUR	1.40	1.96
Risk free discount rate	0.68%	0.68%
Expected volatility	48.11%	45.31%
Expected income from dividends	0 EUR	0 EUR
Share price on the measurement date	1.35	2.12
Expected option term	5 years	5 years

The best Management Board estimate of the following influencing factors went into establishing the likely option term: Non-transferability, exercise restrictions, including the likelihood that the market conditions attached to the option will be fulfilled, and assumptions on exercise behavior. Volatility was based on weekly yields. The share's expected volatility is based on the assumption that inferences can be drawn from historic volatilities as to future trends, with the share's actual volatility possibly differing from the assumptions used. To take early exercise effects into consideration, it was assumed that employees would exercise their exercisable options if the share price corresponded to 1.4- to 1.5-fold of the exercise price.

The following table shows the number and weighted average exercise prices (GDAP) as well as the performance of stock options in the financial year.

	2014		**2013**	
	Number	**GDAP in EUR**	**Number**	**GDAP in EUR**
Outstanding as of January 01	2,387,225	1.26	2,114,100	1.22
Granted	0	--	370,000	1.46
Expired/waived/forfeited	-45,000	1.53	-35,000	1.10
Exercised	-997,625	1.34	-61,875	1.29
Outstanding as of December 31	**1,344,600**	**1.19**	**2,387,225**	**1.26**
Thereof: exercisable	**283,000**		**501,875**	

Stock options outstanding at the end of the financial year had a weighted average residual term of 5.2 years (previous year: 4.8 years).

Expenses arising in connection with share-based compensation, as offset by equity instruments, recorded in the reporting period totaled EUR 232 thousand (previous year: EUR 201 thousand).

In the financial year, no stock options were granted to executives and other employees. The conditions for exercise having been satisfied, 540,625 stock options from the 2008 stock options program (Tranches I and II) and 457,000 stock options from the 2010 stock option program (Tranches I and II) were exercised in the financial year. The realized remuneration was paid by way of cash settlement. The difference between the respective exercise prices on the confirmation date and the exercise date was recognized without effect on results in accordance with IFRS 2.43(a). The capital reserve was reduced by EUR 1,409 thousand. The weighted average share price on the exercise date was: EUR 2.36 to EUR 3.17 (previous year: EUR 1.98).

The Management Board resolved on December 19, 2014 that, with immediate effect, further exercises will only be possible upon the acquisition of equity instruments.

14. Provisions

	Balance at January 01, 2014	**Consumption**	**Release**	**Addition**	**Balance at December 31, 2014**	**RT* > 1 year**
	TEUR	**TEUR**	**TEUR**	**TEUR**	**TEUR**	**TEUR**
Employee commitments	74	-10	-6	34	91	0
Storage costs	27	0	0	14	42	42
Other uncertain liabilities	29	0	-29	0	0	0
Litigation costs and risks	70	-70	0	0	0	0
Other provisions	57	-11	-32	265	279	70
Total	257	-91	-67	313	412	112

*RT = residual term

15. Liabilities

The residual terms of the liabilities are as follows:

		Residual term (RT)			
	Total as of December 31, 2014	**Up to 1 year**	**1-5 years**	**More than 5 years**	**Previous year**
	TEUR	TEUR	TEUR	TEUR	TEUR
Financial liabilities	4,254	1,997	2,257	0	4,712
Advance payments received	0	0	0	0	0
Development orders with balance due to customers	0	0	0	0	25
Trade liabilities	2,949	2,949	0	0	2,853
Shareholder liabilities	0	0	0	0	0
Other financial liabilities	1,433	1,307	126	0	1,681
Liabilities relating to income tax	177	177	0	0	0

Other liabilities	1,624	722	359	543	1,312
Liabilities vis-à-vis discontinued operations	0	0	0	0	419
	10,437	7,152	2,742	543	11,002

Of the non-current liabilities (RT > 1 year) of EUR 3,285 thousand (previous year: EUR 3,088 thousand), EUR 2,384 thousand (previous year: EUR 2,334 thousand) was interest-bearing. Of the current liabilities (RT < 1 year) of EUR 7,152 thousand (previous year: EUR 7,495 thousand), EUR 2,060 thousand (previous year: EUR 2,634 thousand) was interest-bearing. The average interest burden was about 2.6% (previous year: 4.4%).

The *aap* Group's current and non-current financial liabilities are owed to banks and are denominated in euros.

As of December 31, 2014, foreign currency liabilities were as follows:

	Dec. 31, 2014 Total		Currency		Currency		Currency
	TEUR	TEUR		TEUR		TEUR	
Netted advance payments received	189	189	US $	0	CHF	0	GBP
Trade liabilities	21	2	US $	18	CHF	1	GBP
	210	191		18		1	

As of December 31, 2013, foreign currency liabilities were as follows:

	Dec. 31, 2013 Total		Currency		Currency		Currency
	TEUR	TEUR		TEUR		TEUR	
Netted advance payments received	189	189	US $	0	CHF	0	GBP
Trade liabilities	34	7	US $	27	CHF	0	GBP
	223	196		27		0	

16. Gross amount due to customers for contract work

Order costs, including the corresponding earnings contributions that netted against advances lead to a debit balance, are stated under development orders with balance due to customers. As of the reporting date, liabilities arising from development orders totaled EUR 0 thousand (previous year: EUR 25 thousand).

	December 31, 2014	**December 31, 2013**
	TEUR	**TEUR**
Receivables from development orders	0	164
Netted against advance payments received	0	189
Development orders with balance due to customers	0	25

17. Other Financial Liabilities

	Total as of December 31, 2014	Residual term (RT) Up to 1 year	1-5 years	More than 5 years	Previous year
	TEUR	TEUR	TEUR	TEUR	TEUR
Liabilities vis-à-vis companies in which an interest is held	0	0	0	0	111
Financial leasing liabilities	190	64	126	0	255
Other financial liabilities	1,243	1,243	0	0	1,315
	1,433	**1,307**	**126**	**0**	**1,681**

Other financial liabilities consist mainly of employee bonuses totaling EUR 712 thousand (previous year: EUR 885 thousand), sales commissions and license payments of EUR 323 thousand (previous year: EUR 201 thousand) and liabilities for Supervisory Board remuneration of EUR 30 thousand (previous year: EUR 75 thousand).

The financial leasing liabilities consist of machinery and use the leased assets as collateral. The agreed terms of the agreements in question are between 48-60 months on average. The agreements do not provide for the option of extending the contractual terms or for early purchase options. The interest rate was agreed for the entire term of the leasing relationship and is about 3.8% on average (previous year: 3.7%).

18. Other Liabilities

	Total December 31, 2014	Residual term (RT) Up to 1 year	1-5 years	More than 5 years	Previous year
	TEUR	TEUR	TEUR	TEUR	TEUR
Special investment allowances items	995	94	359	543	831
Personnel-related liabilities	299	299	0	0	234
Tax liabilities	286	286	0	0	186
Other liabilities	44	44	0	0	61
	1,624	722	359	543	1,312

Personnel-related liabilities largely relate to holiday entitlements. Tax liabilities relate to deductible income tax. All personnel-related liabilities were offset as of March 31, 2015.

19. Tax Liabilities

Tax liabilities relate to income tax for previous years and were offset in the first quarter of 2015.

20. Other Financial Liabilities

Other financial liabilities can be broken down as follows:

	December 31, 2014	Loan repayments		
		2015	2016 to 2019	From 2020
	TEUR	TEUR	TEUR	TEUR
Future payments from rent	2,935	1,063	1,872	0
Future payments from other operating lease contracts	553	384	169	0
Future payments from financing lease contracts	200	69	131	0
Future payments for non-current assets	97	97	0	0
Future payments from framework contracts	382	382	0	0
	4,167	**1,995**	**2,172**	**0**

	December 31, 2013	Loan repayments		
		2014	2015 to 2018	From 2019
	TEUR	TEUR	TEUR	TEUR
Future payments from rent	2,474	1,004	1,470	0
Future payments from other operating lease contracts	1,037	572	465	0
Future payments from financing lease contracts	273	73	200	0
Future payments for non-current assets	276	276	0	0
Future payments from framework contracts	153	138	15	0
	4,212	**2,062**	**2,149**	**0**

The future rent payments for production and business premises include annual contractual rent increase clauses of 1.5%. Expenses recorded from current rental contracts and other operating lease contracts in the reporting period totaled EUR 1,554 thousand (previous year: EUR 1,360 thousand).

Future payments from financing lease contracts in the amount of EUR 200 thousand (previous year: EUR 273 thousand) include future interest payments of EUR 10 thousand (previous year: EUR 18 thousand). The stated book value amounts to EUR 190 thousand (previous year: EUR 255 thousand).

21. Contingent Liabilities

Contingent liabilities totaling EUR 807 thousand (previous year: EUR 48 thousand) relate to public sector investment grants and allowances received. They are conditional on the assets financed remaining at the Berlin production facility for at least five years after completion of the investment project. In view of the operational circumstances, the Management Board assumes that the assets will remain at the Berlin production facility and that the other preconditions will be observed, so that recourse is unlikely.

In connection with the termination of a sales agreement, a former sales partner of the subsidiary *aap* Biomaterials GmbH asserted claims for damages and filed a suit for a payment of EUR 350 thousand on December 30, 2010. Payment of damages in the amount of EUR 65 thousand was agreed by way of settlement. The payment was effected in the reporting year. The contingent liability therefore no longer exists (previous year: EUR 285 thousand).

G. Reporting on Financial Instruments

1. *Financial Instruments by Valuation Categories*

The fair values of cash and bank balances, of current receivables, of trade liabilities, of other financial liabilities and financial debts correspond to their book values, especially in view of the short residual term of financial instruments of this kind.

The carrying amounts for the individual financial instruments broken down by valuation category are shown in the following tables.

-	IAS 39 balance valuation categories	Book value December 31, 2014 TEUR	Amortized cost TEUR	Fair value without effect on results TEUR	Carrying amount in accordance with IAS 17 TEUR	Fair value December 31, 2014 TEUR
Assets						
Financial assets	AfS	192	192			192
Trade receivables	LaR	9,299	9,299			9,299
Receivables from service orders	-	1,158	-	-		1,158
Other financial assets	LaR	865	865			865
Cash and cash equivalents	LaR	12,165	12,165			12,165
Liabilities						
Financial liabilities	FLAC	4,254	4,254			4,254
Trade liabilities	FLAC	2,949	2,949			2,949
Development orders with balance due to customers	-	0	-	-		0
Financial leasing liabilities	-	190	-	-	190	-
Other financial liabilities	FLAC	1,244	1,244			1,244

Thereof: aggregated by IAS 39 valuation categories

	IAS 39 balance valuation categories	Book value December 31, 2014 TEUR	Amortized cost TEUR	Fair value without effect on results TEUR	Fair value December 31, 2014 TEUR
Financial assets held available for sale	AfS	192	192		192
Loans and receivables (incl. cash and cash equivalents)	LaR	22,329	22,329		22,329
Total financial assets		**22,521**	**22,521**	**0**	**22,521**
Financial liabilities stated at fair value and measured at amortized cost	FLAC	8,448	8,448		8,448
Total financial liabilities		**8,448**	**8,448**		**8,448**

	IAS 39 balance valuation categories	Book value December 31, 2013 TEUR	Amortized cost TEUR	Fair value without effect on results TEUR	Carrying amount in accordance with IAS 17	Fair value December 31, 2013 TEUR
Assets						
Financial assets	AfS	238	0	238		238
Trade receivables	LaR	7,036	7,036	0		7,036
Receivables from service orders	-	281	0	0		281
Other financial assets	LaR	1,405	1,405	0		1,405
Cash and cash equivalents	LaR	1,580	1,580	0		1,580
Financial assets held available for sale						
Thereof:						
Trade receivables	LaR	3,208	3,208	0		3,208
Cash and cash equivalents	LaR	925	925	0		925
Non-financial assets	-	18,801	-	-		-
Liabilities						
Financial liabilities	FLAC	4,712	4,712	0		4,712
Trade liabilities	FLAC	2,853	2,853	0		2,853
Development orders with balance due to customers	-	25	-	-		25
Shareholder liabilities	FLAC	0	0	0		0
Financial leasing liabilities	-	255	-	-	255	-
Other financial liabilities	FLAC	1,426	1,426	0		1,426
Liabilities vis-à-vis the discontinued operations segment	FLAC	419	419	0		419
Liabilities related to financial assets held available for sale						
Thereof:						
Trade liabilities	FLAC	1,356	1,356	0		1,356
Other financial liabilities	FLAC	1,407	1,407	0		1,407
Non-financial liabilities	-	2,764	-	-		-

Thereof: aggregated by IAS 39 valuation categories for the continued operations segment:

	IAS 39 balance valuation categories	Book value December 31, 2013 TEUR	Amortized cost TEUR	Fair value without effect on results TEUR	Fair value December 31, 2013 TEUR
Financial assets held available for sale	AfS	238	0	238	238
Loans and receivables (incl. cash and cash equivalents)	LaR	14,154	14,154	0	14,154
Total financial assets		**14,392**	**14,154**	**238**	**14,392**
Financial liabilities stated at fair value and measured at amortized cost	FLAC	12,173	12,173	0	12,173
Total financial liabilities		**12,173**	**12,173**	**0**	**12,173**

The financial assets held available for sale involve shares in AEQUOS Endoprothetik GmbH, which in the previous year were measured at fair value without effect on results. In the previous year, the fair value was determined using the discounted cash flow method, with the model being based on a pre-tax WACC of 5.9% and a post-tax WACC of 10.0%. Unlike the previous year, the information required to determine the fair value was not available. Therefore, in the financial year, the investment is reported at amortized cost due to the lack of an active market and the fact that the fair value cannot reliably be determined.

Payments of EUR 46 thousand occurred in the context of a capital decrease in the financial year.

2. *Expenses, Income, Losses and Profits from Financial Instruments*

	Loans and receivables (incl. cash and cash equivalents)		Financial liabilities stated at fair value and measured at amortized cost	
	2014 TEUR	**2013 TEUR**	**2014 TEUR**	**2013 TEUR**
Interest income	49	6	0	0
Interest expense	0	0	-135	-178
Impairment expenses	-106	-215	0	0
Income from write-ups	212	59	6	26
Net result	**155**	**-150**	**-129**	**-152**

Interest income from value adjusted assets totaled EUR 0 thousand in the financial year (previous year: EUR 0 thousand). The impairment expenses involve value adjustments on receivables and effects from currency conversion.

3. *Impairment of Financial Assets*

Financial assets, with the exception of financial assets measured at fair value with effect on results, are examined for indications of impairments on each reporting date. Financial assets are written down if, as a result of one or more events that occur after initial recognition of the asset, an objective indication exists that expected future cash flows have changed negatively.

The impairments are reported and explained under the relevant balance sheet items.

4. *Management of Financial Risks*

Given its operational activities, the *aap* Group is subject to the following financial risks:

- Market risks
- Liquidity risks
- Credit risks

The Group's risk management is managed by the central finance division according to guidelines issued by the Management Board with the goal of minimizing potential negative effects on the Group's financial position. For this purpose, financial risks are identified, measured, and hedged in close coordination with the Group's operating units.

Corresponding internal guidelines set mandatory frame-works of action, responsibilities, and controls. The risks of the *aap* Group as well as the goals and processes of risk management are discussed in detail in the Management Report in the section "Risk Report" (cf. Section D).

Market Risks

Market risk refers to the risk that the fair value or future cash flows of a financial instrument fluctuate due to changes in the market prices. Market risks include interest rate risks, currency risks, and other price risks, such as raw materials risks or share price risks.

Interest Rate Risks

Interest rate risks result from financial liabilities and monetary investments. The *aap* Group tries to optimize interest income and minimize interest rate risks. To do so, it carries out cash management across the Group and completes original financial transactions. Interest rate and price change risks are managed by mixing terms and taking up fixed and variable-rate positions. The use of derivative financial instruments is examined in individual cases. No such agreements were made in the reporting year.

Except for the current account credit line and a bank loan for EUR 1 million, the interest-bearing liabilities of the Group are fixed rate. As of 12/31/2014 approx. 36% (previous year: 30%) of the Group's borrowings were fixed rate. Market interest rate changes only affect financial instruments that must be stated at fair value. However, this is not the case.

Sensitivity analyses have been carried out for the variable-rate financial liabilities. A similar change in interest rates for all financial liabilities and all currencies was assumed. Accordingly, an interest rate change of one percentage point results in an increase in earnings before taxes of EUR 7,000 (previous year: EUR 40,000) or a reduction of EUR 7,000 (previous year: EUR 40,000).

Foreign Currency Risks

Risks can result for the company from purchases and sales in foreign currency depending on the performance of the exchange rate.

The major part of the Group's business activity is conducted in the eurozone. Transactions initiated outside the eurozone were not suitable in terms of their nature or scope for general hedging through forward exchange contracts or similar hedging measures. Important foreign currencies for the Group are the US dollar, the Swiss franc and the British pound. Sensitivity analyses determined that the impact of other foreign currencies on the Group is insignificant. As of 12/31/2014 foreign currency receivables made up around 10.4% (previous year: 2.28%) of trade receivables and exclusively involved receivables denominated in US dollars. Foreign currency liabilities amounted to around 1.69% of the Group's borrowings (previous year: 0.22%). The share of US dollar liabilities was about 1.53% (previous year: 0.04%). If the exchange rate of the euro relative to the respective foreign currencies had changed by 10% and if all other variables were to have remained constant, earnings before taxes for the reporting period would have been EUR 69,000 higher or EUR 84,000 lower (previous year: EUR-20,000 or EUR 11,000). This would have been primarily due to currency conversion gains from trade receivables and trade liabilities based on the US dollar. Against this background and with cost-benefit considerations in mind, the Group has accordingly decided to dispense with hedging transactions.

Liquidity Risks

The liquidity risk of the *aap* Group consists of being potentially unable to meet its financial obligations in a timely manner due to the lack of available liquidity. For example, this risk involves the repayment of financial liabilities, payment for purchases and commitments arising from financial leasing. Lack of availability of sources of funding may result inter alia from failure to abide by financial covenants that must be observed in connection with loan agreements. If these financial covenants are not observed, the financing bank has the right to cancel the respective loans extraordinarily and call them due for immediate repayment. Under the terms of existing loan agreements, *aap* may not exceed or fall short of certain upper or lower limits regarding the equity ratio and the net leverage ratio. The financial covenants are continuously monitored. The covenant criteria had been observed as of the reporting date. The future risk of non-compliance is deemed minimal. In addition, *aap* pursues a very open and transparent communication policy with its

financing banks in order to be able to identify possible threats at an early stage and to arrive jointly at solutions commensurate with the risks.

The Group also limits this risk through effective, centralized cash management and the arrangement of sufficient credit lines. As of 12/31/2014, the *aap* Group had at its disposal contractually ensured credit lines of EUR 4.5 million (previous year: EUR 4.5 million), of which EUR 0 million (previous year: EUR 0.75 million) had been utilized as of the reporting date. As of 12/31/2014, *aap* had usable liquidity (total of cash and bank balances and freely available credit lines) of EUR 16.7 million (previous year: EUR 5.3 million).

Contractually fixed payments, such as repayments and interest, from recognized financial liabilities are presented below:

	Book value as of 12/31/2014	Repayments				Interest Payments		
		2015	2016 to 2019	From 2020		2015	2016 to 2019	From 2020
		TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Financial liabilities	4,254	1,997	2,257	0		79	88	0
Financial leasing liabilities	190	64	126	0		5	5	0
Other financial liabilities	1,243	1,243	0	0		0	0	0
Total	5,687	3,304	2,383	0		84	93	0

	Book value as of 12/31/2013	Repayments			Interest Payments		
		2014	2015 to 2018	From 2019	2014	2015 to 2018	From 2019
		TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Financial liabilities	4,712	2,568	2,144	0	94	86	0
Financial leasing liabilities	255	65	190	0	8	10	0
Other financial liabilities	1,312	588	754	0	0	0	0
Total	6,279	3,221	3,088	0	102	96	0

Credit Risks

Credit risk is the risk of default by a customer or contracting partner that leads to a need for value adjustments of assets, financial investments, or receivables in the consolidated balance sheet. Accordingly, the risk is limited to the book value of the assets.

Credit risks primarily result from trade receivables. Credit risks with contracting partners are examined prior to concluding contracts and are monitored continuously. Credit risks remain since customers may not be able to meet their payment obligations. The *aap* Group limits this risk by routinely reviewing the creditworthiness of customers and conducting efficient receivables management. In addition, the receivables are secured by retention of title so that, in case of non-payment, the products can be recalled and sold to other customers of *aap* after testing and refurbishment. The default of financial receivables amounted to EUR 11,000 (previous year: EUR 4,000) in the reporting year.

There were no indications of payment defaults for trade receivables, which were not written down as of December 31, 2014.

5. *Capital Management*

aap manages its capital with a view to ensuring the company's long-term development, its short-term solvency and a sufficiently high level of self-financing. This ensures that all companies in the Group are able to operate on the assumption that it will stay in business as a going concern. In addition, the aim of *aap*'s capital management is to ensure that inter alia a credit rating appropriate to its credit agreements and a good equity ratio are maintained in order to support its business activity. The Group manages its capital structure and undertakes adjustments taking the change in economic framework conditions into account. *aap* monitors its capital by means of its debt and interest coverage ratios and its net indebtedness. The *aap* Management Board considers a debt coverage ratio of greater than 0 and less than 2 and an interest coverage ratio of more than 10 to be strategically achievable targets.

Debt/interest coverage ratio

	December 31, 2014	**December 31, 2013***
	TEUR	**TEUR**
Interest-bearing liabilities (gross)	4,444	4,967
Balance on credit lines	0	-675
Interest-bearing liabilities (net)	4,444	4,292
EBITDA	2,267	5,081
Debt coverage ratio (DCR)	**1.96**	**0.9**
Interest expense	-135	-224
EBITDA	2,267	5,132
Interest coverage ratio (ICR)	**16.8**	**22.7**

*adjusted

Debt coverage ratio

The debt coverage ratio of the *aap* Group as of the end of the year was at follows:

	December 31, 2014	**December 31, 2013***
	TEUR	**TEUR**
Interest-bearing liabilities	4,444	4,967
Cash and cash equivalents	12,165	-1,580
Net liabilities	0	3,387
Equity	46,475	48,451
Net liabilities to equity (ratio)	**0%**	**7%**

No net debt existed as of the reporting date, December 31, 2014.

6. *Cash Flow Statement*

Operating cash flow includes:

Interest income	EUR 74 thousand (previous year: EUR 6 thousand)
Interest expense	EUR 147 thousand (previous year: EUR 182 thousand)

In the reporting year, income taxes were neither paid (previous year: EUR 0 thousand) nor refunded (previous year: EUR 0 thousand).

H. Other Disclosures

1. *Relationships with related enterprises and persons*

The relationships with related enterprises and persons are broken down according to type of entity/person.

December 31, 2014	Persons and companies with significant influence on the Group	Associated companies	Joint ventures	Key Group personnel*
	TEUR	TEUR	TEUR	TEUR
Income from the sale of goods and services	0	2,136	5	0
Purchases of goods and services	0	0	0	-295
Trade receivables/other receivables	0	560	0	0
Trade liabilities/other liabilities	0	0	0	281
Interest income	0	7	0	0
Interest rate		*6.5%*		
Loan and interest receivables	0	110	0	0
Interest expense	0	0	0	0
Interest rate				
Loan liabilities	0	0	0	0

*The information regarding the Supervisory Board and Management Board are given separately in point 2

December 31, 2013	Persons and companies with significant influence on the Group	Associated companies	Joint ventures	Key Group personnel*
	TEUR	TEUR	TEUR	TEUR
Income from the sale of goods and services	0	839	0	0
Purchases of goods and services	0	0	0	-178
Trade receivables/other receivables	0	248	14	0

Trade liabilities/other liabilities	0	111	0	127
Interest income	0	3	0	0
Interest rate				
Loan receivables	0	103	0	0
Interest expense	-24	0	0	0
Discount rate	*9%*			
Loan liabilities	0	0	0	0

*The information regarding the Supervisory Board and Management Board are given separately in point 2

The transactions do not fundamentally differ from supply and service relationships with third parties.

2. *Management Body, Supervisory Board*

Members of the company's Management Board in the year under review were:

Mr. Bruke Seyoum Alemu, **Chief Executive Officer** (since June 1, 2014; **Chief Operating Officer** until May 31, 2014), Berlin

Mr. Marek Hahn, **Chief Financial Officer**, Berlin

Mr. Biense Visser, **Chief Executive Officer**, Utrecht, Netherlands (until May 31, 2014)

The total remuneration of the Management Board amounted to EUR 1,234 thousand (previous year: EUR 1,061 thousand). The principles of the remuneration system of the Management Board and Supervisory Board are presented in the Remuneration Report. It is part of the Management Report.

	Remuneration components				
	Non-performance-related	Performance-related	with a long-term incentive effect	Total 2014	Total 2013
	TEUR	TEUR	TEUR	TEUR	TEUR
Biense Visser	169	37	244	449	384
Bruke Seyoum Alemu	310	54	129	493	402
Marek Hahn	218	34	41	292	275
	697	124	413	1,234	1,061

The company has taken out a D&O liability insurance policy for management. The fees in 2014 totaled EUR 29 thousand (previous year: EUR 27 thousand).

Of the members of the Management Board, only Mr. Visser held Supervisory Board directorships. He held the following directorships:

Biense Visser	HZPC Holland B.V.

In the reporting year, the following individuals belonged to the Supervisory Board:

Mr. Biense Visser (Chairman),
Businessman, Utrecht, Netherlands (since June 13, 2014)

Mr. Ronald Meersschaert (Deputy Chairman),
Private equity investor, Arnhem, Netherlands

Mr. Rubino Di Girolamo,
Delegate of the Administrative Board, Oberägeri near Zug, Switzerland

Prof. Prof. h.c. Dr. Dr. Dr. h.c. Reinhard Schnettler,
Clinic director, Gießen (until June 13, 2014)

The election of the Supervisory Board members applied in accordance with the company's articles of association to the full term until the end of the Shareholders' Meeting, which decides on the discharge for the 2016 financial year.

The remuneration of the Supervisory Board totaled EUR 80 thousand in the financial year (previous year: EUR 90 thousand). It is comprised as follows:

	2014 TEUR	2013 TEUR
Mr. Rubino Di Girolamo	25	30
Mr. Ronald Meersschaert	25	30
Prof. Prof. h.c. Dr. Dr. Dr. h.c. Reinhard Schnettler (departed June 13, 2014),	20	30
Mr. Biense Visser (commencing on June 13, 2014)	10	0
Total	80	90

Payments of EUR 125 thousand occurred in the reporting year (previous year: EUR 70 thousand). Of that amount, there were no payments to former Supervisory Board members (previous year: EUR 0 thousand). As 0f 12/31/2014 there are liabilities to toward the Supervisory Board of EUR 30 thousand (previous year: EUR 75 thousand).

Aside from their activities for *aap* Implantate AG, the members of the Supervisory Board are members of the following additional control committees:

Mr. Biense Visser Supervisory Board	HZPC Holland B.V., Joure (Netherlands), Chairman of the
	Cooperatieve Koninklijke Cosun U.A. (Royal Cosun), Breda (Netherlands), Member of the Supervisory Board since June 13, 2015
Mr. Ronald Meersschaert	Toeca International Company B.V., Arnhem (Netherlands), Member of the Supervisory Board
	Novum Bank Ltd., Malta, Member of the Administrative Board

Mr. Rubino Di Girolamo Administrative Board	Deepblue Holding AG, Zug (Switzerland), President of the
	Metalor Dental Holding AG, Zug (Switzerland), Member of the Administrative Board
Prof. Prof. h.c. Dr. Dr. Dr. h.c. Reinhard Schnettler	Clinics of Main-Taunus-Kreis GmbH, Bad Soden/Frankfurt, Member of the Supervisory Board

The share ownership of the members of the Supervisory Board and Management Board is comprised as follows:

	Shares		Options	
	2014	**2013**	**2014**	**2013**
Supervisory Board				
Biense Visser (since June 13, 2014; Management Board until May 31, 2014)	275,196	395,000	200,000	400,000
Ronald Meersschaert	0	0	0	0
Rubino Di Girolamo	1,626,157	1,626,157	0	0
Prof. Prof. h.c. Dr. Dr. Dr. h.c. Reinhard Schnettler (until June 13, 2014)	197,094	197,094	0	0
Management Board				
Bruke Seyoum Alemu	70,000	70,000	150,000	350,000
Marek Hahn	35,000	30,000	150,000	175,000

The fair values of the options as of the grant date are between EUR 0.87 and EUR 0.39 (previous year: EUR 0.87 and EUR 0.39).

3. *Disclosures in Accordance with Section 160 (1) (8) AktG*

In accordance with Section 160 para. 1 no. 8 AKtG, the following notifications received by *aap* in accordance with Section 21, para. 1 or para. 1a of the German Securities Trading Act (Wertpapierhandelsgesetz/WpHG) are shown below, along with their last respective level of participation reported. Persons have an obligation to make these notifications if their voting rights in *aap* Implantate AG directly or indirectly reach, exceed or fall below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% through purchase, sale, or other means.

2014:

In accordance with Section 21, para. 1 WpHG, Merval AG, Zug, Switzerland, notified us on October 14, 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had exceeded the threshold of 3% of the voting rights on October 13, 2014, and on that day amounted to 3.13% (which corresponds to 960,000 voting rights).

In accordance with Section 21, para. 1 WpHG, Taaleritehdas Plc., Helsinki, Finland, notified us on August 21, 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had exceeded the threshold of 5% of the voting rights on August 19, 2014, and on that day amounted to 5.0048% (which corresponds to 1,535,000 voting rights). In accordance with Section 22, para. 1, sent. 1, no. 6 WpHG in combination with sent. 2 WpHG, 5.0048% of the voting rights (which corresponds

to 1,535,000 voting rights) are attributable to the company. Attributed voting rights are held by the following shareholders, whose share of the voting rights in *aap* Implantate AG amounts to 3% or more: Taaleritehdas ArvoRein Equity Fund.

In accordance with Section 21, para. 1 WpHG, Taaleritehdas Wealth Management Ltd., Helsinki, Finland, notified us on August 21, 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had exceeded the threshold of 5% of the voting rights on August 19, 2014, and on that day amounted to 5.0048% (which corresponds to 1,535,000 voting rights). In accordance with Section 22, para. 1, sent. 1, no. 6 WpHG in combination with sent. 2 WpHG, 5.0048% of the voting rights (which corresponds to 1,535,000 voting rights) are attributable to the company. Attributed voting rights are held by the following shareholders, whose share of the voting rights in *aap* Implantate AG amounts to 3% or more: Taaleritehdas ArvoRein Equity Fund.

In accordance with Section 21, para. 1 WpHG, Taaleritehdas Fund Management Ltd., Helsinki, Finland, notified us on August 21, 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had exceeded the threshold of 5% of the voting rights on August 19, 2014, and that on that day amounted to 5.0048% (which corresponds to 1,535,000 voting rights). In accordance with Section 22, para. 1, sent. 1, no. 6 WpHG, 5.0048% of the voting rights (which corresponds to 1,535,000 voting rights) are attributable to the company. Attributed voting rights are held by the following shareholders, whose share of the voting rights in *aap* Implantate AG amounts to 3% or more: Taaleritehdas ArvoRein Equity Fund.

In accordance with Section 21, para. 1 WpHG, Taaleritehdas ArvoRein Equity Fund, Helsinki, Finland, notified us on August 21, 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had exceeded the threshold of 5% of the voting rights on August 19, 2014, and that on that day amounted to 5.0048% (which corresponds to 1,535,000 voting rights).

In accordance with Section 21, para. 1 WpHG, Marcel Martinus Jacobus Johannes Boekhoorn, Netherlands, notified us on May 21, 2014, that via shares his voting rights in *aap* Implantate AG, Berlin, Germany, had fallen below the threshold of 15% of the voting rights on May 20, 2014, and on that day amounted to 14.41% (which corresponds to 4,418,860 voting rights). Of these, 14.41 % of the voting rights (which corresponds to 4,418,860 voting rights) are attributable to him in accordance with Section 22, para. 1, sent. 1, no. 1 WpHG. Voting rights of the following shareholders holding 3% each or more in *aap* Implantate AG, Berlin, Germany, are to be attributed to Marcel Martinus Jacobus Johannes Boekhoorn, Netherlands: Semper Fortuna N.V., Rhenen, Netherlands (previously trading as Ramphastos Investments N.V., Arnhem, Netherlands); Ramphastos Participaties Coöperatief U.A., Rhenen, Netherlands (previously trading as Boekhoorn M & A B.V., Arnhem, Netherlands); Elocin B.V., Bennekom, Netherlands (previously trading as Elocin B.V., Arnhem, Netherlands).

In accordance with Section 21, para. 1 WpHG, Semper Fortuna N.V., Rhenen, Netherlands (previously trading as Ramphastos Investments N.V., Arnhem, Netherlands), notified us on May 21, 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had fallen below the threshold of 15% of the voting rights on May 20, 2014, and on that day amounted to 14.41% (which corresponds to 4,418,860 voting rights). Of these, 14.41 % of the voting rights (which corresponds to 4,418,860 voting rights) are attributable to it in accordance with Section 22, para. 1, sent. 1, no. 1 WpHG. Voting rights of the following shareholders holding 3% each or more in *aap* Implantate AG, Berlin, Germany, are to be attributed to Semper Fortuna N.V., Rhenen, Netherlands: Ramphastos Participaties Coöperatief U.A., Rhenen, Netherlands (previously trading as Boekhoorn M & A B.V., Arnhem, Netherlands); Elocin B.V., Bennekom, Netherlands (previously trading as Elocin B.V., Arnhem, Netherlands).

In accordance with Section 21, para. 1 WpHG, Ramphastos Participaties Coöperatief U.A., Rhenen, Netherlands (previously trading as Boekhoorn M & A B.V., Arnhem, Netherlands), notified us on May 21, 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had fallen below the threshold of 15% of the voting rights on May 20, 2014, and on that day amounted to 14.41% (which corresponds to 4,418,860 voting rights). Of these, 14.41 % of the voting rights (which corresponds to 4,418,860 voting rights) are attributable to it in accordance with Section 22, para. 1, sent. 1, no. 1 WpHG. Voting rights of the following shareholders holding 3% each or more in *aap* Implantate AG, Berlin, Germany, are to be attributed to Ramphastos Participaties Coöperatief U.A., Rhenen, Netherlands: Elocin B.V., Bennekom, Netherlands (previously trading as Elocin B.V., Arnhem, Netherlands).

In accordance with Section 21, para. 1 WpHG, Elocin B.V., Bennekom, Netherlands (previously trading as Elocin B.V., Arnhem, Netherlands), notified us on May 21, 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had fallen below the threshold of 15% of the voting rights on May 20, 2014, and on that day amounted to 14.41% (which corresponds to 4,418,860 voting rights).

In accordance with Section 21, para. 1 WpHG, FIL Investments International, Hildenborough, Great Britain, notified us on May 6, 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had exceeded the threshold of 3% and 5% of the voting rights on May 5, 2014, and that on that day amounted to 5.53% (which corresponds to 1,695,000 voting rights). Of these, 5.53% of the voting rights (which corresponds to 1,695,000 voting rights) are attributable to it in accordance with Section 22, para. 1, sent. 1, no. 6 WpHG. Voting rights of the following shareholders holding 3% each or more in *aap* Implantate AG, Berlin, Germany, are to be attributed to FIL Investments International, Hildenborough, United Kingdom: Fidelity Funds SICAV, Luxembourg, Luxembourg.

In accordance with Section 21, para. 1 WpHG, FIL Holdings (UK) Limited, Hildenborough, Great Britain, notified us on May 6, 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had exceeded the threshold of 3% and 5% of the voting rights on May 5, 2014, and that day amounted to 5.53% (which corresponds to 1,695,000 voting rights). Of these, 5.53% of the voting rights (which corresponds to 1,695,000 voting rights) are attributable to it in accordance with Section 22, para. 1, sent. 1, no. 6 WpHG in combination with sent. 2 WpHG. Voting rights of the following shareholders holding 3% each or more in *aap* Implantate AG, Berlin, Germany, are to be attributed to FIL Holdings (UK) Limited, Hildenborough, United Kingdom: Fidelity Funds SICAV, Luxembourg, Luxembourg.

In accordance with Section 21, para. 1 WpHG, FIL Limited, Hamilton, Bermuda, notified us on May 6, 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had exceeded the threshold of 3% and 5% of the voting rights on May 5, 2014, and on that day amounted to 5.53% (which corresponds to 1,695,000 voting rights). Of these, 5.53% of the voting rights (which corresponds to 1,695,000 voting rights) are attributable to it in accordance with Section 22, para. 1, sent. 1, no. 6 WpHG. Voting rights of the following shareholders holding 3% each or more in *aap* Implantate AG, Berlin, Germany, are to be attributed to FIL Limited, Hamilton, Bermuda: Fidelity Funds SICAV, Luxembourg, Luxembourg.

In accordance with Section 21, para. 1 WpHG, Fidelity Funds SICAV, Luxembourg, Luxembourg, notified us on May 6, 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had exceeded the threshold of 3% and 5% of the voting rights on May 5, 2014, and on that day amounted to 5.53% (which corresponds to 1,695,000 voting rights).

In accordance with Section 21, para. 1 WpHG, Ennismore Fund Management Limited, London, Great Britain, notified us that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had

exceeded the threshold of 3% of the voting rights on March 5, 2014, and on that day amounted to 4.18% (which corresponds to 1,282,556 voting rights). In accordance with Section 22, para. 1, sent. 1, no. 6 WpHG, 4.18% of the voting rights (which corresponds to 1,282,556 voting rights) are attributable to the company from, among others, Ennismore European Smaller Companies Fund, Dublin, Ireland.

In accordance with Section 21, para. 1 WpHG, Mr. William Geoffrey Oldfield, Great Britain, notified us that via shares his voting rights in *aap* Implantate AG, Berlin, Germany, had exceeded the threshold of 3% of the voting rights on March 5, 2014, and on that day amounted to 4.18% (which corresponds to 1,282,556 voting rights). In accordance with Section 22, para. 1, sent. 1, no. 2 WpHG in combination with sent. 2 WpHG, 4.18% of the voting rights (which corresponds to 1,282,556 voting rights) are attributable to Mr. Oldfield from, among others, Ennismore European Smaller Companies Fund, Dublin, Ireland.

In accordance with Section 21, para. 1 WpHG, Ennismore European Smaller Companies Fund, Dublin, Ireland, notified us that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had exceeded the threshold of 3% of the voting rights on March 5, 2014, and on that day amounted to 3.43% (which corresponds to 1,051,922 voting rights).

In accordance with Section 21, para. 1 WpHG, Jan Albert de Vries, Netherlands, notified us that via shares his voting rights in *aap* Implantate AG, Berlin, Germany, had fallen below the threshold of 15% of the voting rights on January 15, 2014, and on that day amounted to 14.72% (which corresponds to 4,514,706 voting rights). In accordance with Section 22, para. 1, sent. 1, no. 1 WpHG, 14.72% of the voting rights (which corresponds to 4,514,706 voting rights) are attributable to Mr. de Vries from Noes Beheer B.V.

In accordance with Section 21, para. 1 WpHG, Noes Beheer B.V., Nijmegen, Netherlands, notified us that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had fallen below the threshold of 15% of the voting rights on January 15, 2014, and on that day amounted to 14.72% (which corresponds to 4,514,706 voting rights).

2009:

Mr. Jürgen W. Krebs, Switzerland, had fallen below the thresholds of 30%, 25%, 20% and 15% of the voting rights on January 13, 2009. On January 13, 2009, Mr. Krebs held 3,287,200 shares (12.35%), of which 346,000 shares (1.30%) are attributable to him in accordance with Section 22, para. 1, sent. 1, no. 1 WpHG via Merval AG.

Merval AG, Zug, Switzerland, had fallen below the thresholds of 30%, 25%, 20%, 15%, 10%, 5% and 3% of the voting rights on January 13, 2009. On January 13, 2009, Merval AG held 346,000 shares (1.30%).

Mr. Rubino di Girolamo, Switzerland, had fallen below the thresholds of 30%, 25%, 20%, 15% and 10% of the voting rights on January 13, 2009. On January 13, 2009, Mr. di Girolamo held 1,530,000 shares (5.75%), of which 1,530,000 shares (5.75%) are attributable to him in accordance with Section 22, para. 1, sent. 1, no. 1 WpHG. via Deepblue Holding AG.

Deepblue Holding AG, Zug, Switzerland, had fallen below the thresholds of 30%, 25%, 20%, 15% and 10% of the voting rights on January 13, 2009. On January 13, 2009, Deepblue Holding AG held 1,530,000 shares (5.75%).

2008:

In accordance with Section 21, para. 1 WpHG, DZ Bank AG, Frankfurt am Main, Germany, notified us on September 9, 2008, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, security identification number (WKN): 506660 had fallen below the threshold of 5% of the voting rights on September 5, 2008, and on that day amounted to 4.8% (which corresponds to 1,267,357 voting rights).

4. *Auditor's Fees*

The auditor's fees, which were recorded as an expense in the financial year, totaled:

a) for the financial statements (individual and consolidated financial statements as well as other audits) EUR 152 thousand (previous year: EUR 115 thousand)

b) other services EUR 38 thousand (previous year: EUR 32 thousand)

5. *Events occurring after the reporting date*

None.

6. *Declaration on the German Corporate Governance Code*

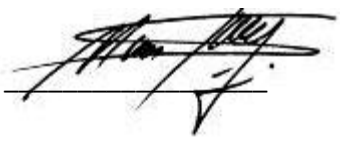
In accordance with Section 161 AktG, *aap* Implantate AG has issued the prescribed declaration to apply the German Corporate Governance Code and made it available to the shareholders on our website (www.*aap*.de/en/investors/corporate-governance/declaration-of-compliance).

7. *Publication*

These consolidated financial statements as of December 31, 2014 were released by the Management Board of the company on April 30, 2015.

Berlin, April 30, 2015

The Management Board



Bruke Seyoum Alemu
Managing Board Chairman/CEO

Marek Hahn
Managing Board member/CFO

Responsibility Statement by the Legal Representatives pursuant to Section 37 (1) of the German Securities Trading Act (WpHG)

To the best of our knowledge and in accordance with the applicable financial reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the consolidated management report includes a fair review of the development and performance of the Group's business position, together with a description of the principal opportunities and risk associated with the Group's expected development.

Berlin, April 30, 2015

The Management Board

Bruke Seyoum Alemu
Managing Board Chairman/CEO

Marek Hahn
Managing Board member/CFO

Auditor's Audit Certificate

We have audited the annual financial statements, consisting of the balance sheet, the statement of comprehensive income, schedule of the movement in equity, cash flow statement, the notes as well as management report of *aap* Implantate AG for the business year from 1 January 2014 to 31 December 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law under section 315a (1) of the Handelsgesetzbuch (German Commercial Code, HGB) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB (German Commercial Code) and the generally accepted principles for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the asset, financial and earnings position of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the books and records, annual financial statements and the management report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the annual financial statements of those entities included in the consolidated financial statements, the determination of entities to be included in consolidation, the accounting and consolidation principles used, and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law under section 315a (1) of the HGB, and give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's positions and suitably presents the opportunities and risks of future development.

Berlin, April 30, 2015

RBS RoeverBroennerSusat GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Helmut Schuhmann
Auditor

Ralf Bierent
Auditor

Glossary

A	
Adhesion	The adherence, growing or sticking together of tissue and organs
Allograft	Bone replacement material or tissue of human origin for which donor and recipient are not one and the same person
Angle-stable	Angle-stable is the term generally used to describe a fixed and movement-free connection between the contact surfaces of two parts.
Associated company	A company in which the shareholder has a controlling interest but is neither a subsidiary nor a joint venture. Associated companies must be stated in the balance sheet on the basis of the equity method.
At-equity accounting	A procedure to take into account associated companies that are not included in the financial statements with all of their assets and liabilities on the basis of full consolidation. The book value of the associate is projected with regard to the development of the pro rata equity investment. This change is included in the holding company's profit and loss statement.

B	
Biomaterials	Generally speaking, synthetic or natural non-living materials that are used in medicine for therapeutic or diagnostic purposes and that come into direct contact with biological body tissue in the process are known as biomaterials, or sometimes as implant materials. In a narrower sense the term describes materials that remain inside the body as implants for long-term periods.
BRICS	„BRICS" are the initials for the five growth regions: Brazil, Russia, India, China und South Africa.

C	
Cash flow	Balance between inflow and outflow of funds with effect on payments; an indicator of self-financing capacity
Collagen	Collagen is a structural protein found in the connective tissue of human beings and animals. It is the organic component of bones and teeth and the essential component of cartilage, tendons, ligaments and skin. Collagen fibres have enormous tensile strength and are not stretchy.
Compliance	Abiding by laws and by external and internal guidelines or codes of behaviour
Corporate Governance Code	Compendium of statutory provisions governing the management and monitoring of listed German companies, contains nationally and internationally recognised standards of good and responsible business management

D	
Deferred taxes	Asset or liability items to offset the difference between the actual tax liability and the tax burden stated in the balance sheet on the basis of company law

Defined benefit plan	A retirement benefit plan that does not come under the definition of a contribution-oriented plan
Derivative financial instruments	Financial instruments the value of which is based on an underlying asset or index and that are to be paid for in the future and require only a relatively small initial investment or none at all
Diluted earnings per share	Dilution is a reduction in earnings per share or an increase in loss per share based on the assumption that convertible instruments will be converted, options will be exercised, or that ordinary shares may under certain circumstances be issued.
Discontinued operations	Business operations that have been sold or classified as available for sale and represent a separate, material business segment or geographical area of business, part of an agreed plan to dispose of a certain business segment or unit, or a subsidiary acquired with the sole intention of selling it on

E

EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortisation
Equity ratio	The ratio of equity to total capital, serves as a basis for assessing a company's financial stability and independence
Endoprostheses	Endoprostheses are implants that remain in the body permanently. They are now available for all joints (knee, shoulder, ankle, elbow, and finger). Chronic, painful, increasingly debilitating joint changes (arthrosis) are a frequent indication.
Earnings per share	Earnings per share are calculated by divided the consolidated result by the weighted average number of shares in accordance with IAS 33

F

Fair Value	See market value
Freshness Index	A measure of the company's innovation: the share in overall sales of products for which approval has been granted in the past three years
Free cash flow	An indicator of operational cash generation. *aap* defines free cash flow as the payment inflow/outflow from current business activities less the outflow of payments for investment in tangible and intangible assets.
Full consolidation	Procedure to include subsidiaries in the consolidated accounts if the parent company has a controlling interest in them (by virtue of a majority shareholding or for another reason)

G

Goodwill	The positive difference between the cost of acquisition of a company and the value of its net assets

H

HGB	Short for Handelsgesetzbuch, the German Commercial Code

I	
IFRS	Short for International Financial Reporting Standards, formerly International Accounting Standards (IAS)
Impairment tests	See value adjustment tests
Implant	An implant is a synthetic material implanted in the body an intended to remain there permanently, or at least for a long-term period.
IP	Short for intellectual property

J	
Joint venture	A contractual arrangement whereby two or more partners join forces in a commercial activity that is managed jointly

L	
Lavage system	A high-pressure system to prepare for implants in joint replacement surgery
Leasing	An arrangement by which the lessor transfers to the lessee in return for payment the right to use an asset for an agreed period

M	
Market value	Amount for which business partners who are knowledgeable, willing to do business and independent of each other might be prepared to exchange an asset or pay a debt
Minimally invasive	Minimally invasive surgical interventions that are as gentle and stress-free as possible, causing very little trauma (i. e. minimum injury to skin and soft tissue)

N	
Nanoparticles	Nanoparticles are a combination of a few up to several thousand atoms or molecules. The name comes from their size, typically a few nanometres (a nanometre is one billionth of a metre).
Net debt ratio	The ratio of net debt to EBITDA

O	
OEM	Short for Original Equipment Manufacturer, a maker of finished products who produces them in his own factories but does not market them himself
Orthopaedics	Orthopaedics (from the Greek for “upright” and “child-rearing”) is concerned with the origin, prevention, identification and treatment of congenital or acquired formal or functional defects in the support and mobility apparatus, that is bone, joints, muscles, and tendons, and with patient rehabitation.
Osteosynthesis	Osteosynthesis is the operative treatment of bone fractures and other bone injuries with implants, usually made of metal. The aim is to fix the fragments that belong together in as normal as possible a position with as mild a pressure as possible.

P	
Payment inflow/outflow	Inflows and outflows of payments (cash and sight deposits) and

	cash equivalents (highly liquid short-term financial investments). Payment inflows are listed in the consolidated cash flow statement.
Polymers	Chemical compounds consisting of several molecules that likewise consist of several similar units (so-called monomers)
Purchase price allocation	The purchase price allocation allocates the cost of acquisition (purchase price) of a company to the tangible and intangible assets and liabilities thereby acquired.

R

Resorbable	The ability of a substance to be absorbed and totally broken down by biological systems
Retrograde	Reverting to an earlier condition, having an opposite or previous effect
Reversible	Capable of being returned to an original condition
Risk management	A systematic approach to identifying and evaluating potential opportunities and risks and to choosing and implementing strategies in response to these opportunities and risks
R&D	Short for Research & Development

S

Segment	Reporting unit
Sensitivity analysis	Analysis of the effect of possible changes in assumptions, such as an analysis of how net pension expenses in a given period might change due to falling or rising discount factors
SMIT	„SMIT“ are the initials for the four growth regions: South Korea, Mexico, Indonesia und Turkey.
Subscribed capital	The part of the balance sheet equity to which the shareholders' liability is limited (or capital stock in the case of a listed company)

T

Trauma or traumatology	Trauma in medicine is damage, an injury or wound incurred by external force. Hence traumatology (from the Greek for “wound” and “science”) is the science of injuries and wounds and their origin and treatment. As accident surgery, it is a branch of surgery concerned with the treatment of patients who suffer accidental injury, and in some countries a branch of orthopaedics.
TÜV, DEKRA	TÜV (Technischer Überwachungs-Verein) and Dekra (Deutscher Kraftfahrzeug-Überwachungs-Verein) are organisations that undertake technical safety inspections, especially checks that are required by law or by official regulations.

U

Usable liquidity	Usage of credit lines minus balance on accounts under credit line and plus other bank balances

V

Value adjustment test	Test of an asset's impairment. The book value is compared with the recoverable amount. If the book value is higher than the recoverable, the difference must be stated as a value adjustment

	with effect on results.

W	
WACC	Weighted Average Cost of Capital, the minimum return a lender of capital expects to earn from a company to finance its assets
Working Capital	Sum of inventories and trade receivables less trade payables