Consolidated Annual Financial Report 2015

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A. Foreword by the Management Board

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

In 2015 we made significant progress in implementing our strategy, and achieved many of the targets that had been set. However, the financial year 2015 was also a very challenging year for *aap*.

We further expanded our LOQTEQ® portfolio in financial year 2015, and are now able to provide treatment for over 90% of indications for major bones fractures. This has significantly increased the attractiveness of our portfolio, for the established markets as well as for full-treatment clinics and buying syndicates. An additional milestone was the submission to a notified body of the design dossier for the CE conformity assessment procedure for the first silver-coated implant in late January 2016. With our silver coating technology, we address one of the critical problems of surgery, which has not yet been adequately resolved: the reduction of infection risks when using metal implants. One of the key objectives of our strategy is to transform *aap* into a pure player in the trauma with IP-protected innovative technologies. As part of the consistent implementation of this strategy, we restarted the sale process for *aap* Biomaterials GmbH in the fourth quarter of 2015, and in late March 2016 we reported the conclusion of a corresponding share purchase agreement.

Last but not least, we have also gained new customers in the past financial year, and initiated sales in a number of countries including Mexico, Argentina, Brazil and South Africa. However, these newly acquired markets were only able to compensate in part for the developments in our strategically selected markets caused by negative macroeconomic conditions. Russia and Turkey have in recent years been important pillars in our growth strategy, and in 2015 they almost came to a standstill. Also China, one of the world's most dynamically growing markets, has fallen short of our expectations in the past year. In addition, in the US we underestimated the extensive barriers to entry and lengthy administrative processes in hospitals, and our first sales were therefore delayed. As a result of these developments, we were unable to achieve the set targets for sales and EBITDA in the financial year 2015. Sales of our trauma products fell from EUR 12.2 million in financial year 2014 to EUR 10.3 million in the reporting period. Furthermore, as a result of mergers and acquisitions in the global orthopaedic industry and the related priorities set by decision makers, delays have occurred in concluding pending project deals in the biomaterials business, which had a significant effect on sales and earnings in previous years. In total in financial year 2015, *aap* thus achieved sales of EUR 28.0 million (previous year: EUR 31.6 million) and EBITDA of EUR -1.9 million (previous year: EUR 2.3 million).

We have responded to these developments quickly and have taken various measures: first of all, we have divided up our sales organization into the segments DACH, USA and International, and reinforced our ranks with experienced sales managers that used to work for leading international companies. In terms of the individual segments, we have strengthened our direct presence in the DACH region and pushed the acquisition of distributors in the USA. Internationally, we will be focusing more strongly on established markets in future, while at the same time also stabilizing sales development in the BRICS and SMIT countries.

With regard to the outlook for the upcoming financial year and beyond, we are convinced that the sales activities described and our current and upcoming innovation speed will allow the growth story in the trauma segment to remain intact, and that we will be able to achieve a 5-year CAGR of 20%. As

a pure player in the trauma, we will be in a position to make even better use of the opportunities in the fast growing global trauma market with a focused business model. In this respect, our three IP-protected platform technologies, LOQTEQ®, silver coating and magnesium, offer considerable growth potential. An important strategic objective of the "new" *aap* will therefore be to unlock the inherent value of these technologies. We would also like to express here that the value creation from our work in the coming years will not primarily be derived from the financial figures of an income statement, but rather from the value generation of an IP-based product and technology base. At the same time, we will also be adjusting the company's cost structure to the expected future sales streams and the reduced size of the company. We have drawn up a corresponding action plan and will be implementing it consistently in 2016. It is our aim to achieve an annualized saving effect of EUR 2.0 million in 2016. Our other objectives for financial year 2016 are anchored in the 2016 Management Agenda, which allows our stakeholders to track the continuous implementation of our strategy. This can be found on page 41 of this report. We will provide updates on progress in meeting the targets of the Management Agenda in our quarterly reports.

We would like to thank our employees for their effort, their commitment and their creativity. We view the future of the "new" *aap* as a focused trauma company with great optimism, and we are confident that, with our IP-protected technology and product portfolio, we can create sustainable value for our shareholders.

Bruke Seyoum Alemu
Chairman of the Management Board / CEO

Marek Hahn
Member of the Management Board / CFO

B. Group Management Report

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

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

I. Principles of the Group

1. Business Model

aap is a globally operating medical device company headquartered in Berlin. The company develops, manufactures and markets trauma products for orthopedics. The portfolio includes besides the innovative anatomical plating system LOQTEQ® and trauma complementary biomaterials a wide range of cannulated screws as well as standard plates and screws.

app's two main locations are in Berlin, Germany, and Atlanta, Georgia, USA. In Berlin, the company develops, manufactures and markets all products under one roof at its Center of Excellence. In Atlanta, Georgia, USA, all orders for the US market are logistical handled via a service provider of the distribution company *aap* Implants Inc.

Most products are sold under the brand name "*aap*". While products in German-speaking countries are sold directly to hospitals, buying syndicates and hospital groups, the company uses of a broad network of distributors in more than 60 countries at the international level.

Furthermore, in the 2015 financial year, *app* also had a biomaterials segment (bone cements, accessories and mixing systems) via its subsidiary *app* Biomaterials GmbH. All development and production capacities of the company are located in its Center of Excellence in Dieburg, Germany. Here sales via OEM and private label cooperations dominated in the 2015 financial year.

2. Group Strategy

A central component of *aap*'s corporate strategy is the development of innovative and IP-protected technologies and products that address so far unfulfilled needs in the health system and therefore form the basis for continuous value creation. In this context the company is concentrated on the trauma business, which the Management Board believes represents a particularly promising segment of orthopedics due to the size of its market and its growth dynamic. Here good opportunities are offered to *app* to gain market share through product innovations and the introduction of new technologies. Therefore, the Management Board pursued the overarching goal within its strategy to transform *app* into a focused trauma company so far. As part of this strategic goal, over the past few years, the company has already parted with several subsidiaries, business areas and products that no longer belonged to its core business. In this context, through a notarized contract dated September 21, 2015, it was agreed that the remaining 33% share in *aap* Joints GmbH will be sold in case eight products get successfully re-certified.

On March 22, 2016, *app* signed a notarized share purchase agreement with a leading European private equity firm on the sale of 100% of the company shares in its subsidiary *aap* Biomaterials

GmbH. Based on this transaction and through fulfilling the requirements under IFRS 5 in November 2015 the operation sold will be presented as discontinued operation in the consolidated financial statements as of 12/31/2015. The operation sold within the transaction (discontinued operation) consists of *aap* Biomaterials GmbH and *app*'s distribution business in the area of bone cements, mixing systems and related accessories. The closing of the transaction is the last step in the transformation of *aap* from a general medtech company to a pure player in trauma.

Furthermore, the Management Board has specified its goals for the 2015 financial year as a Management Agenda within defined strategic and operational action areas. The assessment of the 2015 Management Agenda can be found on page 22 of this report. The new Management Agenda for the 2016 financial year is presented on page 41.

3. Organizational Structure

aap Implantate AG is the *aap* Group's parent company. The *aap* Group comprised the following fully consolidated subsidiaries as of December 31, 2015: *aap* Biomaterials GmbH, *aap* Implants Inc. and MAGIC Implants GmbH. Furthermore, as at the reporting date, the Group held a 33% stake in *aap* Joints GmbH and a 4.57% stake in AEQUOS Endoprothetik GmbH.

Subsidiaries

- ***aap* Biomaterials GmbH**

  In fiscal year 2015, all development and manufacturing activities relating to medical biomaterials, as well as bone cements and cementing techniques, were subsumed in *aap* Biomaterials GmbH. The company is based in Dieburg, near Frankfurt am Main. On March 22, 2016, a notarized share purchase agreement was signed with a leading European private equity firm for the sale of 100% of the company shares in *aap* Biomaterials GmbH. The closing of the transaction is subject to the market standard conditions precedent, which are to be met within three months after the signing of the contract. At the time of the publication of this report the transaction has not been closed.

- ***aap* Implants Inc.**

  aap Implants Inc. is the distribution company of *aap* Implantate AG for the US market. The company is based in Dover, Delaware, USA. All orders are logistically handled via a service provider in Atlanta, Georgia, USA.

- **MAGIC Implants GmbH**

  MAGIC Implants GmbH is a shelf company in which all potential development and, if applicable, marketing activities in the area of magnesium technology should be bundled. The company is based in Berlin.

Holdings

- ***aap* Joints GmbH**

  After the sale of 67% of the shares in June 2013, in fiscal year 2015, there was a 33% stake 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. Through a notarized contract dated September 21, 2015, it was agreed that the remaining 33% shareholding in *aap* Joints GmbH will be sold if eight products get successfully re-certified. To date, seven of the re-certifications have already been completed.

- **AEQUOS Endoprothetik GmbH**

  There is a 4.57% stake in AEQUOS Endoprothetik GmbH that has no decisive influence on the operating and financial policies. The company is based in Munich.

Executive Bodies

- **Management Board**

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

  Mr. Bruke Seyoum Alemu (50) is Chairman of the Management Board / CEO and responsible for Corporate Development, Research & Development, Production, Quality Assurance, Regulatory Affairs as well as Sales and Marketing.

  Mr. Marek Hahn (41) is Member of the Management Board / 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 Chairman of the Supervisory Board and Mr. Ronald Meersschaert is Vice Chairman of the Supervisory Board.

4. Segments

At *aap*, there are no business segments identified for which regular reporting to the Management Board would be performed. Instead, the goal of the corporate strategy 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.

5. Principal Facilities

app Group's two main locations are Berlin, Germany, and Atlanta, Georgia, USA. The parent company, *aap* Implantate AG, is based in Berlin, Germany. In Atlanta, Georgia, USA, all orders for the US market are logistical handled via a service provider of the distribution company *aap* Implants Inc. As at December 31, 2015, *app* had another main location in Dieburg, Germany, via its subsidiary *aap* Biomaterials GmbH.

6. Customers and Markets

In German-speaking countries, *aap*'s customers are primarily hospitals, buying syndicates and hospital groups, while on an international level, *aap* primarily targets distributors. In addition, in the 2015 financial year, *app* served international orthopedics companies via its subsidiary *app* Biomaterials GmbH.

With its three largest customers, in the reporting year, *app* generated a sales volume of EUR 5.8 million in the continued operation (2014 financial year: EUR 5.4 million). This corresponds to 47% of total sales achieved in the 2015 financial year (previous year: 33%). In the discontinued operation sales with the three largest customers in the reporting period amounted to EUR 8.0 million (2014 financial year: EUR 9.5 million) and thereby to 51% (previous year: 59%) of the sales generated in the 2015 financial year.

In regional terms, the most important sales markets, in addition to the DACH region and other European markets, are the USA and the BRICS and SMIT countries. In the reporting period, the RoW (Rest of World) region, with a sales proportion of around 40% (previous year: 28%), was the *aap* Group's most important sales region in the continued operation. In addition, in terms of total sales, Germany accounted for approx. 30% (previous year: 29%), the Europe region for around 18% (previous year: 36%) and the America region for roughly 12% (previous year: 8%). In the discontinued operation in the 2015 financial year 60% (previous year: 59%) of sales were generated in the Europe region, 20% (previous year: 27%) in the Germany region, 19% (previous year: 14%) in the America region, and 1% (previous year: 1%) in the RoW region.

II. Business and General Conditions

1. Macroeconomic Trend

The global economy has generally slowed down further in 2015. The growth rate of the real, price-adjusted gross domestic product (GDP) was around 3.1% in 2015. So the world economy grew less than in the previous year (3.4%)[1]. The global economy lost momentum in the reporting year in particular due to the emerging nations that saw a predominantly weak and partly even recessive economic cycle. According to estimates by the International Monetary Fund (IMF), real GDP grew in

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

the group of emerging nations in 2015 by slightly more than 4% after only around 7.5% was registered in 2010. At the same time, according to the IMF the growth rate increased to around 2% in the industrial nations in the reporting period, whilst in 2014 it had still been below 2%[2]. Accordingly, the growth trend continues to shift from emerging nations to industrial nations, which are in particular profiting from the expansive monetary policy of the central banks. On the whole, the global economy is still burdened by geopolitical uncertainties. For instance, not only the Ukraine crisis but also the developments in the Middle East and the imminent interest rate turnaround in the USA all pose risks for the world economy. Against this background, at best a moderate global growth increase of 3.4% is expected for 2016[3].

The Eurozone economy saw a slight increase in 2015. Real GDP in the reporting year was up around 1.5%. The recovery is expected to continue in 2016 with a growth rate of around 1.7%[4]. This growth is supported in particular by domestic trade, relatively low interest rates and oil prices, and improved sales prospects due to the comparatively low euro-dollar exchange rate. At the same time the outlook in the Eurozone continues to be burdened by the structural need for reform in some countries.

The German economy recorded generally solid growth in 2015. According to the Federal Government's annual economic report for 2016, price-adjusted GDP in the reporting year was up around 1.7%, with similar growth expected for 2016[5]. The dynamic in domestic trade is based on a lasting increase in employment and noticeable income increases in the population. Private investment in residential construction is also providing positive stimulus.

The US economy was able to gain some momentum in 2015. Economic growth in the reporting year was around 2.5%.[6] According to the latest estimates, real GDP is expected to grow by about 2.8% in 2016. Private consumption should increase further due to the progress made in consolidating the private budgets and an increasing recovery of the employment market.

2. Industry Trend

The medical technology sector is seen as a growth market both now and in the foreseeable future. According to the Branchenbericht Medizintechnologien 2016 (sector report on medical technology) from the Bundesverband für Medizintechnologie e.V. ("BVMed")[7], in the context of the Federal Ministry of Economics' study "Innovation impulses in the health economy" (2011) annual growth rates of around 5% are expected in medical technology. This estimate is also underpinned by the latest BVMed autumn survey 2015. For instance, 86% of the medtech enterprises surveyed are expecting better sales on a global level in 2015 than in the previous year. From this, analysis of relevant sales data calculated worldwide growth of 6.8% on the previous year for 2015. Twelve

[2] Internet source: https://www.bundesbank.de/Redaktion/DE/Downloads/Veroeffentlichungen/Monatsberichtsaufsaetze/2015/2015_07_wachstumsverlagerung_schwellenlaender.pdf?__blob=publicationFile

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

[4] Internet source: https://www.ifw-kiel.de/medien/medieninformationen/2015/herbstprognose-des-ifw-fur-deutschland-euroraum-und-die-welt-bis-2017

[5] Internet source: http://www.bmwi.de/DE/Presse/pressemitteilungen,did=750354.html

[6] Internet source: http://de.statista.com/statistik/daten/studie/14558/umfrage/wachstum-des-bruttoinlandsprodukts-in-den-usa/

[7] The BVMed Branchenbericht Medizintechnologien 2016 is available on request from the Association's Press Centre.

months previously, this value was still 4.6%. Looking towards 2016, 62% of those surveyed expect a better business situation worldwide.

There is a more heterogeneous picture with respect to the German market. According to the results of the BVMed autumn survey, 81% of those surveyed anticipate better sales results for 2015 than for the previous year. The sales stated indicate sales growth of 4.3% on 2014 for the German market in 2015. So sales prospects are more positive than just a year ago (3.4%). On the other hand, the latest BVMed survey however also shows that the profits of the enterprises surveyed are down further and margins are sinking. This is being blamed in particular on increasing price pressure due to bundled purchasing in hospitals and tenders in the field of medical devices. Accordingly, only 43% of those surveyed expect a more positive business situation in 2016.

According to the estimates of ADvaMed (Advanced Medical Technology Association) and BVMed, the global market for medical technology had a total volume of approximately EUR 220 billion in 2012. The USA accounts for by far the largest market share with around EUR 90 billion. Japan and Germany share second place with a market share of around EUR 25 billion each. Of the European Union's total of EUR 76 billion, Germany accounted for the largest share with EUR 26 billion in 2013. According to the Branchenbericht Medizintechnologien 2016 from BVMed, Spectaris meanwhile estimates (yearbook 2015) a global market value of USD 364 billion (including diagnostics).

In view of the anticipated development in demand in the area of medical technology, a study by the Hamburg Institute of International Economics (HWWI) shows positive prospects especially for the emerging nations. These countries are expected to see an average annual increase in demand of 9-16% by 2020. Annual growth rates of between 3% and 4% are anticipated for industrial countries.

3. Legal Conditions

Official registration and approval are preconditions 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 Directives, 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 indirect risk to the environment.

In the 2015 financial year *aap* passed the US Food and Drug Administration (FDA) inspection without any objections. Furthermore, both an unannounced audit and the annual monitoring audit by DEKRA also took place in the reporting year. The Quality Management system of the *aap* complied with all norms and legal requirements so that all DEKRA certificates also remain valid. Furthermore, *aap* was awarded the "Vendor qualification" from a global medical technology company in the 2015 financial year so that *aap* is now considered an approved supplier.

III. Economic Report

Preliminary remarks on the presentation of the consolidated statement of income for continued and discontinued operation

On March 22, 2016, *aap* Implantate AG signed a notarized share purchase agreement with a leading European private equity firm regarding the sale of 100% of the company's shares in its subsidiary *aap* Biomaterials GmbH, based in Dieburg. The operation sold within the transaction consists of *aap* Biomaterials GmbH, which is specialized in the development, production and marketing of bone cements, mixing systems and related accessories, and *aap* Implantate AG's distribution business in this area. In 2015, the operation sold recorded sales of EUR 15.7 million.

Based on this transaction and the fulfillment of the requirements of IFRS 5 in November 2015, the disposed operation will be presented in the consolidated financial statements of December 31, 2015 as a discontinued operation. The consolidated statement of income of the Group will therefore be split into two parts: continued operation and discontinued operation. The continued operation includes the activities bundled in *aap* Implantate AG, Berlin, *aap* Implants Inc., Dover, Delaware, USA, and MAGIC Implants GmbH, Berlin. The discontinued operation for financial year 2015 includes *aap* Biomaterials GmbH, Dieburg, the distribution business of *aap* Implantate AG in bone cements, mixing systems and related accessories, as well as, for financial year 2014, EMCM B.V., Nijmegen, Netherlands, which was sold in February 2014 to a private equity firm. Due to the resulting deconsolidation, the sales revenue and expenses of EMCM B.V. in the consolidated statement of comprehensive income for 2014 are only reported for the months of January and February. In the first two months of financial year 2014, EMCM B.V. achieved sales of EUR 1.2 million, with total earnings after taxes of EUR 0.1 million.

The developments of financial year 2015, based on the consolidated statement of comprehensive income, are therefore only comparable with the previous year's results to a very limited extent. Unless otherwise stated, all of the previous year's figures regarding the asset, financial and earnings position refer to the continued operation. The explanations regarding the discontinued operation refer exclusively to the 12 monthly figures of 2015 and 2014 without taking into account the effect of the Dutch EMCM B.V.

1. Earnings Position

Development of sales and overall result

Sales from the continued operation fell in comparison with the previous year by 16% from EUR 14.6 million to EUR 12.3 million. As such, *aap* was unable in particular to achieve the sales target for the trauma business for 2015. Originally, *aap* expected total sales from the trauma business for 2015 to grow between 20% and 25% to between EUR 14.8 million and EUR 15.4 million. Overall, sales fell in this business by 16% to EUR 10.3 million (previous year: EUR 12.2 million). Sales of trauma complementary biomaterials remained almost unchanged at EUR 0.5 million (previous year: EUR 0.6 million). In addition, supplier sales in the non-core Recon business (hips, knees and shoulders as well as the C~Ment® line) fell by EUR 0.3 million to EUR 1.5 million.

The main reason for this development in the trauma business was delays in sales development in certain strategic growth markets (China, Russia and Turkey) caused by a deterioration in the

underlying economic conditions and lengthier administrative processes in hospitals connected with entry into the US market.

With regard to the Chinese market, we observed a significant fall in propensity to invest as a result of declines on the Chinese stock market and the devaluation of the Chinese currency. Although our largest customer in 2015 was again our Chinese partner (sales in 2015 of EUR 3.3 million; previous year: EUR 2.3 million), because of the aforementioned developments we were unable to achieve the full extent of the growth we originally planned. In Russia, the persistent weakness of the ruble as well as the imposition of trade sanctions caused business to come to an almost complete standstill in 2015, while in 2014, EUR 0.6 million of sales was achieved. In Turkey, the increasingly unfavorable development of the exchange rate between the euro and the Turkish lira, together with a reduction in reimbursement amounts for medical treatment applied from as early as the beginning of the year, also led to a fall in sales of EUR 0.9 million. In addition, the Management Board decided, in connection with the preparation of the 2015 annual financial statements, to rescind initial sales that had already been invoiced in the financial year with a new Iranian distributor in the amount of EUR 0.7 million due to non-performance of contractual obligations. In response to this development, *aap* has already identified an alternative distributor with which initial agreements and the first upfront payments have been made. As a result, *aap* expects that the originally agreed transaction from the 2015 financial year will be postponed to the 2016 financial year. In addition, the US market has been unable to make a significant contribution to sales due to certain, more extensive administrative processes in hospitals.

At the same time, in 2015, new customers were won in Mexico, Argentina, Brazil and South Africa, for example, and in markets such as China and Spain higher sales were achieved which did not fully compensate for declines in sales in the other markets.

However, the Management Board is convinced, with regard to the outlook for the coming financial year and beyond, that with the sales activities already ongoing in the USA and Europe the growth story of a 5-year CAGR of 20% in the trauma business remains intact. Drivers of growth in this regard are the LOQTEQ® product portfolio and the silver coating technology. From 2016, the USA will be one of the core markets of the growth strategy. The company has already made use of its LOQTEQ® products for the first time in various hospitals in this strategic market and has made its first sales.

After deducting the sales of the Dutch company EMCM B.V. (EUR 1.2 million), which was sold in 2014, sales from the discontinued operation remained almost unchanged at EUR 15.7 million (previous year: EUR 15.8 million). It should be noted in this regard that the product business developed positively, while the project business reported a fall in sales from EUR 1.2 million to EUR 0.3 million. The main driver of growth in the product business in 2015 was the bone cement business with leading international companies and distributors.

The **total revenue** includes, in addition to sales revenue, both changes in inventories and other own work capitalized and development services. While sales revenue fell, the total revenue of the continued operation increased by EUR 1.6 million (+10%). The reason for this is the increase in inventories of trauma products, which should ensure a correspondingly high delivery capacity in connection with the preparations for the launch of operations in the USA and the planned expansion of the LOQTEQ® portfolio. *aap*'s stated goal is to achieve a large part of the planned growth in sales in 2016 using the existing inventory and to report a fall in inventory in the income statement for 2016.

In accordance with IFRS, *aap*, as a development-intensive company, capitalizes internally produced assets as well as the expenses of its own projects and development projects for which approval and economically successful sales are highly likely. In the continued operation, *aap* capitalized EUR 1.9 million (previous year: EUR 1.9 million) of own and development services in the current financial year. The largest additions in this regard concern the development of our silver coating technology and the expansion of our LOQTEQ® system by additional plating systems for certain indication regions (e.g. foot and ankle, periprosthetic treatments) and functions (plates with polyaxial locking technology). These capitalized development costs will be depreciated over their economically useful life after the products are launched on the market.

After the deduction of EMCM B.V. from the comparison figures of 2014, the overall performance for discontinued operations is only down slightly by EUR 0.3 million to EUR 15.8 million, which, with other own work capitalized and development services at the same level, primarily results from a decrease in inventories by EUR 0.2 million and a slight fall in sales revenue of EUR 0.1 million.

Cost Structure and Result

Other operating income from the continued operation fell from EUR 1.9 million in financial year 2014 to EUR 0.8 million in the reporting period. This decline is due to the following non-recurring effects in financial year 2014: the remaining shares in the dental joint venture *aap* BM productions GmbH were sold for EUR 0.9 million and higher fees were received for services to associated companies.

For the discontinued operation, without taking into account EMCM B.V. in 2014, other operating income in financial year 2015 fell slightly compared with the previous year by EUR 0.1 million to EUR 0.9 million.

The **cost-of-materials ratio** (with regard to sales revenue and changes in inventories) for the continued operation in 2015 increased to 48% (2014: 43%). This increase is based on two effects. Firstly, total revenue increased due to the increase in inventories, which still does not include any margin share. Secondly, the increase in personnel in production during the reporting period was not as large as originally planned, so in order to ensure a higher production output, leased and temporary workers were utilized to an increasing extent (2015: EUR 0.8 million). In absolute terms, the cost of materials increased in financial year 2015 by 22% to EUR 7.8 million (2014: EUR 6.4 million). The volume of external services required to ensure deliverability continues to be high. The action plan implemented at the beginning of the year aims, among other things, to lower manufacturing costs sustainably. In this regard, a reduction in the share of external services and an increase in in-house manufacturing is essential to achieving an improvement in margins. Further progress has already been reported in this regard. For example, the share of external services in the cost of materials improved in financial year 2015 compared with the same period in the previous year to 32% (2014: 34%).

With the execution of the transaction to sell all shares in *aap* Biomaterials GmbH, *aap* will become a pure player in trauma with a portfolio of IP-protected innovative technologies. In this context and after intensive coordination with customers in the first quarter of 2016 as well as a substantial expansion of the LOQTEQ® portfolio in financial year 2015, cannibalization of standard trauma products by LOQTEQ® products may occur in future. In course of the focusing on the trauma business *aap* intends to sell the remaining 33% share in *aap* Joints GmbH (Recon products for knee, hip and

shoulder) in 2016. In order to adequately address the potential future sales risk for standard trauma products, and to take into account the decision in the context of *aap* Joints GmbH, the Management Board made in course of preparing the consolidated financial statements 2015 an extraordinary and one-time value adjustment on inventories of standard trauma and recon products in the amount of EUR 0.7 million.

The cost-of-materials ratio for the discontinued operation, without taking into account EMCM B.V. in 2014, rose from 34% to 38% in the 2015 financial year. This increase is mainly based on the fact that in the 2014 financial year, revenue generated from projects was higher without corresponding costs of materials than in the reporting period. After deducting the corresponding sales revenue, the cost-of-materials ratio for financial year 2015 is 39%, and 36% for the previous year.

Although the average number of employees increased from 161 to 175, **personnel expenses** for the continued operation are only slightly above the previous year's level. The reason for this is that the increase in staff mainly occurred in the third and fourth quarters and so the effect on an annual basis is limited. Due to a higher total revenue, the share in expenses of the cost of personnel (with regard to total revenue) fell in the 2015 financial year to 47% (2014: 51%).

As at the reporting date December 31, 2015, a total of 179 employees were engaged in the continued operation of *aap* (December 31, 2014: 174 employees). The increase in personnel occurred primarily in production and production-related activities, whereas the number of employees engaged in administrative activities was reduced.

Without taking into account EMCM B.V. in 2014, the cost of personnel for the discontinued operation rose only slightly by EUR 0.1 million from EUR 3.3 million to EUR 3.4 million in financial year 2015. As at December 31, 2015, 67 employees were engaged in the discontinued operation.

Other operating expenses for the continued operation increased in the reporting period in comparison with the previous year by EUR 1.8 million. The main reasons for this increase are preliminary costs connected with the development of the US business, higher development costs for the expansion of the LOQTEQ® portfolio and works connected with the silver coating technology, higher travel and marketing costs connected with sales activities for our LOQTEQ® portfolio and increased expenses arising from a value adjustment to receivables as a result of customer insolvency and credit notes for customer sales from previous years. In total, the share of other operating expenses for the continued operation (with regard to total revenue) compared with the previous year increased from 46% to 52% in financial year 2015. Some other operating expenses will also be reallocated to the discontinued operation on a consolidated basis. It is, however, notable that the cost structure for the continued operation also includes administrative expenses which, after the transaction is executed (sale of *aap* Biomaterials GmbH), must be revised downward to an adequate extent for the business unit which will then remain.

For the discontinued operation, other operating expenses, without taking into account EMCM B.V. in 2014, increased by EUR 0.1 million from EUR 2.3 million to EUR 2.4 million in financial year 2015, primarily due to recertification costs and higher legal and advisory costs.

Thus, *aap* achieved **EBITDA** of EUR -6.8 million (2014: EUR -3.9 million) in the continued operation in 2015. The fall in EBITDA is particularly the result of a decline in other operating income due to special effects in the previous year, an increase in other operating expenses due to the preliminary costs of sales in the USA and expenses arising from higher risk provisions for receivables and higher R&D

expenses. In addition, the full impact on EBITDA of the extraordinary impairment on inventories of standard trauma and recon products and the cancellation of initial sales in Iran is EUR 0.7 million and EUR 0.3 million respectively. At the same time, the growth in sales that was originally planned was not achieved, which would have had a compensating effect on the increase in expenses.

Without taking into account EMCM B.V. in 2014, EBITDA decreased for the discontinued operation from EUR 6.2 million in the previous year to EUR 4.9 million in financial year 2015. This development is primarily the result of lower project sales and income together with a high EBITDA effect and a slightly higher level of total expenses.

Due to extensive investments in machinery and systems in connection with capacity expansion in the second half of 2014, **scheduled depreciation** for the continued operation increased compared with the previous year from EUR 1.4 million to EUR 1.8 million in financial year 2015. In September 2015, *aap* concluded more agreements with the majority shareholders of *aap* Joints GmbH, which provide for the automatic sale of the remaining 33% stake in the company depending on, among other things, the successful extension of certificates for all recon products. During the preparation of the consolidated financial statements, seven out of eight certificates were already obtained as at December 31, 2015, making the conclusion of the share purchase agreement very likely. On this basis, the value of the participation in *aap* Joints GmbH was adjusted to the fair value of EUR 0.8 million. In addition to the share of EUR 0.2 million attributed to *aap* in current losses in 2015, the carrying amount of the participation was impaired by EUR 0.5 million.

Due to the suspension of depreciation in application of IFRS 5, the depreciation of the discontinued operation fell from EUR 0.9 million in financial year 2014 to EUR 0.8 million in the reporting period.

EBIT in the continued operation in financial year 2015 was EUR -9.0 million (2014: EUR -5.3 million) and EUR 4.1 million in the discontinued operation (2014: EUR 5.3 million).

The **financial result** changed only slightly for both continued and discontinued operations, with only a very minimal effect on key performance indicators as in the previous year.

The result from joint ventures and associated companies in the continued operation decreased from EUR -0.1 million in financial year 2014 to EUR -0.2 million in the reporting year and is attributed entirely to *aap* Joints GmbH.

Overall, *aap* achieved a **net result** of EUR -9.5 million (2014: EUR -5.9 million) in the continued operation in financial year 2015 and in the discontinued operation of EUR 4.2 million (2014: EUR 5.4 million). After consideration of currency differences *aap* achieved a total result after taxes of EUR -5,3 million (2014: EUR -0,5 million) in the continued operation, with EUR -9.5 million (2014: EUR -5,9 million) accounting for the continued operation and EUR 4.2 million (2014: EUR 5.4 million) accounting for the discontinued operation.

2. Asset Position

Through the presentation of assets held for sale and debts, the balance sheet picture of the *aap* Group has changed significantly. Thus, in connection with the forthcoming sale of *aap* Biomaterials GmbH, assets worth EUR 13.8 million and liabilities worth EUR 2.1 million will be presented as held for sale.

On the basis of the strategy of transforming *aap* into a focused trauma company, the development of this business in particular constitutes a key control parameter for the Management Board. The decisions made in this regard are also reflected in the Group's working capital as at the reporting date December 31, 2015. Thus, despite the clean-up of the portfolio of recon and standard osteosynthesis products in the continued operation, the securing of deliverability for the US market launch and the expansion of the LOQTEQ® portfolio led to an increase in inventories of EUR 2.6 million. At the same time, the reduction in receivables of EUR 1.2 million and the increase in trade payables by EUR 1.7 million had a positive effect on working capital. In comparison with the previous year, working capital fell slightly by EUR 0.3 million to EUR 11.4 million in financial year 2015 (previous year excluding *aap* Biomaterials GmbH: EUR 11.7 million).

The decrease in non-current assets is a result of the reclassification of goodwill and intangible assets in the assets available for sale. **Capitalized development expenses** for the continued operation increased in 2015 by EUR 1.4 million compared with the reporting date in financial year 2014, primarily as a result of development activities in the silver coating technology area and the scheduled expansion of the LOQTEQ® portfolio. The share of intangible assets in total assets is now 19% and is therefore once again lower in comparison with the previous year.

In order to secure deliverability for the US market and the expansion of the LOQTEQ® portfolio, **inventories** of EUR 4.2 million were built up in the 2015 financial year. However, inventories of recon and standard osteosynthesis products were purged (EUR -0.7 million) and the inventories from the sold distribution business in assets held for sale were reclassified (EUR -1.3 million). In total, this results in an increase in inventories for the continued operation of EUR 2.6 million to EUR 9.7 million (December 31, 2014: EUR 9.4 million, of which EUR 2.3 million for *aap* Biomaterials GmbH).

Trade receivables as at December 31, 2015 amounted to EUR 5.8 million (December 31, 2014: EUR 9.3 million). As a result, trade receivables fell by EUR 1.2 million after taking into account the reclassification to the discontinued operation (EUR 2.3 million) in the same period in the previous year. This development is essentially based on consistent debtor management at the end of the year, a value adjustment to receivables of EUR 0.3 million and customer credit notes for sales from previous years, with an opposite effect on inventories (EUR 0.3 million).

The decline in **other assets** compared with the previous year is primarily a result of lower sales tax receivables and a reduction in receivables vis-à-vis *aap* Joints GmbH.

The amount of **cash and cash equivalents** fell in the 2015 financial year following a reclassification to the discontinued operation of EUR 0.8 million to EUR 4.9 million (December 31, 2014: EUR 12.1 million).

Impacted by the net result (EUR -5.3 million), **equity** as at the reporting date for financial year 2015 fell to EUR 40.3 million (December 31, 2014: EUR 45.4 million). With total assets of EUR 54.9 million as at December 31, 2015 (December 31, 2014: EUR 57.9 million), the equity ratio is 73% (December 31, 2014: 79%). The equity ratio, adjusted for goodwill and capitalized development services, fell from 71% to 54%.

Financial liabilities were reduced in financial year 2015 through scheduled loan repayments by EUR 1.0 million. In financial year 2015 we were able to agree upon longer payment periods with our main suppliers. As a result, **trade liabilities** increased in the reporting period to EUR 4.1 million (December 31, 2014: EUR 3.0 million, of which EUR 0.6 million is due to *aap* Biomaterials GmbH). Without the

reclassification effect of IFRS 5, **other accounts payable** remain almost the same, amounting to approximately EUR 0.5 million as at the reporting date for financial year 2015.

3. Financial Position

Based on negative net result of EUR -5.3 million, the **operating cash flow** of the *aap* Group improved in financial year 2015 compared with the previous year to EUR -2.3 million (December 31, 2014: EUR -2.9 million). Despite a significant build-up of inventories (EUR +4.2 million), working capital produced no effect on the cash flow of the Group. The reasons for this lie partly in a significant decrease in receivables in the continued operation (EUR +1.2 million) as well as in the discontinued operation (EUR +1.1 million) and an increase in trade payables.

The primary changes year-on-year can be summarized as follows:

- Negative net result as at December 31, 2015 (EUR -5.3 million)
- No outflow of funds resulting from share-based payments through cash settlements (EUR +1.3 million)
- Lower amount of appropriated funds in working capital, where the inventory expansion required to secure deliverability is offset by a positive effect resulting from a reduction in trade receivables and the development of liabilities resulting from extended payments periods agreed upon with main suppliers (EUR +3.1 million)

Cash flow from investment activities fell in 2015 to EUR -3.0 million (December 31, 2014: EUR 13.2 million), where cash flow from investment activities in 2014 of EUR 16.7 million was highly impacted by the sale of the subsidiary EMCM B.V. *aap* also made further investments in financial year 2015 (EUR -2.4 million) in machines and systems in order to increase production capacity in the trauma business. In this regard, as at the reporting date of December 31, 2015, investments amounting to EUR 1.5 million were made through finance leases. In addition, EUR 2.1 million flowed into capitalized development projects, particularly the innovative silver coating technology and LOQTEQ® technology. Investment expenses are financed in accordance with their maturity dates partly through long-term and low-interest loans, while a significant share is financed directly by operational payment instruments.

The primary effects in **financing activity** can be summarized as follows:

- Loan repayments / finance lease agreements (EUR -1.1 million), partly using financing
- Payments received from the issue of new shares (EUR +0.2 million)
- Interest paid on short- and long-term loans (EUR -0.2 million)

Thus, the total outflow of funds for the entire year of 2015 as a result of financing activities is EUR -1.1 million (2014: EUR -0.7 million).

The amount of cash and cash equivalents in the Group (including EUR 0.8 million which account for the discontinued operation) as at the reporting date for financial year 2015 fell to EUR 5.7 million (December 31, 2014: EUR 12.1 million). Net assets (sum of all cash and cash equivalents less all interest-bearing liabilities including the discontinued operation) as at December 31, 2015 was EUR 0.9 million (December 31, 2014: EUR 7.7 million).

As at December 31, 2015, contractually secured credit lines were available to the *aap* Group in the amount of EUR 4.5 million in total (December 31, 2014: EUR 4.5 million), which were unused as at the reporting date (December 31, 2014: no credit lines used). Thus, the amount of usable liquidity available to *aap* as at December 31, 2015 (sum of cash and cash equivalents and freely available credit lines) was EUR 10.2 million (December 31, 2014: EUR 16.6 million).

IV. Other indicators

1. Research and Development

Research and Development in Medical Technology

The medical technology sector is widely regarded as dynamic and innovative. In fact, according to the BVMed [*Bundesverband Medizintechnologie e.V.* – German Association of Medical Technology] 2016 sector report on medical technology [Branchenbericht Medizintechnologie],[8] medical technology companies invest approximately 9% of their sales in research and development. In comparison, the proportion of expenditure spent on research and development in the chemical industry, which is also considered very innovative, is approximately 5%, while manufacturing companies spend around 3.8%. Also the number of patent applications illustrates the relatively high innovativeness within the medical technology sector. That is why, in 2014, more patent applications were made worldwide to Munich's European Patent Office from within the medical technology sector than from any other technology area (11,124; +3.2% compared to 2013). According to a study conducted by the Federal Ministry of Education and Research, the medical technology sector's overall research and development share in production value is more than double that of the industrial goods sector.

Compared with its international counterparts, the German medical technology sector is known for being especially innovative. German medical technology companies therefore generate approximately one third of their sales through products that are no more than three years old. In addition, with 1,381 medical technology patent applications in 2014 (6.3% less than in 2013), Germany ranks foremost in Europe, and second globally, behind the USA.

Research and Development at aap

A central component of *aap*'s corporate strategy is the development of innovative and IP-protected technologies and products, which means that research and development has always been of prime importance. Consequently, the company also recorded significant expenses in the 2015 financial year for its research and development activities. As at 12/31/2015, in the continued operation in total 18% of the 179 *aap* employees were working in the company's Research and Development (R&D), Clinical Affairs or Regulatory and Quality Management teams (previous year: 18%). In the discontinued operation 48% (12/31/2014: 46%) of the 67 employees were employed in the mentioned departments as at the balance sheet date. In addition, the share of sales spent on Research and Development in the 2015 financial year was 18% (previous year: 13%) in the continued operation, making it higher than the sector average of 9% (see above). In the discontinued operation a value of 4% (2014 financial year: 6%) was reached in 2015. The proportion of capitalized costs

[8] The BVMed 2016 sector report on medical technology is available on request from the association's Press Center.

compared to total costs in the reporting year was 66% (previous year: 62%) in the continued operation. In the discontinued operation the value amounted to 15% (2014 financial year: 11%).

In Research and Development, *aap* particularly values close cooperation with various academic institutions such as research institutes and university hospitals. This primarily takes the form of new and further product development, as well as clinical studies. Often, products may even be developed on the initiative of professional medical users. Another promising pillar for generating sales and income will be based on cooperation with the market leaders at an early stage in the areas of orthopedics and trauma. At the same time, these approaches should proactively safeguard existing technologies.

At *aap*, innovations form the basis of continued and sustainable value creation. With this in mind, the company seeks to consistently create and develop what are known as platform technologies. *aap*'s strategic IP portfolio is aimed at safeguarding these technologies and the resulting products:

Platform Technology	Derivative Products	
Fixed-angle monoaxial fixation technology	LOQTEQ® Anatomical Plating System	Anatomical plates for the upper and lower extremities and systems to correct leg misalignments and treat periprosthetic fractures (e.g. LOQTEQ® Tibia Plates, LOQTEQ® Humerus Plates, LOQTEQ® Osteotomy System)
Fixed-angle polyaxial fixation technology	LOQTEQ® VA Anatomical Plating System	Anatomical plates for the upper and lower extremities in treatment using multidirectional, fixed-angle screws (e.g. LOQTEQ® VA Radius System, LOQTEQ® VA Tibia Plates, LOQTEQ® VA Elbow Plating System)
Silver coating technology	Ag coating	Ag cement
Magnesium technology	Interference screws	Small plates, screws & pins

Research and development in individual corporate sectors

Within the trauma business, during the 2015 financial year, *aap* particularly focused on expanding its LOQTEQ® portfolio as part of its research and development activities. The company successfully achieved its goal, and it can now ensure an indication coverage of over 90% in the treatment of breakages in major bones. This makes the LOQTEQ® product family even more attractive, whether for established markets or hospital groups, buying syndicates or during tendering procedures.

During the reporting period, the focus of the targeted expansion of the LOQTEQ® portfolio included the area foot and ankle joint. In this context, *aap* was able to complete its system for the ankle joint treatment in the 2015 financial year. Additionally, the company developed further plates to treat foot and ankle joint fractures with the aim of providing complete coverage for common indications in this area. This means that *aap* is driving forward a lucrative market segment that is particularly significant in focused markets like the USA. Another focus point for the company during the 2015 financial year was the development of polyaxial fixation technology. *aap*'s monoaxial portfolio is set to be complemented with polyaxial plates in the areas which require a screw angle that can be freely selected. In this context, during the reporting period the first polyaxial LOQTEQ® system was

introduced to the market. The system was positively received and, thanks to additional approvals, it is now available in an increasing number of countries. In the current financial year, further polyaxial plates are to be introduced to the market. During the 2015 financial year, the company also focused on developing a periprosthetic treatment with LOQTEQ®. The first such system is planned to be introduced to the market in the first quarter of 2016. Moreover, in the 2015 financial year *aap* was granted an European patent for the core technology of the LOQTEQ® system. The patent made it possible to extend the protection for the fixed-angle compression technology into numerous key European markets, which also made it an important milestone in achieving worldwide protection for the plating system.

In the area of silver coating technology, the focus of the 2015 financial year was on the aimed CE marking for the antibacterial coating technology developed by *aap*. In the reporting period, all approval relevant activities were completed. As a result, the start of the year saw the submission of the design dossier for the performance of a CE conformity assessment procedure at a notified body leading in the field of medical products. The conformity assessment procedure will initially be undertaken for a silver-coated LOQTEQ® plate. In case of a successful conformity assessment, the company plans to extend the approval to further trauma products. Furthermore, in the 2015 financial year *aap* was granted an important European patent. The patent protects both the multifunctional antibacterial silver coating developed by the company for implants and relevant medical products and the method as well as apparatuses for the production of such a coating.

In the area of magnesium technology, during the reporting period, *aap* particularly focused on further developing absorbable implants. Discussions were also held about plans for cooperation with a leading magnesium technology company. In the 2015 financial year, *aap* also obtained two key patents from the European Patent Office relating to its magnesium technology. While one patent protects an efficient way of producing magnesium implants, the other patent protection refers to a coating technology for implants.

In the biomaterials business, achievements included the completed development of the product Manumix® (a mixing and transfer system for bone cements in augmentation interventions) during the 2015 financial year. The authorization documents were submitted to the notified bodies for inspection. Another focus was on the planned expansion of the EASYMIX product line and its introduction in additional markets. Furthermore, during the reporting year *aap* successfully completed the clinical phase of a pharmacokinetic study investigating the influence of bone cement coating thickness on the release of antibiotics. A clinical study on shortening post-operative antibiotic treatment after a local antibiosis with the use of the product PerOssal® in infectious spinal diseases is still underway at a leading German university hospital.

2. Marketing & Sales

As part of its marketing and sales activities in the 2015 financial year, *aap* was present at a range of major trade fairs and presented its product portfolio to an international public audience. Highlights included the Arab Health in Dubai, and Medica in Düsseldorf, which are among the most important events worldwide in the fields of medicine and health care. During the reporting period, the company also visited several specialist conferences and, in its capacity as an innovation-oriented company, used the opportunity to exchange thoughts with physicians, scientists and existing and potential new clients about the latest developments and knowledge in the industry. The conferences *aap* visited included AAOS (American Academy of Orthopaedic Surgeons) in Las Vegas, the EFORT

Congress (European Federation of National Associations of Orthopaedics and Traumatology) in Prague, the German Congress for Orthopedics and Emergency Surgery (DKOU) 2015 in Berlin, and the 5th German Arthrosis Congress by DGFAM (Deutsche Gesellschaft für Arthrosemanagement e.V. [German Arthrosis Management Registered Association]) in Leipzig. The company also organized a series of different training events and workshops for customers and users of its products. Among these, it is certainly worth mentioning the Basic Course in Osteosynthesis Trauma, which *aap* arranged twice in the previous year for over 60 international physicians in Berlin. Moreover, the "International Osteosynthesis Trauma Meeting" was particularly important. The company held the meeting in conjunction with Gießen University Hospital under the auspices of university professor Dr. Christian Heiß. The 27 participants included international physicians as well as *aap* distributors.

3. Employees

On 12/31/2015, a total of 179 employees were working for *aap* in the continued operation – that is 5 more than on the reporting date of the previous year (174 employees). In the discontinued operation the number of employees amounted to 67 on 12/31/2015 and thereby at the level on the balance sheet date of 2014.

4. Conclusions or Terminations of Cooperations and Other Important Contracts

Through the notarized contract dated September 21, 2015, it was agreed that the remaining 33% of the company shares in *aap* Joints GmbH will be sold if eight products get successfully re-certified. This sale will occur automatically if the re-certifications are successful. The agreed purchase price for the remaining shares amounts to EUR 0.8 million. To date, seven of the re-certifications have already been completed.

In October 2015, *aap* concluded a contract with a new IT provider. This company was selected from a range of bidders after a thorough evaluation. The new service provider is contractually responsible, in particular, for ensuring that response and solution times are complied with as part of Service Level Agreements (SLAs). The service quality is measured in deviations from the target, e.g. regarding the solution durations of problems. It was agreed on penalty payments for negative deviations and bonus payments for positive deviations (so called bonus / malus system).

At the end of December 2015, the previous subsidiary, *aap* Biomaterials GmbH, formed a framework agreement with an external company with whom various contractual relationships already exist. Under certain conditions, it intends to form a new supply agreement and to change the existing development agreement, which will then replace the former agreements.

The subsidiary *aap* Implants, Inc. signed the first twelve agreements about the distribution of its LOQTEQ® products with non-stocking distributors. Based on these agreements, the distributors now cover different regions of the States of California, Texas, Ohio, Tennessee, Oklahoma, Utah and Mississippi.

5. Financial and Non-Financial Performance Indicators

Financial performance indicators

In the management of the corporate group, the *aap* Management Board focused primarily on the **Sales** and **EBITDA** financial performance indicators in financial year 2015. Based on the strategy of transforming *aap* into a focused trauma company, within sales, the **trauma sales development** represents a central management figure. In the trauma business, the company reported a 16% drop in sales during the reporting period compared to the previous year, making it impossible to reach the originally set target of 20% - 25% growth. Behind this development was the delay in sales development in several strategic growth markets (China, Russia and Turkey) owing to the downturn in economic framework conditions and, regarding the entry into the US market, due to the lengthy administrative procedures at hospitals. Furthermore, as a result of mergers and acquisitions in the global orthopaedic industry and the related priorities set by decision makers, delays have occurred in concluding pending project deals in the biomaterials business. Therefore, *aap* was unable to reach its original sales forecast of EUR 33.0 million to EUR 35.0 million, instead achieving sales of EUR 28.0 million in financial year 2015. Due to the aforementioned sales development and in particular the delays within the project business with high profit margins, during the reporting period the company recorded EBITDA totaling EUR -1.9 million, which is lower than the targeted range of EUR 1.5 million to EUR 2.5 million.

Non-financial performance indicators

The main non-financial performance indicators in financial year 2015 are taken from the 2015 Management Agenda, in which the Management Board has classified targets into five strategic and operational fields of action. The targets set within the framework of the Management Agenda are outlined below, and the corresponding results reported:

Accelerating value-based innovation		
Targets of the 2015 Management Agenda	**Results of the 2015 Management Agenda**	**Target reached?**
Further expansion of the LOQTEQ® portfolio with a view to exceeding a 90% indication coverage	Indication coverage of more than 90% was reached for treatment of major bone fractures; development in 2015 focused on foot and ankle, polyaxial fixation technology and periprosthetic treatment	Yes
Implementation and conclusion of all approval-related work (CE) in the silver technology area by the beginning of Q3/2015 as well as submission of approval application for silver technology	Conclusion of approval-related work and submission of design dossier for the performance of a CE conformity assessment procedure in January 2016	Yes
Maintenance of a freshness index of at least 20%	LOQTEQ® sales of EUR 6.8 million in FY/2015	Yes

Enhancing market access		
Targets of the 2015 Management Agenda	**Results of the 2015 Management Agenda**	**Target reached?**
Increase in trauma sales by 20% to 25%	16% drop in trauma sales; reasons are delays in sales development in strategic growth markets due to deteriorated economic framework conditions and in the US market entry due to protracted administrative processes in hospitals	No
Development of the US market	A total of 12 distribution agreements were signed; first procedures with LOQTEQ® products at various hospitals carried out, first sales achieved and sales team strengthened	Partly
Appointment of distributors in previously uncovered BRICS and SMIT countries	Distributors appointed in South Africa and Mexico; South Korea, India and Indonesia still vacant	Yes

Optimizing operational efficiency		
Targets of the 2015 Management Agenda	**Results of the 2015 Management Agenda**	**Target reached?**
Implementation of action plan to reduce manufacturing costs	All the measures were implemented in 2015; thus, for example, regarding plate production, through increased machine capacity of some 25%, output rose by some 50%	Yes
Implementation of action plan to improve timely delivery capability	Stock levels were built up in order to serve future business in the USA in a timely manner and also to guarantee the delivery capability of the expanded LOQTEQ® portfolio; in the process the proportion of domestic part deliveries, for example, was reduced to less than 10% (previous year: around 20%) and domestic delivery capability was brought to less than 24 hours	Yes
Further improvements in ERP functionalities as well as implementation of the action plan to improve IT infrastructure and utilization	Implementation of system-based process stages in production, such as the scanning of orders for order processing; new IT service provider contracted to stabilize and optimize the IT infrastructure	Partly

Focus on trauma/Organic growth supplemented with acquisitions		
Targets of the 2015 Management Agenda	**Results of the 2015 Management Agenda**	**Target reached?**
Conclusion of a transaction for *app* Biomaterials GmbH (bone cements and mixing systems and biomaterials) insofar as achievable on terms and conditions	Signing of a share purchase agreement for the sale of *aap* Biomaterials GmbH in March 2016; purchase price based on an assumed enterprise value of *aap*	No

that reflect the right value from a comparable transaction point of view	Biomaterials GmbH of EUR 36 million	
Divestment / out-licensing of products / IP / investments that are not part of the company's core business	Signing of an agreement in Q3/2015 that provides for the sale of the remaining 33% shareholding in *aap* Joints GmbH in case of the successful re-certification of eight products; seven products already re-certified in Q1/2016	Partly
Active market screening for suitable acquisition targets (companies and technologies) to speed up organic growth and, possibly, conclusion of a transaction	Ongoing market screening conducted; high acquisition multiples in the latest transactions make it difficult to identify attractive target companies at attractive prices	Yes

V. Risk and Opportunity Report

1. 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 Management 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 2015 financial year is therefore described in Section **3. Presentation of the principal Risks and Opportunities** below.

Internal risk reporting to the Management Board of *aap* takes place as part of the coordination of the operative daily business, in which the Board is heavily involved. The Management 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, which is 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 Management Board of the *aap* 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 Management 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 (*aap* Implantate AG, Berlin) and TÜV (*aap* Biomaterials GmbH).
- **Controlling instruments**: The Controlling division of *aap* regularly informs the Management 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 status of potential risks.

2. Internal Control and Risk Management System with respect to the accounting process

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* Implantate 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 Management 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.

3. Presentation of the principal Risks and Opportunities

A) Risks

This section presents the individual, identified risks faced by *aap* and explains them 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 within their category 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 within a category 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 risks mentioned in this section that may have an impact on the *aap* Group do not always describe all risks that the Company is or could be exposed to. Risks that are 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 *aap*.

Individual risks are assigned to the following categories:

- Market, Competition, New Products and Technologies
- Approval of Products
- Patents and Intellectual Property
- Dependence on Customers and Suppliers
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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 *aap*, in comparison with 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 position 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 damage. *aap* mitigates this risk by making substantial investments in research and development and performing ongoing market and technology screenings. *aap* 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. *aap* estimates the gross risk to be moderate in terms of probability of occurrence, with a moderate potential level of damage. 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 *aap* in terms of its client base. The *aap* Group considers the gross risk to be low in terms of probability of occurrence, with a low potential level of damage. *aap* mitigates the risk of a sector consolidation by cooperating with a range of companies and is constantly building new partnerships.

Approval of Products

Strict licensing requirements apply in the medical technology and health care sectors, which vary from country to country. A refusal to grant licenses and licensing delays affecting the Company's products could have a negative impact on future sales and profits of *aap*. The Company considers the gross risk in terms of probability to be low, with a moderate potential level of damage. The *aap* 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 permanently in the patient's body (endoprostheses, absorbable regeneration materials), advisory opinions on the basis of clinical data are required as a prerequisite for the CE label. *aap* considers the gross risk in terms of probability to be low, with a moderate potential level of damage. 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. Furthermore, *aap* is consulting regulatory authorities in case

of new products, which are real innovations, already prior to the submission of the application for approval.

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, *aap* 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 position 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 employees and the *aap* Group.

Dependence on Customers and Suppliers

In 2015, *aap* generated 47% (previous year: 33%) of its sales in the continued operation with the Company's three largest clients. Consequently the short-term absence or potential insolvency of one of the three largest clients could endanger the earnings and financial position of the Company. *aap* considers the gross risk in terms of probability to be moderate, with a moderate potential level of damage. *aap* is mitigating this risk by expanding the sales organization, along with further internationalization and the acquisition of additional new clients (stability, sales strength, financial strength). Furthermore, the Company intensifies its sales activities in established markets such as the US, the DACH region and other European countries.

In previous fiscal years, *aap* has generated a growing proportion of total sales within the continued operation with customers from the BRICS and SMIT countries. Many of these emerging economies have recently recorded a weak and sometimes even recessionary economic cycle (cf. page 9 of this report). Macroeconomic developments in these countries may cause the economic conditions offered to individual *aap* customers to deteriorate, which could lead to a sales decrease and a worsening of the payment behavior, to a payment default. The Company assesses the gross risk in terms of probability to be moderate, with a moderate potential level of damage. *aap* is mitigating this risk with intensifying its sales activities in established markets such as the US, the DACH region and other European countries. Furthermore, the Company is increasingly ensuring a complete or most predominant hedging of payment flows through prepayments, bank guarantees or letters of credit.

In addition to the products developed and produced within the Group, *aap* also rounds off the product portfolio by trading goods (trauma complementary biomaterials). Various *aap* products are developed by third-party suppliers if in-house production expertise is not available (certain instruments as e.g. carbon fiber based target devices). Furthermore, certain production steps are provided as services by third parties (e.g. grinding of drill blanks). 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.

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 damage. 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.

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 damage. *aap* has implemented comprehensive measures and processes to avoid negative developments in project cancellations. These include, among other things, 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 maintain a freshness index of at least 20% for fiscal year 2016, mainly through increased sales with LOQTEQ®. 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.

Personnel Risks

aap depends on the specialized knowledge of its employees in many areas of its activities. *aap* 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 *aap* Group considers the gross risk in terms of probability to be moderate, with a moderate potential level of damage. The Group mitigates this risk by creating a work environment where all employees can contribute their full potential. In order to achieve this, *aap* 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.

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 damage. 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 *aap* Implantate AG in Berlin and *aap* Biomaterials GmbH during fiscal year 2015. 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. Since December 2015 *aap* has been supported by a new data protection officer who will also be responsible for the subsidiary *aap* Implants, Inc. Furthermore, a new IT service provider was contracted in October 2015 in order to further improve IT processes and infrastructure.

Legal Risks

Currently no significant legal disputes exist.

Additional Disclosures Pursuant to Section 315 para. 2 no. 1 letter b of the German Commercial Code (Handelsgesetzbuch, HGB)

aap faces **interest rate risks** resulting from borrowings and investments. The Company considers the gross risk in terms of probability to be high, with a low potential level of damage. The *aap* Group mitigates these risks with Group-wide cash management and the completion of primary financial transactions. Interest rate and price change risks are managed by mixing terms and taking up fixed and variable-rate positions. In the case of interest-bearing liabilities of the continued operation, all liabilities have a fixed rate, apart from the current account overdraft and a bank loan of EUR 1 million. As at 12/31/2015, around 72% of the continued operation's borrowed capital had a fixed interest rate (previous year: 36%). 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. A change in the interest rate by one percentage point resulted in an increase of income before income taxes by EUR 7 thousand (previous year: EUR 7 thousand) or a decrease of EUR 7 thousand (previous year: EUR 7 thousand).

In addition, *aap* 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 damage. The *aap* Group mitigates these risks through the active management of receivables. For this purpose, *aap* also creates sufficient risk provision in the form of specific and general allowances (Continued operation 2015: EUR 302 thousand, previous year EUR 213 thousand). Furthermore, the Company intensifies its sales activities in established markets such as the US, the DACH region and other European countries.

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 damage. The Group mitigates these risks by switching sales to product innovations with higher margins that are developed and produced in-house.

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 current long-term loan agreements, *aap* is required to comply with certain maximum / minimum levels of equity ratio and net debt. *aap* considers the gross risk of non-compliance with the financial covenants that may result from the retrograde calculation by the respective financing bank to be low, with a low potential level of damage. The *aap* 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*. According to preliminary own calculations based on the figures of 12/31/2015 there is a risk that a covenant is likely to be not observed. Against this background and due to the sale of *aap* Biomaterials GmbH we are in intensive contact with the lending bank and have already discussed adaptions in the credit contracts (KEUR 1,333) which ensure a further existence of the corresponding contracts. Consequently *aap* assesses the risk of an extraordinary termination to be low.

In fiscal year 2015, *aap* generally only arranged internal foreign currency hedging transactions, as there was only a low **currency risk**. Going forward, however, *aap* plans to arrange external hedging for these receivables with higher sales on a US dollar basis

Summary of the Risk Situation of the Company

Overall, the previously reported individual risks have no effect on the survival of *aap*. 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 *aap* Group is thus given. The Management Board will continue to continuously and carefully monitor existing and new risks in the future and will, where appropriate, take countermeasures to ensure that the risks for *aap* remain within certain limits.

The most important individual risks for the *aap* Group and their assessment:

Category	Risk	Probability	Level of damage
Market, Competition, New Products and Technologies	Response to market developments	Moderate	Severe
	Intervention in the health care system	Moderate	Moderate
	Sector consolidation	Low	Low
Approval of Products	Licensing delays / Refusal to grant licenses	Low	Moderate
	Clinical reports	Low	Moderate
Patents and Intellectual Property	Infringement of industrial property rights	Low	Moderate
Dependence on Customers and Suppliers	Dependence on customers	Moderate	Moderate
	Dependence on BRICS and SMIT countries	Moderate	Moderate
	Dependence on suppliers	Low	Low
Product Liability Risks	Claims for damages resulting from product liability	Low	Moderate
Capitalization of Development Costs	Negative developments or project cancellations	Low	Low
Personnel Risks	Lack of qualified employees	Moderate	Moderate
Data Protection	Data loss and abuse	Low	Moderate
Additional Disclosures Pursuant to Section 315 para. 2 no. 1 letter b of the German Commercial Code (Handelsgesetzbuch, HGB)	Interest Rate Risks	High	Low
	Non-payment of accounts receivable	Moderate	Low
	Price change risks	Low	Low
	Liquidity risks	Low	Low

B) Opportunities:

In addition to 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 being integrated into 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 and earnings position and our cash flows.

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 and earnings position and our cash flows.

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 the *aap* Group for the long term.

Financial Opportunities

Favorable exchange rate trends can have a potentially positive impact on the Group's earnings development. *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 our sales and earnings position and our cash flows.

VI. Statement of Events after the Reporting Date

On March 22, 2016 *aap* signed a notarized share purchase agreement with a leading European private equity firm for the sale of 100% of the company shares in its subsidiary *aap* Biomaterials GmbH. The purchase price is based on a total enterprise value of EUR 36 million and will be due for payment after closing of the transaction. The closing of the transaction is subject to the market standard conditions precedent, which are to be met within three months after the signing of the contract. At the time of the publication of this report the transaction has not been closed. The closing of the transaction will result in a positive one-time deconsolidation effect on the earnings level. The company plans to use part of the proceeds to finance further growth and to distribute part of them to its shareholders. The closing of the transaction is the last step in the transformation of *aap* from a general medtech company to a pure player in trauma.

VII. Remuneration Report

The remuneration report provides an overview of the principles of the remuneration system for the members of the Management Board and describes the structure and amount of individual members' remuneration. Furthermore the principles of the remuneration system for members of the Supervisory Board are explained.

Management Board Remuneration

The remuneration system for the members of the *aap* Management Board is primarily aimed at providing incentives to successfully and sustainably develop the Company. In this context, the members of the Management Board shall participate in a long-term and sustainable increase in value of the Company. This system rewards particularly good performance within the context of achieving targets, while failure to do so leads to reduced remuneration.

All valid Management Board contracts comply with the recommendations of the German Corporate Governance Code. The remuneration structure was oriented towards sustainable company development in accordance with the German Act on the Appropriateness of Management Board Remuneration (VorstAG; Article 87 para. 1 AktG (German Stock Corporation Act)).

The contract of Management Board member Marek Hahn (CFO) was extended early by the Supervisory Board resolution of June 21, 2015 by a further two years until December 31, 2017. The contract of CEO Bruke Seyoum Alemu also runs until December 31, 2017.

The following rules apply to Management Board remuneration:

The total remuneration consists of a fixed and a performance-related variable component. The performance-related variable component corresponds to a maximum of 33% of total remuneration. 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 the following sales and cash flow parameters determined for the calendar year 2015:

- Cash flow target achievement (weighting 22%)
- Trauma sales USA (weighting 28%)
- Trauma sales for the rest of the market (weighting 28%)

In addition, variable remuneration accounting for 22% of the quantitative bonus was agreed for the submission of approval for the silver coating technology.

The qualitative bonus is paid in full on target attainment one week after the following year's Annual General 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 Annual General Meeting and half after the Annual General 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 2015 could therefore be reduced if the targets are not met in 2016 and 2017. 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.

Furthermore, the company pays a fixed annual amount in a reinsured provident fund to build up a company pension scheme (contribution-based benefit without minimum performance) for every Management Board member. The members of the Management Board receive an irrevocable subscription right to insurance benefits already before reaching the statutory vesting period. In accordance with the remuneration system, the members of the Management Board are entitled to a company car for unlimited use.

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 2015 was as follows:

	Remuneration components in KEUR				
	Performance-unrelated	Performance-related	With long-term incentivizing effect	Total (2015)	Total (2014)
Biense Visser, CEO (until May 31, 2014)	0	0	0	0	449
Bruke Seyoum Alemu, COO (until May 31, 2014), CEO (as of June 1st, 2014)	425	34	11	470	493
Marek Hahn, CFO	285	24	8	317	292
	710	58	19	787	1,234

In fiscal year 2015, one-off, performance-based additional remunerations were paid as an acknowledgement for the assumption of the position of Chairman of the Management Board as well as the increased responsibility associated therewith and the expanded scope of performance and obligations to Mr. Alemu (gross KEUR 94, net KEUR 50) and to the assumption of other tasks associated with the reduction of the number of the Board members as well as the increasing responsibility associated therewith and the expanded scope of performance and obligations to Mr. Hahn (gross KEUR 63, net KEUR 33). The obligation of acquiring *aap* shares and holding them for a period of at least 3 years starting from the time at which the acquisition has taken effect and not selling them or encumbering them in any way was also associated herewith.

Furthermore, both Management Board members were granted stock options under various stock option programs. Specifically, on December 31, 2015, both Management Board members had stock options from the following stock option programs with the corresponding conditions:

2010 Stock Option Program

On December 31, 2015, Bruke Seyoum Alemu and Marek Hahn each had 150,000 stock options from the 2010 stock option program. The main conditions of the 2010 stock option program are as follows:

Under the 2010 stock option program, subscription rights were granted to employees and Management Board members of the Company, as well as to employees and members of the management of Company-affiliated enterprises as per Article 15 et seq. AktG. The Subscription right was granted by the conclusion of an option contract between the Company and the relevant beneficiary. Each subscription right grants the holder the right to purchase one Company bearer share in return for payment of the exercise price. The exercise price of issued subscription rights is the average closing price (arithmetic mean) of the *aap* share in electronic trading (XETRA or a successor system) on the Frankfurt Stock Exchange over the five trading days that precede the first day of the acquisition period. The minimum exercise price is always the lowest issue price within the meaning of Article 9 para. 1 AktG. The pecuniary advantage that beneficiaries achieve by exercising subscription rights (the difference between the closing price of the *aap* share in XETRA trading or a comparable successor system on the day subscription rights are exercised and the exercise price) must not be more than four times higher than the exercise price set upon issue. The subscription rights from stock options may only be exercised after a waiting period (four years from date of issue) and then up to the end of the option term (eight years from the date of issue). Subscription rights

may only be exercised within a four-week period beginning on the second trading day on the Frankfurt Stock Exchange after the Company's Annual General Meeting and after the day on which the management of the Stock Exchange makes the Company's annual financial report, the half-yearly financial report or the interim reports for the first or third quarter of the fiscal year available to the general public. Subscription rights may only be exercised from the stock options if the closing price of the Company shares in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day before the exercise date is at least 10% above the exercise price. As part of fulfilling their subscription rights, the Company may grant beneficiaries the choice of treasury shares or a cash settlement instead of new shares using conditional capital.

2015 Stock Option Program

On December 31, 2015, Bruke Seyoum Alemu had 54,000 stock options and Marek Hahn 36,000 stock options from the 2015 stock option program. The main conditions of the 2015 stock option program are as follows:

Under the 2015 stock option program, subscription rights were granted to members of the Management Board. The Subscription right was granted by the conclusion of an option contract between the Company and the relevant beneficiary. Each subscription right grants the holder the right to purchase one Company bearer share in return for payment of the exercise price. The exercise price of issued subscription rights is the average closing price (arithmetic mean) of the *aap* share in electronic trading (XETRA or a successor system) on the Frankfurt Stock Exchange over the five trading days that precede the first day of the acquisition period. The minimum exercise price is always the lowest issue price within the meaning of Article 9 para. 1 AktG. The pecuniary advantage that beneficiaries achieve by exercising subscription rights (the difference between the closing price of the *aap* share in XETRA trading or a comparable successor system on the day subscription rights are exercised and the exercise price) must not be more than four times higher than the exercise price set upon issue. The subscription rights from stock options may only be exercised after a waiting period (four years from date of issue) and then up to the end of the option term (eight years from the date of issue). Subscription rights may only be exercised within a four-week period beginning on the second trading day on the Frankfurt Stock Exchange after the Company's Annual General Meeting and after the day on which the management of the Stock Exchange makes the Company's annual financial report, the half-yearly financial report or the interim reports for the first or third quarter of the fiscal year available to the general public. Subscription rights may only be exercised from the stock options if the closing price of the Company shares in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day before the exercise date is at least EUR 3.50. As part of fulfilling their subscription rights, the Company may grant beneficiaries the choice of treasury shares or a cash settlement instead of new shares using conditional capital.

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.

VIII. Outlook

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

In the 2016 financial year, forecasts show that the global macroeconomic environment will continue to be burdened by a series of geopolitical risks. These risks include, for instance, the Ukraine crisis, the conflicts in the Middle East and their effects on the western world, the foreseeable interest rate reversal in the US and the continuing European sovereign debt crisis. Against this backdrop, the global economy is forecasted to grow by around 3.4% in 2016[9]. Overall, it is expected that there will be a continued shift in growth dynamic from emerging nations to industrial nations. The Eurozone is expected to see continued, moderate recovery and a real Gross Domestic Product (GDP) growth rate of around 1.7% in 2016[10]. As a result, the economy should gain momentum and be strengthened by domestic trade. Particular growth drivers include the relatively low interest rates and oil prices, as well as improved turnover prospects as a result of the comparatively low Euro-Dollar exchange rate. At the same time, the outlook in the Eurozone continues to be burdened by the structural need for reform in some countries. In 2016, the German national economy is forecast to show a continued, solid course of growth. In its 2016 annual economic report, the German Federal government therefore anticipates a 1.7% increase in GDP in real terms[11]. The foundation for these internal economic dynamics will be laid through the lasting increase in employment and noticeable income increases within the population. Investments in building private homes have provided further positive stimulation. The US economy is also set to show dynamic development. GDP is forecast to grow by around 2.8% in real terms in 2016. Private consumption should increase further as a result of the progress made in consolidating private budgets and an increasing recovery of the employment market. Against the backdrop of this economic environment, there should also be a strong increase in company investments.

The MedTech Environment

As far as the global scale is concerned, the coming year is set to bring continued, positive growth. As a result of the *Branchenbericht Medizintechnologien* 2016 (sector report on medical technology) from the *Bundesverband für Medizintechnologie e.V.,* ("BVMed"),[12] annual growth rates of around 5% are expected in medical technology in accordance with the Federal Ministry of Economics' study "Innovation impulses in the health economy" (2011). A study by the Hamburg Institute of International Economics (HWWI) makes a distinction between emerging nations and industrial nations. The study anticipates an average annual increase in demand within emerging nations of 9% - 16% by 2020, and between 3% and 4% within industrial nations. A more short-term forecast can be

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

[10] Internet source: https://www.ifw-kiel.de/medien/medieninformationen/2015/herbstprognose-des-ifw-fur-deutschland-euroraum-und-die-welt-bis-2017

[11] Internet source: http://www.bmwi.de/DE/Presse/pressemitteilungen,did=750354.html

[12] The BVMed 2016 sector report on medical technology is available on request from the association's Press Center.

found in the latest BVMed survey for fall 2015. According to the survey, 62% of surveyed MedTech companies expect a more favourable worldwide business situation in 2016 compared with the previous year. For the German market, the picture is slightly different. Only 43%, or less than half of the survey participants, expect a more favourable business situation in 2016. In Germany, the turnover and margins of the surveyed companies seem to be dwindling even further. This is being blamed in particular on increasing price pressure due to bundled purchasing in hospitals and tenders in the field of medical devices.

Strategy and Long-Term Outlook

The core element of the Management Board's strategy is to transform *aap* into a leading European trauma company and to focus on these core competencies. The basis continues to be the sustainable increase of the company's value through the development and sale of IP-protected products, which allow value-based innovations. Value-based means innovations which offer both clinical and economical advantages for the patient, the user and the customer. The company's products should contribute to a better and more affordable healthcare. From a geographic standpoint, *aap* wants to place particular focus on developing new markets, in addition to consolidating and expanding existing market shares. In fiscal year 2016, established markets such as the DACH region, Europe, and the USA will play a key role, while the BRICS and SMIT countries regain stability and thereby lay the foundation for growth.

In fiscal year 2015, the Management Board was able to make good progress in implementing the strategy. In March 2016, we signed a share purchase agreement with a leading European private equity firm for the sale of 100% of the company shares in our subsidiary *aap* Biomaterials GmbH. After negotiations broke down in March 2015 due to closing terms that we considered unacceptable, we were able to conclude the transaction on favorable terms at the second attempt and reach a purchase price at an assumed enterprise value of EUR 36 million.

A major highlight of financial year 2015 was the largely completed approval-related work for our antibacterial silver coating technology. As a result, we submitted the design dossier for the performance of a CE conformity assessment procedure to a notified body leading in the field of medical products end of January 2016. *aap*'s silver coating technology addresses the reduction of infection risks, which is one of the critical problems in surgery that haven't yet been resolved adequately. During a procedure medical implants can become colonized by bacteria from the surrounding area forming a biofilm thereafter which can cause serious infections later. It is therefore desirable to combat the biofilm formation at an early stage. This is where *aap*'s silver coating technology becomes effective by protecting the implants' surface against bacterial colonisation. The unique selling propositions of our silver coating technology have been demonstrated in diverse trials and consist of the high coating stability as well as the good biocompatibility and effectiveness. It is furthermore a cost-efficient coating technology due to the relatively short coating time and the comparatively low capital investment for the required coating machines.

In fiscal year 2015, the LOQTEQ® portfolio was further expanded and *aap* can now ensure an indication coverage of more than 90% for the treatment of big bone fractures. As a result the LOQTEQ®product family's attractiveness further increases, both for established markets and for hospital and purchasing groups as well as tendering procedures.

The closing of the *aap* Biomaterials GmbH transaction is the final step in our consistently implemented strategy to transform *aap* into a pure player in trauma. With a view to achieving the goal of sustainably increasing the company's value, the starting point for the "new" *aap* can be summarized as follows:

- With a focused business model, *aap* can take even better advantage of the opportunities in the fast-growing global trauma market

- *aap* has a comprehensive, IP-protected technology and product portfolio and an innovation pipeline with a broad LOQTEQ® plate and screw portfolio, trauma complementary biomaterials, the silver coating technology and magnesium-based implants

- Short and medium-term growth opportunities in three of the fastest-growing areas of orthopedics: mainstream trauma, foot and ankle, and trauma complementary biomaterials

- As a platform technology, the silver coating technology has a wide range of applications and can therefore also be used in other fields such as cardiology, dentistry, or in various other medical instruments

- The sale of *aap* Biomaterials GmbH results in a strong liquidity base, part of which is to be used to finance further growth; part of the proceeds shall be distributed to shareholders

- The cost structure must be aligned with the strategy of a pure player in trauma; to do this, cost reduction measures must be implemented in 2016 that bring costs in line with expected sales streams and the reduced size of the company

In view of this starting point, it can be deduced that *aap* must currently be considered a start-up company whose value creation is not derived from the financial figures of an income statement, but rather from the inherent value generation of an IP-based product and technology base. With the development and market launch of LOQTEQ®, *aap* has provided convincing proof of concept and has already achieved a high level of customer acceptance. Nevertheless, all three core technologies – LOQTEQ®, silver and magnesium – are destined to achieve their full value potential in cooperation with global partners.

As we go forward, we will selectively include new indication areas to develop or complete the LOQTEQ® portfolio. In addition, the further acceleration of the projects "silver coating of trauma implants" and "magnesium-based trauma implants" remains a key focus, in order to sustainably strengthen and further develop competitiveness through innovations.

In fiscal year 2016, the *aap* Group wants to put particular focus on sustainably increasing sales with its trauma products while simultaneously adapting the cost structure to sufficiently account for future expected sales streams and the reduced size of the company. Over the next few years, the

company's goal is to achieve yearly trauma product sales growth of more than 20%. Increased sales and achieving critical mass will also bring about a noticeable improvement in results.

In order to best unlock the inherent value of our comprehensive product and technology base, *aap* is currently working with a leading corporate finance firm to determine and evaluate the various possibilities for value generation.

On the basis of the 2015 Management Agenda the company's Management Board has identified four action areas that have been combined to constitute the new Management Agenda for the financial year 2016: "Accelerating value-based innovation," "Enhancing market access," "Optimizing operational efficiency," and "Realization of financial targets". The Management Agenda is intended to summarize the company's strategic focal points so that the capital market and the general public have an even better understanding of the company's strategic alignment and its implementation.

Management Agenda Targets for 2016

Accelerating value-based innovations
LOQTEQ®: Completion of LOQTEQ® portfolio with a focus on polyaxial fixation technology as well as foot and ankle
Silver coating technology: CE mark for the antibacterial silver coating technology
Magnesium technology: Accelerated development of magnesium technology (Implants and coating of magnesium-based products)

Enhancing market access
Established countries: Focus on DACH, Western Europe and the USA as key markets
Emerging countries: Stabilization of sales development in BRICS and SMIT states
Sales organization: Development of a strong international sales team that attracts further talents

Optimizing operational efficiency
Production efficiency: Reduction of manufacturing costs and increase of ability to provide timely deliveries
Sales efficiency: Increase of sales efficiency with higher performance per sales employee and distributor
Working capital: Optimization of working capital management with a higher inventory turnover and a reduction of the figure DSO (days sales outstanding)

Realization of financial targets
Sales: 20% growth with trauma products
Costs: Implementation of cost-reduction measures with an annualized effect of EUR 2 million
Innovations: Maintenance of a freshness index of at least 20%

Outlook for 2016

In fiscal year 2016, *aap* aims to return to the growth track. The Management Board expects an increase in sales with trauma products of 20% for the current year. The company's growth strategy is focused especially on established markets as the U.S., the DACH region and other European countries. At the same time sales development in the BRICS and SMIT countries shall be stabilized.

It should also be noted that, in light of the intended sale of the remaining share in *aap* Joints GmbH (knee, hip and shoulder recon products), we expect a significantly reduced sales volume of these products in this non-core area in 2016 (2015 sales: EUR 1.5 million).

In response to the business development in recent quarters *aap* significantly expanded its sales organization. The sales team was strengthened with several executives with extensive experience and proven track records in the industry based on many years of service with renowned international medical technology companies.

The Management Board has set the following concrete financial targets for fiscal year 2016:

- Sales of between EUR 13 million and EUR 15 million for the continued operation, with a growth of trauma products of 20% (FY/2015: EUR 12.3 million)
- EBITDA of between EUR -5.5 million and EUR -3.9 million (FY/2015: EUR -6.8 million) for the continued operation
- EDITDA of the Group (continued and discontinued operation) incl. deconsolidation gain of between EUR 14.1 million and EUR 15.7 million
- Implementation of cost-reduction measures with an annualized overall effect of EUR 2.0 million; possibly one-time additional costs in 2016 through termination of contractual relations

Going forward, trauma sales will include sales with LOQTEQ®, standard trauma products and trauma complementary biomaterials. Trauma sales in the 2015 financial year amounted to EUR 10.8 million.

General Outlook on the Company's Expected Development

Based on the assumptions explained with regard to the performance of the global economy in general and the med tech sector in particular, we are expecting *aap*'s business development to be positive. For fiscal year 2016 and beyond, we are expecting to see increasing sales, with our trauma products experiencing strong growth 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. The three IP-protected platform technologies LOQTEQ®, silver coating and magnesium offer considerable growth potential. Unlocking the inherent value of these technologies is an essential goal of the company's further strategic development. However, this objective entails a number of risks: it may cause delays in entering established markets and expanding existing markets, as well as delays or refusals of product approvals, particularly with regard to future technologies silver coating and magnesium.

With the new *aap* as a pure player in trauma, the Management Board of *aap* is confident to realize a compelling growth story and to sustainably increase the shareholder value.

IX. Disclosures pursuant to Art. 315 (4) of the German Commercial Code

1. Composition of Subscribed Capital

As of December 31, 2015, 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 Annual General Meeting. There are no differences in voting rights. Furthermore, the company issued in the fiscal year 162,100 shares to satisfy subscription rights from stock options exercised. The application for entry into the commercial registry was made on January 27, 2016. The entry and effective issuance have not yet taken place at the time of the statement. These payments on the shares were therefore accounted for in the positions "Deposits made for implementation of capital increase".

2. Constraints concerning voting rights or transfer of shares

aap is not aware of any constraints concerning voting rights. The legal provisions apply to the exercise of voting rights by shareholder associations, banks and other persons acting in a commercial capacity. Article 135 of the German Stock Corporation Act (AktG) applies in particular in this regard. *aap* is not aware of any constraints concerning the transfer of shares.

3. Direct or indirect shareholdings exceeding 10% of the voting rights

As far as *aap* is aware, the following direct or indirect shareholdings in the share capital of EUR 30,670,056.00 exceeding 10% of voting rights existed as at 31 December 2015:

Name	Voting rights in %
1. Ratio Capital Management B.V.	13.37
2. Jürgen W. Krebs	12.72
3. Noes Beheer B.V.	10.93

4. Owners of shares with special entitlements granting control rights

There are no shares with special entitlements granting control rights in respect of *aap.*

5. Type of control of voting rights in case of shareholding employees who do not directly exercise their control rights

If *app* employees hold an interest in the Company's share capital, they may exercise the rights they are entitled to as a result of these shares directly as per the provisions of the articles of association and the law.

6. Statutory provisions and rules in the articles of association on the appointment and recall of members of the Management Board and on changes to the articles of association

The appointment and dismissal of members of the Management Board are governed by Articles 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 of the Management Board and appoints them. The Supervisory Board can appoint a member of the Management Board as chairman and another as deputy chairman. The Supervisory Board dismisses members of the Management Board. The Management Board members are appointed for a maximum of five years. A reappointment or an extension of the term of office for an additional five years is 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 Annual General 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 Articles 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.

7. Powers of Management Board to issue and buy back shares

The Annual General Meeting held on June 13, 2014 authorized the Company, in accordance with Article 71 para. 1 no. 8 of the German Stock Corporation Act (AktG), to buy treasury shares up to a total notional amount of 10% of the share capital of the Company existing at the time of the adoption of the resolution in question until June 12, 2019. The shares acquired together with the other treasury shares held by or attributed to the company in accordance with Article 71a et seq. AktG may 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 acquisition takes place at the discretion of the Management Board, either on the stock exchange, through a public offer or as a public invitation to make such an offer. The Management Board is authorized to use company shares acquired on the basis of this authorization for all legally permissible purposes, also in particular for the purposes stated in the authorization. The right of shareholders to subscribe to these treasury shares is excluded insofar as these shares are used for the purposes detailed in the authorization or if compensation for fractional amounts is required in a sale to all shareholders.

With the consent of the Supervisory Board, the Management Board was 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 right of shareholders could be excluded with the consent of the Supervisory Board for the purposes detailed in the authorization.

With the consent of the Supervisory Board, the Management 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 right of shareholders can be excluded with the consent of the Supervisory Board for the purposes detailed in the authorization.

With the consent of the Supervisory Board, the Management 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 June 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 Management Board is authorized to exclude the subscription rights of shareholders with the consent of the Supervisory Board for the purposes detailed in the authorization.

The Annual General Meeting held on September 29, 2008 approved a conditional increase in the share capital by up to EUR 1,200,000.00 by the issue of up to 1,200,000 new bearer shares in the Company with dividend entitlement from the beginning of the fiscal year in which they are issued (Conditional Capital 2008/I). 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 Annual General Meeting held on September 29, 2008. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights. The Annual General Meeting held on July 16, 2010 waived the Conditional Capital 2008/I by EUR 527,500.00, the Annual General Meeting of July 6, 2012 waived the conditional capital by EUR 70,000.00 and the Annual General Meeting of June 12, 2015 waived the conditional capital by EUR 602,500.00. The Company's share capital is therefore no longer conditionally increased.

The Annual General Meeting held on July 16, 2010 approved a conditional increase in the share capital by up to EUR 1,486,000.00 by the issue of up to 1,486,000 new bearer shares in the Company with dividend entitlement from the beginning of the fiscal year in which they are issued (Conditional Capital 2010/I). 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 Annual General Meeting held on July 16, 2010. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights. The Annual General Meeting held on July 6, 2012 waived the Conditional Capital 2010/I by EUR 139,400.00. In financial year 2015 162,100 stock options were exercised. The Company's share capital is therefore increased conditionally by up to EUR 1,184,500.00 by the issue of up to 1,184,500 new bearer shares in the Company.

The Annual General Meeting held on July 6, 2012 approved a conditional increase in the share capital by up to EUR 300,000.00 by the issue of up to 300,000 new bearer shares in the Company with dividend entitlement from the beginning of the fiscal 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 Annual General Meeting held on July 6, 2012. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights.

The Annual General Meeting held on June 14, 2013 approved a conditional increase in the share capital by up to EUR 300,000.00 by the issue of up to 300,000 new bearer shares in the Company with dividend entitlement from the beginning of the fiscal 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 Annual General Meeting held on June 14, 2013. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights.

The Annual General Meeting held on June 13, 2014 approved a conditional increase in the share capital by up to EUR 300,000.00 by the issue of up to 300,000 new bearer shares in the Company with dividend entitlement from the beginning of the fiscal 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 Annual General Meeting held on June 13, 2014. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights.

The Annual General Meeting held on June 12, 2015 approved a conditional increase in the share capital by up to EUR 150,000.00 by the issue of up to 150,000 new bearer shares in the Company with dividend entitlement from the beginning of the fiscal year in which they are issued (Conditional Capital 2015/I). The Conditional Capital 2015/I serves the purpose of fulfilling the exercise of subscription rights granted by December 19, 2017 on the basis of the authorization approved by the Annual General Meeting held on June 12, 2015. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights.

8. Considerable agreements of the Group conditional upon a change of control as a result of a takeover bid

Between a subsidiary and an external company, there is a sales agreement in place for the provision of certain products of the subsidiary, representing 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.

Between a subsidiary and another external company, there is a supply agreement in place for certain products of the subsidiary, representing 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.

Between a subsidiary and an external company, there are two cooperation agreements in place for certain products and development services of the subsidiary, representing 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 (whether directly or indirectly) 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.

Between a subsidiary and another external company, there is a sales and license agreement in place for certain products of the subsidiary, representing 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, aap is required to refund all one-off and sales-based license fees paid under this agreement. A change of control under this sales and license agreement takes place when, in one or more transactions, an individual or company or various 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.

Between a subsidiary and another external company, there is a sales and license agreement in place for certain products of the subsidiary, representing 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. A change of control under this sales and license agreement takes place when, in one or more transactions, an individual or company or various 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.

9. Compensation agreements of the Group with members of the Management Board or staff in the event of a takeover bid

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.

Bruke Seyoum Alemu
Chairman of the Management Board / CEO

Marek Hahn
Member of the Management Board member / CFO

C. Consolidated Financial Statements

I. Consolidated Statement of Financial Position

	Notes	12/31/2015	12/31/2014
Assets		**KEUR**	**KEUR**
Non-current assets		**19,203**	**25,017**
Intangible assets	F.1.	10,441	15,198
Goodwill		*0*	*1,568*
Capitalized services		*10,293*	*13,118*
Other intangible assets		*148*	*512*
Tangible assets	F.2.	7,675	7,690
Accounts receivable (trade debtors)	F.6.	310	461
At-Equity financial assets		0	1,464
Financial assets	F.3.	192	192
Deferred taxes	F.4.	585	12
Current assets		**35,743**	**32,840**
Inventories	F.5.	9,703	9,400
Accounts receivable (trade debtors)	F.6.	5,516	8,838
Receivables from service contracts		0	1,158
Other financial assets	F.7.	725	894
Other assets	F.8.	202	414
Cash and cash equivalents	F.9.	4,941	12,136
Asset classified as held for sale	D./F.10.	14,656	0
Total assets		**54,946**	**57,857**

	Notes	12/31/2015	12/31/2014
Liabilities and shareholders' equity		**KEUR**	**KEUR**
Shareholders´equity	F.11.	**40,307**	**45,424**
Subscribed Capital		30,670	30,670
Contributions to implement the capital increase		162	0
Capital reserve	F.11.	17,615	17,609
Revenue reserve		228	228
Other reserve		490	490
Consolidated Balance Sheet Profit/ Loss		-8,864	-3,573
Cumulative changes not affecting income		6	0
Non-current liabilities (above 1 year)		**3,406**	**4,980**
Financial liabilities	F.14.	0	2,257
Other financial liabilities	F.15.	1,340	126
Deferred taxes	F.4.	1,140	1,583
Provisions	F.13.	22	112
Other liabilities	F.16.	904	902
Current liabilities (up to 1 year)		**11,233**	**7,453**
Financial liabilities	F.14.	3,260	1,997
Trade accounts payable	F.14.	4,102	2,949
Other financial liabilities	F.15.	940	1,308
Provisions	F.13.	276	300
Tax liabilities	F.14.	0	177
Other liabilities	F.16.	504	722
Liabilities directly associated with assets classified as held for sale	D.	2,151	0
Total liabilities and shareholders' equity		**54,946**	**57,857**

II. Consolidated Statement of Comprehensive Income

	Notes	2015	2014	2015	2014	2015	2014
		Continued Operation		Discontinued Operation		Group total	
		KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Sales	E.1.	12,280	14,615	15,698	16,979	27,978	31,594
Changes in inventories of finished goods and work in progress		3,968	59	-120	284	3,848	343
Other own and development work capitalized	E.2.	1,881	1,861	202	211	2,083	2,072
Total revenue		**18,129**	**16,535**	**15,780**	**17,474**	**33,909**	**34,009**
Other operating income	E.3.	770	1,852	873	1,203	1,643	3,055
Cost of purchased materials and services	E.4.	-7,789	-6,363	-5,909	-5,903	-13,698	-12,266
Personnel expenses	E.5.	-8,493	-8,371	-3,403	-3,874	-11,896	-12,245
Other operating expenses	E.7. u. E.10.	-9,409	-7,580	-2,415	-2,694	-11,824	-10,274
Other taxes		-10	-2	-4	-2	-14	-4
EBITDA		**-6,802**	**-3,929**	**4,922**	**6,204**	**-1,880**	**2,275**
Depreciation of tangible assets and intangible assets as well as of associated companies	E.6.	-2,230	-1,398	-794	-923	-3,024	-2,321
EBIT		**-9,032**	**-5,327**	**4,128**	**5,281**	**-4,904**	**-46**
Financial result	E.8.	-35	49	-163	-128	-198	-79
Income / Expense from joint ventures and associates		-194	-49	0	0	-194	-49
EBT		**-9,261**	**-5,327**	**3,965**	**5,153**	**-5,296**	**-174**
Income tax	E.11.	-281	-588	285	306	4	-282
Net result / Total comprehensive income		**-9,542**	**-5,915**	**4,250**	**5,459**	**-5,292**	**-456**
Changes not affecting income		**6**	**0**	**0**	**0**	**6**	**0**
Total result after taxes		**-9,536**	**-5,915**	**4,250**	**5,459**	**-5,286**	**-456**
Net income per share (undiluted) in EUR		-0.31	-0.19	0.14	0.18	-0.17	0.00
Net income per share (diluted) in EUR		-0.30	-0.19	0.14	0.17	-0.17	0.00
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		31,287	31,350	31,287	31,350	31,287	31,350

III. Consolidated Statement of Cash Flows

	01/01 – 12/31/2015 KEUR	01/01 – 12/31/2014 KEUR
Net income (after tax) from continued operation	-9,542	-5,915
Net income after tax from discontinued operation	4,250	5,459
Net income after tax	**-5,292**	**-456**
Changes in working capital	**16**	**-3,132**
Stock options expenses without effect on payments	-9	-1,159
thereof:		
Cash settlement	*-22*	
Cash settlement	*-73*	*-1,409*
stock options expenses curr. year	*87*	*250*
Depreciation and impairment loss fixed assets	3,024	2,321
Changes in provisions	-9	155
Gain/loss from retirement of financial assets	0	-959
Gain/loss from disposal of subsidiaries	0	-167
Gain/loss from disposal of fixed assets	-1	169
Share of net profit/loss of investments	194	49
Interest rate expenses and income	198	79
Income tax expenses and income	-4	282
Changes in other assets	339	96
Changes in other liabilities	-543	-228
Income tax payments	-178	81
Cash flow from operating activities	**-2,265**	**-2,869**
Outgoing payments from investing activities	-3,142	-5,133
Incoming payments from disposal of fixed assets	12	59
Incoming payments from disposal of investments	0	1.046
Grants	55	507
Received interest rates	25	69
Incoming payments from disposal of shares from subsidiaries	0	16,679
Cash flow from investing activities	**-3,050**	**13,227**
Incoming payments from equity injection	177	0
Inflow from loans	1,001	2,219
Redemption of loans	-1,997	-2,676
Redemption of finance lease	-65	-93
Interest rates paid	-222	-148
Cash flow from financing activities	**-1,106**	**-698**
Changes of cash fund due to exchange rate effects	6	0
Decrease / Increase in cash & cash equivalents	-6,415	9,660
Cash & cash equivalents at beginning of period	12,136	2,476
Cash & cash equivalents at end of period	**5,721**	**12,136**
Thereof KEUR 779 account for the discontinued operation		

IV. Consolidated Statement of Changes in Equity

				Revenue reserves			Non-cash changes in equity				
All figures in KEUR	**Subscribed capital**	**Initial capital payments made for capital increase**	**Capital reserve**	**Legal reserves**	**Other revenue reserves**	**Revaluation reserve**	**Reserve for available for sale assets**	**Difference from currency translation**	**Total**	**Balance sheet result**	**Total**
Status 01/01/2015	**30,670**		**17,609**	**42**	**186**	**490**	**0**	**0**	**490**	**-3,573**	**45,424**
Capital increase									0		0
Stock options		162	6						0		168
Income of the group as of 12/31/2015									0	-5,292	-5,292
Currency differences								6	6		6
Other income								0	0		0
Total comprehensive income								6	6	-5,292	-5,286
Status 12/31/2015	**30,670**	**162**	**17,615**	**42**	**186**	**490**	**0**	**6**	**496**	**-8,865**	**40,306**
Status 01/01/2014	**30,670**		**18,768**	**42**	**186**	**490**			**490**	**-3,117**	**47,039**
Capital increase	0		0								0
Stock options			-1,159								-1,159
Valuation of available for sale assets						0					0
Raising ownership shares in subsidiaries											0
Income of the group as of 12/31/2014										-456	-456
Other income											0
Total comprehensive income										(-456)	(-456)
Status 12/31/2014	**30,670**		**17,609**	**42**	**186**	**490**			**490**	**-3,573**	**45,424**

V. Notes

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, 2015 to December 31, 2015 comprise *aap* Implantate AG and its subsidiaries. The Group is a company in the medical technology sector. The Group's business activities consist of the development, production and marketing of trauma products for orthopedics. In addition, in the financial year 2015 *aap* Implantate AG had a firm foothold in the field of biomaterials with its former subsidiary *aap* Biomaterials GmbH. The Group's production facilities are located exclusively in Germany. 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, 2015 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.

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:

	2015 Shareholding	2014 Shareholding
aap Biomaterials GmbH, Dieburg	100%	100%
MAGIC Implants GmbH, Berlin	100%	100%
aap Implants Inc., Dover, Delaware, USA	100%	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. Please refer to Section D for information regarding the founding of *aap* Implants Inc. in 2014.

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

In previous years, 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) or as
- 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.

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.

Examples of objective indications include financial difficulties on the part of debtors or defaults on interest payments and loan repayments.

In the event of objective indications of write-downs, the impairment charge is determined from the difference between the book value and the cash value of expected future cash flows, discounted at the original effective interest rate of the financial asset. An impairment charge is recorded immediately with effect on results.

If the amount of an estimated impairment charge changes in a subsequent reporting period due to an event occurring objectively after the time of the value adjustment, the previously recorded impairment charge is increased or reduced with effect on results by adjusting the value adjustment account.

Financial assets held available for sale are subject to extraordinary depreciation if there are objective indications of a lasting decline in fair value below acquisition costs. The write-downs are determined from the difference between the original acquisition costs (less any repayments and amortizations) and the cash value of expected future cash flows. Any impairment expenses are recorded with effect on results.

A financial asset is written off at the time of expiry or transfer of the rights to payments from the asset, and thus at the time at which essentially all opportunities and risks associated with the property are transferred.

In the consolidated financial statements of *aap* as of December 31, 2015, 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.

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 for financial assets also apply to financial liabilities. The subsequent valuation of financial liabilities 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

Costs of borrowing associated with qualified assets (in particular active development costs), are thoroughly capitalized. All other borrowing costs are recorded as expenses in the period in which they were incurred.

Cash and Cash Equivalents

Cash and cash equivalents include balance sheet items, bank balances, cash in bank without term deposits with an agreed maturity between 3 and 12 months.

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. 12 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.

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**
IFRIC 21Taxes	Affects the time of the payment of a public tax.	from June 17, 2014
AIP 2011-2013 Amendments made by way of the Annual	As a result of the EU endorsement on December 18, 2014 the following improvements to the following standards, among others, have been adopted:IFRS 3	from January 1, 2015

Improvements Project 2011–2013 Cycle	(exclusion of joint ventures from its scope), IFRS 13 (scope of the so called portfolio exception)

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, 2016. *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	Pertains to entries of contributions from employees or third parties to a pension plan	from February 01, 2015
AIP 2010 -2012 Amendments made by way of the Annual Improvements Project 2010-2012 Cycle	As a result of the EU endorsement on December 17, 2014, the following improvements to the following standards, among others, have been adopted: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38	from February 01, 2015
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.	January 1, 2016
IAS 16/ IAS 38 Tangible fixed assets/intangible assets	Clarifies that revenue-based method is not considered to be an appropriate depreciation method pursuant to IAS 16 and its use is only subject to certain conditions pursuant to IAS 38.	January 1, 2016
IAS 27 Individual financial statements	The option to use the equity method to accountshares in subsidiaries, joint ventures and associates in the separate financial statements is reinstated.	January 1, 2016
AIP 2012–2014 Amendments made by way of the Annual Improvements Project 2012–2014 Cycle	As a result of the EU endorsement thereof on December 15, 2015, improvements to the following standards have been adopted: IFRS 5, IFRS 7, IAS 19, IAS 34	January 1, 2016
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.	January 1, 2016

IFRS 10, IFRS 12, IAS 28 Consolidated financial statements/Investments in associates and joint ventures	Clarifies that the exemption of subsidiaries from inclusion in consolidated financial statements of an investment entity where those subsidiaries are themselves parent companies is valid.
IFRS 9 Financial instruments	Reconsideration of the reporting procedure for financial instruments and abolition of IAS 39 Financial instruments: Approach and valuation.
IFRS 15 Revenue from contracts with customers	New standard for the revenue recognition; replaces IAS 18, IAS 11 and the corresponding interpretations thereof
IAS 7 Cash Flow Statements	Mandatory disclosure of an offsetting and reconciliation of borrowing costs with cash flows that are reported or can be reported as part of financing activities
IAS 12 Income Tax	Clarifies that devaluations on debt instruments valued at fair value (due to increased market rates) lead to the application of active deferred taxes for unrealized losses if the taxable value corresponds to its acquisition costs
IFRS 16 Leasing Agreements	IFRS 16 replaces IAS 17, “Leasing Agreements”, and any related interpretations. According to the new rules, lessees are obliged to account all leasing agreements in the form of a right of use and a corresponding lease liability

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.

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, 2015, the book value of capitalized development costs was KEUR 14,163 (previous year: KEUR 13,118), of which KEUR 10,293 accounted for the continued

operation. 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). In the financial year 2015 no write-downs of development costs were necessary.

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, 2015, the book value of the goodwill is KEUR 1,568 (previous year: KEUR 1,568). This is associated with the discontinued business area and thus reported under assets for sale.

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 KEUR 249 (previous year: KEUR 69) were recognized as of the reporting date. Furthermore, customer credit notes for sales from previous years are recorded (287 KEUR, previous year KEUR 0).

By derogation from the published interim financial statements, in April 2016 the Management Board also decided to reverse sales amounting to KEUR 721 million in the 2015 consolidated financial statements, because the customer was subject to country-specific sanctions that made it impossible to market the products and it was consequently not expected that the receivables would be offset.

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, 2015 was KEUR 219 (previous year: KEUR 412).

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..

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 2016 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. *aap* Implants Inc. has been economically active since 2015.

Discontinued Operation

In the course of financial year 2015, the Management Board continued its strategy to transform the company into a “pure trauma” enterprise. For this purpose, a business specializing in M&A transactions was commissioned in the third quarter to find suitable interested parties for the purchase of shares in the subsidiary aap Biomaterials GmbH, based in Dieburg. Contact was made with potential buyers at the beginning of the fourth quarter. The due diligence process was initiated from the beginning of November with three parties that had submitted an appropriate offer by that point. The data room was opened for these parties on November 12, 2015. At that time, management planned to complete the sale process by the end of the first quarter of 2016. With the opening of the data room, the company entered a phase in which it was considered highly likely that the management intended to dispose of aap Biomaterials within one year.

aap Implantate AG (“aap”) signed a share purchase agreement with a leading European private equity firm for the sale of 100% of the shares of aap Biomaterials GmbH, which was notarized on March 22, 2016. The purchase price is based on an assumed company value for aap Biomaterials GmbH of 36 million euros and payment due on closing of the transaction. The business segment being transferred (discontinued operations segment) through this transaction consists of the independent corporate unit aap Biomaterials GmbH, which specializes in the development, production and marketing of bone cements, mixing systems and related accessories, as well as aap’s distribution business in this segment.

All information on items in the Profit and Loss Statement refer exclusively to continued operations. The data from the previous year was adjusted.

The primary groups of assets and liabilities of aap Biomaterials GmbH that were classified as discontinued operations segments are as follows:

	KEUR 2015	KEUR 2014
Intangible assets	5,592	6,084
Tangible assets	1,293	1,346
Inventories	3,819	3,188
Trade receivables and other assets	2,372	2,349
Receivables from services contracts	0	1,158
Cash	779	487
Assets held for sale	**13,856**	**14,612**
Deferred taxes	1,010	1,297
Trade liabilities	679	557
Financial liabilities	188	223
Other liabilities	275	492
Liabilities associated with assets held for sale	**2,152**	**2,569**

Net cash flow from the discontinued operation is as follows:

	2015 KEUR	2014 KEUR
Operating activity	6,113	4,156
Investment activity	-358	-444
Financing activity	-164	-140
Net Cash Flow	**5,590**	**3,572**

In addition, the shareholding in *aap* joints GmbH amounting to KEUR 800 was reported in assets held for sale.

E. Notes on the Consolidated Statement of Comprehensive Income

All disclosures on items in the income and loss statement apply exclusively to the continued areas. Previous years have been adjusted to this extent.

1. Sales

By region	2015 KEUR	2014* KEUR
Germany	3,738	4,175
Europe	2,167	5,183
America	1,509	1,204
Other	4,865	4,053
	12,280	**14,614**

By category	2015 KEUR	2014* KEUR
Products	12,280	14,614
	12,280	**14,614**

By product group	2015 KEUR	2014* KEUR
Trauma	10,266	12,248
Recon/C-Ment	1.468	1.767
trauma complementary biomaterials	546	599
	12,280	**14,614**

*adjusted

In the financial year 2015, three of the company's major customers accounted for KEUR 5,758 (previous year: KEUR 5,387) in sales.

2. Capitalized own and development costs

Capitalized internally produced assets and development work in the amount of KEUR 1,881 (previous year: KEUR thousand) primarily involve assets capitalized in connection with development projects.

3. Other Operating Income

	2015 KEUR	2014* KEUR
Income from disposal of associated companies	0	943
Income from the services of associated companies	228	487
Income from the reduction of value adjustments	25	4
Income from the release of provisions and the expiration of liabilities	135	95
Income from investment allowances	106	98
Expenditure grants	78	67
Currency differences	84	39
Leasing income	33	33
Income relating to other reporting periods	19	13
Other	62	73
Total	**770**	**1,852**

*adjusted

4. Cost of materials

	2015 KEUR	2014* KEUR
Raw materials, consumables, supplies and purchased goods	5,309	4,180
Expenses for purchased materials and services	2,480	2,183
Total	**7,789**	**6,363**

*adjusted

5. Personnel Expenses

	2015 KEUR	2014* KEUR
Salaries and wages	7,085	7,009
Social security contributions	779	626
Pension benefits, contribution-oriented	536	557
Stock options granted to employees	93	180
Total	**8,493**	**8,372**

*adjusted

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	**2015**	**2014***
Production	88	84
Research & Development	14	14
Quality management	17	14
Sales	29	25
Administration	14	11
Total	**162**	**148**
Manual workers**	91	75
Executives	71	73
Total	**162**	**148**

*adjusted ** incl. technical workers

6. Depreciation

Scheduled depreciation in the continued operations segment amounted to KEUR 1,075 (previous year: KEUR 854) for tangible fixed assets and KEUR 684 (previous year: KEUR 544) for intangible assets.

Additionally, investments in aap Joints GmbH were devalued by non-scheduled depreciation amounting to KEUR 470 (previous year: KEUR 0).

7. Other Operating Expenses

	2015 KEUR	2014* KEUR
Consultancy fees	2,013	1,781
Cost of premises	1,002	946
Advertising costs and travel expenses	1,353	1,144
Research, analysis, experiments and sterilization	1,300	807
Repairs, maintenance	456	405
Outgoing freight, packaging materials, delivery costs	781	665
Insurance, contributions, duties	289	391
Vehicle costs	246	295
Patent and other fees	240	203
Office supplies, telephone, fax, postage	331	314
Sales commissions	323	324
Value adjustments on receivables	249	69
Expenses incurred in prior periods	370	70
Other	456	166
Total	**9,409**	**7,580**

*angepasst

8. Financial Result

	2015 KEUR	2014* KEUR
Other interest and similar income	138	184
Other interest and similar income expense:		
- Interest on non-current loan liabilities	-64	-90
- Interest on current liabilities to banks	-109	-45
Total	**-35**	**49**

9. Result from joint ventures

The result from the joint venture aap Joints GmbH (33% share) amounts to KEUR -194 in the financial year and corresponds to the proportion of the loss attributed to aap AG.

10. Exchange Rate Differences

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

	2015* KEUR	2014* KEUR
Income from exchange rate differences	84	39
Expenditure on exchange rate differences	-33	-21
Total	**51**	**18**

*adjusted

11. Income Tax (Provided by Tax Advisor)

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

Income tax expenses by origin	2015 KEUR	2014* KEUR
Income tax paid or owed		
- Germany	-1	-177
- Other countries	0	0
	-1	-177
Deferred taxes		
- From time differences	88	-363
- From losses carried forward affecting net income	-368	-48
	-280	-411
Total	**-281**	**-588**

*adjusted

In the previous year, an amount of EUR 1,412 thousand was recorded directly in shareholders' equity with no effect on results as a result of the change in the accounting method to take into account the minimum taxation that applies in Germany.

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 as a result of continuing operations from the consolidated profit and loss statement is as follows.

	Continued Operation 2015 KEUR	Continued Operation 2014 KEUR
Earnings before taxes	-9,261	-5,327
Theoretical tax expense (income) 30.2% (previous year: 30.2%)	2,795	1,608
Tax effects on		
Amortization of goodwill	0	0
Non-utilizable losses carried forward or utilization of off-balance sheet losses carried forward and depreciation of losses carried forward	-2,911	-1,707
Tax rate differences within the Group	0	0
Permanent differences	131	287
Non-tax deductible expenses and additional amounts for trade tax	-42	-30
Tax-exempt income	8	-746
Total tax effects	-3,076	-2,196
Income tax expenses in the income statement for continuing business in the income and loss statement	-281	-588
Effective tax rate in %	-3.03%	-11.4%

The rate of taxation applied for the reconciliation described above corresponds to the rate of corporate tax to be paid by the Company in Germany on taxable earnings under German tax law.

12. Earnings per Share according to IAS 33

Undiluted earnings per share are calculated by dividing after tax 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. 2015	Jan - Dec. 2014
Undiluted share count (in thousands)		30,670	30,670
Earnings from the continued operation	KEUR	-9,536	-5,915
Undiluted earnings per share	EUR	-0.31	-0.19
Earnings from the discontinued operation	KEUR	4,250	5,459
Undiluted earnings per share	EUR	0.14	0.18
Consolidated total earnings	KEUR	-5,292	-456
Diluted earnings per share	EUR	-0.17	-0.00
Diluted share count (in thousands)		31,287	31,350
Earnings from the continued operations segment	KEUR	-9,536	-5,915
Diluted earnings per share	EUR	-0.30	-0.19
Earnings from the discontinued operation segment	KEUR	4,250	5,459
Diluted earnings per share	EUR	0.14	0.17
Consolidated total earnings	KEUR	-5,292	-456
Diluted earnings per share	EUR	-0.17	-0.00

F. Notes on the Consolidated Balance Sheet

1. Intangible Assets

	Goodwill	Develop-ment Costs	Concessions, industrial property rights, licenses and similar rights	Advance payments made	Subtotal
Costs of acquisition and manufacture	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**
As of January 1, 2015	5,535	22,789	11,606	25	39,954
Additions	0	2,083	51	0	2,134
Disposals	0	0	-64	0	-64
Disposals of discontinued operations	-5,535	-11,512	-9,768	0	-26,815
Transfers	0	0	0	0	0
As of December 31, 2015	**0**	**13,360**	**1,826**	**25**	**15,210**
Cumulative depreciation					
As of January 1, 2015	-3,967	-9,671	-11,119	0	-24,757
Depreciation of the continuing operation segment	0	-630	-55	0	-684
Depreciation of the discontinued operation segment	0	-456	-158	0	-614
Disposals	0	0	64	0	64
Disposals of discontinued operations	3,967	7,753	9,503	0	21,223
Transfer	0	-62	62	0	0
As of December 31, 2015	**0**	**-3,066**	**-1,703**	**0**	**-4,769**
Book values					
As of December 31, 2015	**0**	**10,294**	**123**	**25**	**10,441**

2014

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

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

Goodwill

Goodwill resulted from the acquisitions of OSARTIS GmbH & Co. AG and ADC Advanced Dental Care GmbH & Co. KG (since July 1, 2008: ADC Advanced Dental Care GmbH).

Goodwill is allocated at the respective time of acquisition to the cash-generating units that 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.

Development Costs

No capitalized borrowing costs are included in the entries for the financial year. Entries for development costs relate mainly to the following projects:

	Useful life in years	Book value 12/31/2015 KEUR	Book value 12/31/2014 KEUR	Addition 2015 KEUR
Development of LOQTEQ ® without polyaxial system and foot/ankle	7	2,364	2,632	52
Development of LOQTEQ for foot/ankle	-*	267	51	216
Development of polyaxial system	10	905	527	403
Development of nano silver-coated osteosynthesis products	-*	3,336	2,231	1,104
Development of resorbable metal implants based on magnesium alloys	-*	2,786	2,681	105
		9,659	8,123	1,881

-* development projects under development

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 764 thousand (previous year: EUR 730 thousand).

In addition, on December 31, 2015 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 10.67% and 13.52% p.a. (previous year: between 12.3% and 23.7%) before and between 6.6% and 7.0% p.a. (previous year: between 6.7% and 9.84%) 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
Costs of acquisition and manufacture	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**
As of January 1, 2015	1,282	10,844	4,435	154	16,714
Additions	0	1,025	409	1,110	2,544
Disposals	0	-397	-294	0	-691
Disposals of the discontinued operation	-418	-625	-2,647	-20	-3,710
Transfers	0	31	122	-154	0
As of December 31, 2015	**864**	**10,878**	**2,025**	**1,090**	**14,858**
Cumulative depreciation					
As of January 1, 2015	-833	-5,479	-2,713	0	-9,025
Depreciation of the continued operation	-8	-916	-151	0	-1,075
Depreciation of the discontinued operation	-4	-45	-132	0	-180
Disposals	0	387	293	0	680
Disposals of the discontinued operation	401	367	1,649	0	2,417
Transfer	0	0	0	0	0
As of December 31, 2015	-444	-5,686	-1,053	0	-7,183
Book values					
As of December 31, 2015	**420**	**5,193**	**972**	**1,090**	**7,675**

2014

	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
Costs of acquisition and manufacture	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**
As of January 1, 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 1, 2014	-820	-4,985	-2,629	0	-8,434
Depreciation of the continued operation	-13	-747	-287	0	-1,048
Impairment	0	0	0	0	0
Disposals	0	253	204	0	457
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**

The book value of leased fixed assets as of December 31, 2015 was KEUR 1,558 (previous year: KEUR 274). The main leasing contracts are production assets. The installments are in the amount of KEUR 1 – KEUR 46 and are paid on a monthly or quarterly basis. The term is between 36 and 60 months.

The Group obligations under these finance leases are secured by the lessors' rights to the leased assets in the amount of KEUR 1,666 (previous year: KEUR 190)

The book value of tangible assets assigned as collateral for liabilities is EUR 1,927 thousand (previous year: EUR 2,082 thousand).

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

3. Financial Assets

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

	December 31, 2015		December 31, 2014	
	Book value in KEUR	Share in %	Book value in KEUR	Share in %
AEQUOS Endoprothetik GmbH, Munich	192	4.57	192	4.57
	192		192	

4. Deferred tax assets and liabilities

2015	Opening balance KEUR	Recorded in P&L with effect on results KEUR	Recorded directly in shareholders’ equity with no effect on results KEUR	Debts in connection with assets classified as held for sale KEUR
Intangible assets	2	69	0	-1
Capitalized services	-3,431	-363	0	1,027
Tangible assets	0	-34	0	0
Financial assets	12	-3	0	0
Inventories	71	369	0	9
Accounts receivable (trade debtors)	10	13	0	-24
Receivables from development orders	-329	329	0	0
Other receivables	0	0	0	0
Provisions	24	-22	0	-2
Liabilities	0	15	0	1
Total	-3,641	373	0	1,010
Tax losses	2,070	-368		
Total amount*	**-1,571**	**5**	**0**	**1,010**

*If active and passive deferred taxes are balanced

The latent tax deferrals in the **continued operation** (previous year: Group) result from the following balance sheet items:

	12/31/2015		12/31/2014	
	Deferred tax assets	**Deferred tax liabilikties**	**Deferred tax assets**	**Deferred tax liabilities**
	KEUR	**KEUR**	**KEUR**	**KEUR**
Intangible assets	70	0	2	0
Capitalized services	0	-2,767	0	-3,431
Tangible assets	0	-33	0	0
Financial assets	12	-3	12	0
Inventories	504	-55	94	-23
Accounts receivable (Trade debtors)	3	-4	10	0
Trade receivables from development contracts	0	0	0	-329
Other reserves	0	0	24	0
Liabilities	16	0	0	0
Losses carried forward	1,703	0	2.070	0
Total	2,308	-2,862	2,212	-3,783
Balancing	-1,722	1,722	-2,200	2,200
Total	**586**	**-1,140**	**12**	**-1,583**

The total amount of latent taxes stated after balancing is composed as follows:

	12/31/2015		12/31/2014	
	Deferred tax assets	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
	KEUR	**KEUR**	**KEUR**	**KEUR**
Loss carryforwards from use	1,703	0	2,070	0
From consolidation	586	-33	20	
From initial consolidation	0		0	
From temporary differences	19	-2,829	247	-3,903
Total	2,474	-2,863	2,337	-3,903
Netting	-1,722	1,722	-2,325	2,325
Total	**586**	**-1,140**	**12**	**-1,583**

The amount of corporation tax and trade tax loss carryforwards within the German tax group for which no deferred tax claims were capitalized totals approx. EUR 17.4 million and EUR 18.1 million respectively as at the end of the reporting year (previous year: EUR 13.9 million and EUR 13.7 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.

Unused tax loss carryforwards from subsidiaries in other jurisdictions for which no latent deferred tax claims were capitalized total EUR 663 thousand.

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%).

5. Inventories

	2015 KEUR	2014* KEUR
Raw materials, consumables and supplies	821	1,862
Work in progress	1,560	2,617
Finished goods and commercial products	7,275	4,822
Advance payments made	47	99
Total	9,703	9,400

*adjusted

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

	2015 KEUR	2014* KEUR
Cumulative value adjustments as of January 1	3,154	2,984
Thereof		
- Marketability discounts	3,019	2,842
- Reported net realizable value	135	143
Expenses for marketability discounts	0	178
Expenses for net realizable price	167	0
Utilization through the disposal of inventories	-129	0
Reversal of impairment/utilization of net realizable price	0	-8
Cumulative value adjustments as of December 31	3,193	3,154
Thereof		
- Marketability discounts	2,891	3,019
- Reported net realizable value	302	135

* adjusted

The book value of inventories stated at their net realizable value amounts to EUR 1,021 thousand (previous year: EUR 532 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 2015 (previous year: EUR -8 thousand).

6. Trade Receivables

Trade receivables less write-downs totaled EUR 5,826 thousand as of the reporting date (previous year: EUR 9,299 thousand). EUR 5,516 thousand were due within one year in the reporting year (previous year: KEUR 8,838). Individual value adjustments are made if customers are likely to have payment difficulties. Furthermore, lump-sum individual 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:

	2015	**2014**
	KEUR	**KEUR**
Cumulative value adjustments as of January 01	**237**	**183**
Disposals due to changes in scope of consolidation	-24	0
Expenditure in the reporting period	238	58
Utilization of individual value adjustment	0	0
Payments received and impairment reversal of receivables originally written off	149	-4
Cumulative value adjustments as of December 31	**302**	**237**

The maturities of the trade receivables as of December 31, 2015 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, 2015		up to 3 months	up to 6 months	up to 9 months	up to 12 months	more than 1 year
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
5,826	3,335	86	175	501	1,416	313

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
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
9,299	6,574	2,078	416	81	146	4

Trade receivables do not bear interest and generally have an average term of 30 days for domestic customers. Trade receivables from customers abroad usually have a term of 45 to 200 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 in the use of a working capital credit line 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 0 thousand).

7. Other Financial Assets

	12/31/2015 KEUR	12/31/2014 KEUR
Receivables from associated companies	0	110
Public sector grants	156	139
Receivables from the residual purchase price for the purchase of shares in aap joints	400	500
Other	169	145
	725	894

Of the financial assets, EUR 723 thousand were due within a year (previous year: EUR 863 thousand). Non-current financial assets in the amount of EUR 1 thousand (previous year: EUR 1 thousand) are due within the next two years.

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

	12/31/2015 KEUR	12/31/2014 KEUR
Cumulative value adjustments as of January 01	**0**	**20**
Expenditure in the reporting period	0	0
Reversal of asset impairment/utilization	0	20
Cumulative value adjustments as of December 31	**0**	**0**

The maturities of the other financial assets as of December 31, 2015 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				
12/31/2015		up to 3 months	up to 6 months	up to 9 months	up to 12 months	more than 1 year
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
725	725	0	0	0	0	0

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				
12/31/2014		up to 3 months	up to 6 months	up to 9 months	up to 12 months	more than 1 year
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
865	865	0	0	0	0	0

8. Other Assets

	December 12/31/2015 KEUR	December 12/31/2014 KEUR
Tax refund entitlements	14	246
Deferred expenses and accrued income	188	167
	202	**414**

The tax refund entitlements are sales tax (VAT) credits and receivables from income taxes. The other assets are neither overdue nor value adjusted.

Income tax receivables as of December 31, 2015 totaled EUR 7 thousand (previous year: EUR 8 thousand).

9. Cash and Cash Equivalents

Cash and bank balances consist solely of cash in hand and with banks and, for the continued business area, come to EUR 4,941 thousand (previous year: EUR 12,136 thousand).

10. Financial Assets Held for Sale

The company holds 33% of the shares in aap Joints GmbH, Berlin (Joints), which has pursued the sold endoprosthetic sector since 2013. Under the notarization of various contract amendments with Joints, in September 2015 the sales contract for the remaining 33% of the shares was also concluded. This contract is subject to the condition precedent that aap supports Joints in the timely submission and attainment of recertification for implant systems for joints. The authorizing agency had successfully recertified 7 of 8 systems by December 31, 2015. The authorizing agency made recertification for one system contingent on the fulfillment of certain conditions. As it is a system with low sales volume, aap offered Joints an appropriate substitute. Hence, the likelihood of sale of

the shares within the next 12 months is more than likely. The purchase price for the 33% share was set at EUR 800 thousand. First, the book value was updated to the results and the intermediate results from the sales to Joints as of the closing date. Subsequently, the valuation was set at the lower book value and the fair value less costs to sell (stage 2 valuation procedures). The shares were written down from their realizable value in the amount of EUR 800 thousand by EUR 470 thousand due to impairment and recorded in the depreciations on financial assets. Additional disposal costs are not expected.

11. Capital

The company's subscribed capital as of December 31, 2015 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 investment made for a capital increase for stock options is due to the issuance of shares in fulfillment of subscription rights from exercised stock options. An application for entry in the Commercial Register took place on January 27, 2016. Registration and effective issuance had not yet taken place as of the time of preparation.

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. EUR 101,578.26 was allocated to capital reserve and EUR 95,545.93 withdrawn from the capital reserve in the financial year.

Conditional Capital

As of December 31, 2015, *aap* Implantate AG had conditional capital of up to a nominal EUR 2,234,500.00 or up to 2,234,500 shares to fulfill exercised stock options issued in the context of various of stock option programs. Specifically:

The Annual General Meeting held on September 29, 2008 approved a conditional increase in the share capital by up to EUR 1,200,000.00 by the issue of up to 1,200,000 new bearer shares in the Company with dividend entitlement from the beginning of the fiscal year in which they are issued (Conditional Capital 2008/I). 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 Annual General Meeting held on September 29, 2008. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights. The Annual General Meeting held on July 16, 2010 waived the Conditional Capital 2008/I by EUR 527,500.00, the Annual General Meeting of July 6, 2012 waived the conditional capital by EUR 70,000.00 and the Annual General Meeting of June 12, 2015 waived the conditional capital by EUR 602,500.00. The Company's share capital is therefore no longer conditionally increased.

The Annual General Meeting held on July 16, 2010 approved a conditional increase in the share capital by up to EUR 1,486,000.00 by the issue of up to 1,486,000 new bearer shares in the Company with dividend entitlement from the beginning of the fiscal year in which they are issued (Conditional Capital 2010/I). 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

Annual General Meeting held on July 16, 2010. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights. The Annual General Meeting held on July 6, 2012 waived the Conditional Capital 2010/I by EUR 139,400.00. In financial year 2015 162,100 stock options were exercised. The Company's share capital is therefore increased conditionally by up to EUR 1,184,500.00 by the issue of up to 1,184,500 new bearer shares in the Company.

The Annual General Meeting held on July 6, 2012 approved a conditional increase in the share capital by up to EUR 300,000.00 by the issue of up to 300,000 new bearer shares in the Company with dividend entitlement from the beginning of the fiscal 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 Annual General Meeting held on July 6, 2012. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights.

The Annual General Meeting held on June 14, 2013 approved a conditional increase in the share capital by up to EUR 300,000.00 by the issue of up to 300,000 new bearer shares in the Company with dividend entitlement from the beginning of the fiscal 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 Annual General Meeting held on June 14, 2013. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights.

The Annual General Meeting held on June 13, 2014 approved a conditional increase in the share capital by up to EUR 300,000.00 by the issue of up to 300,000 new bearer shares in the Company with dividend entitlement from the beginning of the fiscal 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 Annual General Meeting held on June 13, 2014. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights.

The Annual General Meeting held on June 12, 2015 approved a conditional increase in the share capital by up to EUR 150,000.00 by the issue of up to 150,000 new bearer shares in the Company with dividend entitlement from the beginning of the fiscal year in which they are issued (Conditional Capital 2015/I). The Conditional Capital 2015/I serves the purpose of fulfilling the exercise of subscription rights granted by December 19, 2017 on the basis of the authorization approved by the Annual General Meeting held on June 12, 2015. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights.

Authorizations

By resolution of the Shareholders' Meetings on September 29, 2008, July 16, 2010, July 6, 2012, June 14, 2013, June 13, 2014, and June 12, 2015, 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 13, 2014 and June 12, 2015. The conditions for the exercise thereof are described under F. 12. Share-based compensations.

Treasury shares

The Annual General Meeting held on June 13, 2014 authorized the Company, in accordance with Article 71 para. 1 no. 8 of the German Stock Corporation Act (AktG), to buy treasury shares up to a total notional amount of 10% of the share capital of the Company existing at the time of the adoption of the resolution in question until June 12, 2019. The shares acquired together with the other treasury shares held by or attributed to the company in accordance with Article 71a et seq. AktG may 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 acquisition takes place at the discretion of the Management Board, either on the stock exchange, through a public offer or as a public invitation to make such an offer. The Management Board is authorized to use company shares acquired on the basis of this authorization for all legally permissible purposes, also in particular for the purposes stated in the authorization. The right of shareholders to subscribe to these treasury shares is excluded insofar as these shares are used for the purposes detailed in the authorization or if compensation for fractional amounts is required in a sale to all shareholders.

Approved Capital

As of December 31, 2015, *aap* Implantate AG held approved capital with a total nominal value of EUR 15,335,028 that may be issued in tranches with different time limitations totaling up to 15,335,028 bearer shares.

	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/I	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 (known as 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 that 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 that 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 exercising their conversion or warrant rights;

d) in order to offset fractional amounts.

12. Share-based Payments

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

Essential conditions of the options programs in effect			
	2010		**2012, 2013, 2014, 2015**
Subscription right	Each option gives the beneficiaries the right to purchase one bearer share of aap Implantate AG in return for payment of the exercise price		
	The pecuniary advantage is restricted to four times the exercise price		
Beneficiaries	• 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		• Employees of the company • Employees of associated companies in accordance with Sections 15 et seqq. AktG • only in 2015 option program: Company board members
Issue period	until September 19, 2011	2012: until December 19, 2014 2013: until December 19, 2015 2014: until December 18, 2016 2015: until December 19, 2017	
Waiting period	4 years from the issue date		
Term	8 years from the issue date		
Exercise periods	Within four weeks beginning on the second trading day on the Frankfurt Stock Exchange • After the company's ordinary 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 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	2010, 2012, 2013 and 2014 options program: (Average) closing auction price of aap shares in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day before the day the exercise of subscription rights exceeds at least -10%		
	2015 options program: closing auction price of aap shares in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day before the day the exercise of subscription rights is EUR 3.50		
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. In the past, realized payments were settled in cash. On December 19, 2014, the Management Board decided with immediate effect that further exercises are possible only through the acquisition of equity instruments. Only options granted to former Board members and the current Chair of the Board will be settled in cash due to legal requirements. Stock options exercised by the Chair during the reporting period were compensated in cash. His or her future exercisable stock options are valued as of the reporting date at fair value of future compensation obligations and recorded as a provision.

The Board was authorized by the General Shareholders' Meeting on June 12, 2015 to issue a stock option plan for up to 150,000 shares of stock options for an entitled group of persons by December 19, 2017 (2017 stock option program). 75,500 options were issued in the reporting year from the 2013 stock option program, 288,500 options from the 2014 program and 90,000 options from the 2015 program, for a total of 454,000 options. Out of this, 364,000 were allotted to employees of the aap Group and 90,000 to members of the Board. No options were issued in the previous year. The fair values were determined for the reporting year using a binomial model. The following parameters were considered in this determination:

	Tranche
2013 stock option program	**3**
2014 stock option program	**1**
2015 Stock option program	**1**
Grant date	July 1, 2015
Performance target 2013 and 2014 SOP	EUR 2.76
Performance target 2015 SOP	EUR 3.50
Risk-free interest rate	0.01%
Expected volatility	41.11%
Expected income from dividends	EUR 0.00
Share price on valuation date	EUR 2.44
Expected option term	5 years

	Tranche
2013 stock option program	**4**
2014 stock option program	**2**
Grant date	Dec. 2, 2015
Performance target	EUR 1.68
Risk-free interest rate	-0.21%
Expected volatility	42.72%
Expected income from dividends	EUR 0.00
Share price on the measurement date	EUR 1.54
Expected option term	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 shares' 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 2.0-fold of the exercise price.

Option program	Grant date per tranche	Number of options selected	Expiry date	Exercise price in EUR	Fair value at grant date in EUR
2010	07/29/2010	360,000	07/28/2018	1.29	0.58
2010	11/17/2010	505,000	11/16/2018	1.17	0.50
2010	07/15/2011	481,600	07/14/2019	1.03	0.40
2010	11/15/2011	55,000	11/14/2019	1.00	0.39
2012	07/25/2012	65,000	07/24/2020	1.00	0.51
2012	11/28/2012	180,000	11/27/2020	1.30	0.63
2012	07/03/2013	65,000	07/02/2021	1.27	0.64
2012	11/25/2013	5,000	11/24/2021	1.78	1.02
2013	07/03/2013	165,000	07/02/2021	1.27	0.64
2013	11/25/2013	135,000	11/24/2021	1.78	1.02
2013	07/01/2015	49,000	06/30/2023	2.51	1.02
2013	12/02/2015	26,500	12/01/2023	1.53	0.67
2014	07/01/2015	155,000	06/30/2023	2.51	1.02
2014	12/02/2015	133,500	12/01/2023	1.53	0.67
2015	07/01/2015	90,000	06/30/2023	2.51	1.00

162,100 options under the 2010 (Tranche 1 to 3) stock option program were exercised with the fulfillment of conditions for their exercise in the financial year by the purchase of equity. The difference between the exercise price on the grant date and the closing price of shares at the time of transfer was placed in the capital reserve (EUR 15 thousand). The average share price on the exercise date was between EUR 2.18 and EUR 2.50 (previous year: EUR 2.36 to EUR 3.17).

The range of exercise prices for the stock options outstanding on December 31, 2015 runs from EUR 1.00 to EUR 2.51 (previous year: EUR 1.00 to EUR 1.78).

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

	2015		2014	
	Number	GDAP in EUR	Number	GDAP in EUR
Outstanding as of January 1	1,344,600	1.20	2,387,225	1.26
Granted	454,000	1.62	0	-
Expired/waived/forfeited	-123,000	1.53	-45,000	1.53
Exercised	-222,100	1.11	-997,625	1.34
Outstanding as of December 31	**1,453,500**	**1.32**	**1,344,600**	**1.19**
Thereof: exercisable	**532,500**		**283,000**	

Stock options outstanding at the end of the financial year had a weighted average residual term of 5.3 years (previous year: 5.2 years).

Expenses arising in connection with current options programs recorded in the reporting period totaled EUR 110 thousand (previous year: EUR 232 thousand), including EUR 87 thousand for programs with compensation through equity instruments and EUR 23 thousand for programs with compensation through cash. The capital reserve was reduced by EUR 35 thousand by the exercise of the options fulfilled in the financial year with cash at the level of the original settings. Furthermore,

EUR 45 thousand were reclassified from capital reserves in the provision, as the exercise of voting rights of the company no longer in fact exists for the fulfillment in equity instruments for the Board.

13. Provisions

	Balance 01/01/2015	Consumption	Release*	Addition	Reclassification	Withdrawal based on IFRS 5	Balance 12/31/2015	RT* > 1 year
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Employee commitments	92	-25	-9	61	0	-33	86	0
Storage costs	41	-2	0	0	-2	-10	27	22
Other uncertain liabilities	0	0	0	184	6	0	184	0
Other provisions	279	-219	0	0	2	-63	0	0
Total	412	-245	-9	246	0	-105	298	22

* of which EUR 5 thousand is for the specified business area

14. Liabilities

The residual terms of the liabilities are as follows:

		Residual term (RT)			
	Total 12/31/2015	Up to 1 year	1-5 years	More than 5 years	Previous year
	KEUR	KEUR	KEUR	KEUR	KEUR
Financial liabilities	3,260	3,260	0	0	4,254
Trade liabilities	4,102	4,102	0	0	2,949
Other financial liabilities	2,280	940	1,320	20	1,433
Liabilities relating to income tax	0	0	0	0	177
Other liabilities	1,408	504	411	493	1,624
	11,050	8,806	1,731	513	10,438

Of the non-current liabilities (RT > 1 year) of EUR 2,244 thousand (previous year: EUR 3,285 thousand), EUR 1,320 thousand (previous year: EUR 2,384 thousand) was interest-bearing. Of the current liabilities (RT < 1 year) of EUR 8,806 thousand (previous year: EUR 7,153 thousand), EUR 3,586 thousand (previous year: EUR 2,060 thousand) was interest-bearing. The average interest burden was about 2.7% (previous year: 2.6%).

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

Foreign currency liabilities are as follows:

	12/31/2015 Total KEUR	thereof KEUR	Currency	KEUR	Currency	KEUR	Currency
Netted advance payments received	0	0	USD	0	CHF	0	GBP
Trade liabilities	68	31	USD	37	CHF	0	GBP
	68	31		0		0	

	12/31/2014 Total KEUR	thereof KEUR	Currency	KEUR	Currency	KEUR	Currency
Netted advance payments received	189	189	USD	0	CHF	0	GBP
Trade liabilities	21	2	USD	18	CHF	1	GBP
	210	191		18		1	

15. Other Financial Liabilities

		Residual term (RT)			
	12/31/2015	**Up to 1 year**	**1-5 years**	**More than 5 years**	**Previous year**
	KEUR	**KEUR**	**KEUR**	**KEUR**	**KEUR**
Financial leasing liabilities	1,666	326	1,320	20	190
Other financial liabilities	614	614	0	0	1,243
	2,280	**940**	**1,320**	**20**	**1,433**

Other financial liabilities consist mainly of employee bonuses totaling EUR 262 thousand (previous year: EUR 712 thousand), sales commissions and license payments of EUR 38 thousand (previous year: EUR 297 thousand), travel expenses of EUR 98 thousand (previous year: EUR 49 thousand) and liabilities for Supervisory Board remuneration of EUR 85 thousand (previous year: EUR 30 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 36-60 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 2.5% on average (previous year: 3.8%).

16. Other Liabilities

		Residual term (RT)			
	12/31/2015	Up to 1 year	1-5 years	More than 5 years	Previous year
	KEUR	KEUR	KEUR	KEUR	KEUR
Special investment allowance items	960	96	371	493	995
Personnel related liabilities	327	287	40	0	299
Tax liabilities	120	120	0	0	286
Other liabilities	1	1	0	0	44
	1,408	504	411	493	1,624

Personnel-related liabilities largely relate to holiday entitlements. Tax liabilities relate to deductible income tax.

17. Other Financial Liabilities

Other financial liabilities can be broken down as follows:

			Loan repayments	
	12/31/2015	2016	2017 to 2020	to 2021
	KEUR	KEUR	KEUR	KEUR
Future payments from rent	3,651	647	2,623	381
Future payments from other operating lease contracts	323	187	136	0
Future payments from financing lease contracts	1,666	326	1,321	20
Future payments for non-current assets	0	0	0	0
Future payments from framework contracts	0	0	0	0
	5,641	**1,161**	**4,080**	**400**

			Loan repayments	
	12/31/2014	2015	2016 to 2019	to 2020
	KEUR	KEUR	KEUR	KEUR
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**

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 1,002 thousand (previous year: EUR 899 thousand).

Future payments from financing lease contracts, taking into account the payments still included in the 2016 year of EUR 203 thousand from these contracts, are EUR 1,870 thousand (previous year: EUR 200 thousand) and include future interest payments of EUR 76 thousand (previous year: EUR 10 thousand). The stated book value amounts to EUR 1,666 thousand (previous year: EUR 190 thousand).

18. Contingent Liabilities

Contingent liabilities totaling EUR 793 thousand (previous year: EUR 807 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.

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, 2015	Amortized cost	Fair value without effect on results	Carrying amount in accordance with IAS 17	Fair value December 31, 2015
		KEUR	KEUR	KEUR	KEUR	KEUR
Assets						
Financial assets	AfS	192	192			0
Trade receivables	LaR	5,826	5,826			5,826
Receivables from service orders	-	0	-	-		0
Other financial assets	LaR	725	725			725
Cash and cash equivalents	LaR	4,941	4,941			4,941
Liabilities						
Financial liabilities	FLAC	3,260	3,260			3,260
Trade liabilities	FLAC	4,102	4,102			4,102
Development orders with balance due to customers	-	0	-	-		0
Finance leasing liabilities	-	1,666	-	-	1,666	-
Other financial liabilities	FLAC	614	614			614

Thereof: aggregated by IAS 39 valuation categories for continuing operations:

	IAS 39 balance valuation categories	Book value December 31, 2015	Amortized cost	Fair value without effect on results	Fair value December 31, 2015
		KEUR	KEUR	KEUR	KEUR
Financial assets held available for sale	AfS	192	192		0
Loans and receivables (incl. cash and cash equivalents)	LaR	11,492	11,492		11,492
Total financial assets		**11,684**	**11,684**	**0**	**12,492**
Financial liabilities stated at fair value and measured at amortized cost	FLAC	7,976	7,976		7,976
Total financial liabilities		**7,976**	**7,976**		**7,976**

-	IAS 39 balance valuation categories	Book value December 31, 2014	Amortized cost	Fair value without effect on results	Carrying amount in accordance with IAS 17	Fair value December 31, 2014
		KEUR	KEUR	KEUR	KEUR	KEUR
Assets						
Financial assets	AfS	192	192			
Trade receivables	LaR	9,299	9,299			9,299
Receivables from service orders		1,158				
Other financial assets	LaR	894	894			894
Cash and cash equivalents	LaR	12,136	12, 136			12, 136
Liabilities						
Financial liabilities	FLAC	4,254	4,254			4,254
Trade liabilities	FLAC	2,949	2,949			2,949
Financial leasing liabilities	-	190	-	-	190	
Other financial liabilities	FLAC	1,244	1,244			1,244

-	IAS 39 balance valuation categories	Book value December 31, 2014	Amortized cost	Fair value without effect on results	Fair value December 31, 2014
		KEUR	KEUR	KEUR	KEUR
Financial assets held available for sale	AfS	192	192		
Loans and receivables (incl. cash and cash equivalents)	LaR	22,329	22,329		22,329
Total financial assets		**22,521**	**22,521**		**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**

The financial assets held available for sale involve shares in AEQUOS Endoprothetik GmbH. As in the previous year, in this 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 previous 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	
	2015	**2014***	**2015**	**2014**
	KEUR	**KEUR**	**KEUR**	**KEUR**
Interest income	24	44	0	0
Interest expense	0	0	-173	-345
Impairment expenses	-264	-126	0	0
Income from write-ups	109	212	4	26
Net result	**-132**	**130**	**-168**	**-109**

*adjusted

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. 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 app 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 frameworks 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 considers that there is a high gross risk in relation to the probability of occurrence, and a low gross risk in relation to the extent of damage. To counteract these risks, 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. 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 12/31/2015, approx. 72% (previous year: 36%) 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 thousand (previous year: EUR 7 thousand) or a reduction of EUR 7 thousand (previous year: EUR 7 thousand).

Foreign Currency Risks

aap essentially closed only internal foreign currency hedging transactions in financial year 2015, as only a small currency risk existed. However, in the future *aap* plans to execute an external hedge for these transactions for higher amounts on a US dollar basis.

Determinations were made as part of sensitivity analyses for transactions in US dollars and Swiss francs. The impact of other foreign currencies on the Group is of lesser importance. As of 12/31/2015 foreign currency receivables made up around 1.6% (previous year: 10.4%) of trade receivables and exclusively involved receivables denominated in US dollars. Foreign currency liabilities amounted to around 0.38% of the Group's borrowings (previous year: 1.69%). The share of US dollar liabilities was about 0.17% (previous year: 1.53%). 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 3,000 higher or EUR 2,000 lower (previous year: EUR 69,000 higher or EUR 84,000 lower). 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

Liquidity risk results from, among other things, lack of availability of sources of funding that 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. According to preliminary own calculations based on the figures of 12/31/2015 there is a risk that a covenant is likely to be not observed. Against this background and due to the sale of *aap* Biomaterials GmbH we are in intensive contact with the lending bank and have already discussed adaptions in the credit contracts (KEUR 1,333) which ensure a further existence of the corresponding contracts. Consequently *aap* assesses the risk of an extraordinary termination to be low.

In accordance with previous calculations, aap AG was not able to fulfil one of these conditions for the annual financial statement for 2015. *aap* evaluates the risk of extraordinary termination as low in the context of discussions currently ongoing with the bank. *aap* deals with this risk through 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. In addition, covenant metrics are continuously monitored by *aap.*

The Group also limits this risk through effective, centralized cash management and the arrangement of sufficient credit lines. As of 12/31/2015, 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 million) had been utilized as of the reporting date. As of 12/31/2015, *aap* had usable liquidity (total of cash and bank balances and freely available credit lines) of EUR 10.2 million (previous year: EUR 16.6 million).

In the 2015 financial year, bank loans of EUR 1,997 thousand were paid back as scheduled.

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

		Repayments			Interest payments		
	12/31/2015	2016	2017 to 2020	2021	2016	2017 to 2020	2021
		KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Financial liabilities	3,260	3,260	0	0	36	22	0
Financial leasing liabilities	1,794	398	1,376	20	27	49	0
Other financial liabilities	1,156	1,156	0	0	0	0	0
Total	6,210	4,814	1,376	20	68	52	40

	12/31/2014	Repayments			Interest payments		
		2015	2016 to 2019	2020	2015	2016 to 2019	2020
		KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
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

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 0 (previous year: EUR 11,000) in the reporting year.

There were no indications of payment defaults for trade receivables, which were not written down as of December 31, 2015.

4. 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 2.0 and an interest coverage ratio of more than 10 to be strategically achievable targets.

Debt/interest coverage ratio for continuing business

	12/31/2015	12/31/2014*
Interest bearing liabilities	4,926	4,444
Balance on credit lines	2,607	449
Interest bearing liabilities (net)	2,319	3,995
EBITDA	-6,802	-3,929
Debt coverage ratio (DCR)	**-0.34**	**-1.02**
Interest expense	173	135
EBITDA	-6,802	-3,929
Interest coverage ratio (ICR)	**36.9**	**30.9**

*adjusted

Debt coverage

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

	12/31/2015	12/31/2014*
Interest bearing liabilities	4,926	4,444
Cash and cash equivalents	4,941	11,657
Net liabilities	0	7,213
Equity	40,307	45,424
Net liabilities to equity (ratio)	**0%**	**16%**

*adjusted

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, 2015	Persons and companies with significant influence on the Group	Associated companies	Key Group personnel[1]
	KEUR	KEUR	KEUR
Income from the sale of goods and services	0	1,701	0
Purchases of goods and services	0	0	0
Trade receivables/other receivables	0	553	0
Trade liabilities/other liabilities	0	0	0
Interest income	0	6	0
Interest rate		*6.5 %*	
Loans and interest receivables	0	0	0
Interest expense	0	0	0
Interest rate			
Loan liabilities	0	0	0

[1] The information regarding the Supervisory Board and Management Board is given separately in point 2

December 31, 2014	Persons and companies with significant influence on the Group	Associated companies	Joint ventures	Key Group personnel[1]
	KEUR	KEUR	KEUR	KEUR
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	251
Interest expense	0	7	0	0
Interest rate		*6.5 %*		
Loan receivables	0	110	0	0
Interest expense	0	0	0	0
Loan liabilities	0	0	0	0

[1] The information regarding the Supervisory Board and Management Board is 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,** Berlin

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

The total remuneration of the Management Board amounted to EUR 787 thousand (previous year: EUR 1,234 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 long-term incentive effect	Total 2015	Total 2014
	KEUR	KEUR	KEUR	KEUR	KEUR
Biense Visser, CEO (until May 31, 2014)	0	0	0	0	449
Bruke Seyoum Alemu, COO (until May 31, 2014), CEO (as of June 1st, 2014)	425	34	11	470	493
Marek Hahn, CFO	285	24	8	317	292
	710	58	19	787	1,234

The company has taken out a D&O liability insurance policy for the Management Board. The fees in 2015 totaled EUR 29 thousand (previous year: EUR 29 thousand).

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

Mr. Biense Visser (Chairman),

Businessman, Utrecht, Netherlands

Mr. Ronald Meersschaert (Deputy Chairman),

Private Equity Investor, Arnhem, Netherlands

Mr. Rubinio Di Girolamo,

Delegate of the Management Board, Oberägeri near Zug, Switzerland

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 120 thousand in the financial year (previous year: EUR 80 thousand). It is comprised as follows:

	2015	2014
	KEUR	KEUR
Mr. Rubinio Di Girolamo	40	25
Mr. Roland Meersschaert	40	25
Prof. Prof. h.c. Dr. Dr. Dr. h.c. Reinhard Schnettler (departed June 13, 2014)	-	20
Mr. Biense Visser (departed June 13, 2014)	40	10
Total	120	80

Payments of EUR 65 thousand occurred in the reporting year (previous year: EUR 125 thousand). Of that amount, there were no payments to former Supervisory Board members (previous year: EUR 0 thousand). As of 12/31/2015 there are liabilities to the Supervisory Board of EUR 85 thousand (previous year: EUR 30 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	HZPC Holland B.V., Joure (Netherlands), Chairman of the Supervisory Board
	Royal Cosun U.A., Breda (Netherlands), member of the Supervisory Board
Mr. Ronald Meersschaert	Novum Bank Ltd., Malta, member of the Supervisory Board
Mr. Rubino Di Girolamo	Metalor Dental Holding AG, Zug (Switzerland) and subsidiaries (Z-Systems AG, New Dent AG, Metanova AG), member of the Supervisory Board and delegate to the Management Board

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

	Shares		Options	
	2015	2014	2015	2014
Supervisory Board				
Biense Visser (since 06/13/2014)	275,196	275,196	150,000	200,000
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 06/13/2014)	-	197,094	0	0
Management Board				
Bruke Seyoum Alemu	160,000	70,000	204,000	150,000
Marek Hahn	56,000	35,000	186,000	150,000

The fair values of the options as of the grant date are between EUR 1.00 and EUR 0.40 (previous year: EUR 0.87 and EUR 0.39).

3. Disclosures in Accordance with Section 160 para. 1 no. 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.

2015:

FIL Investments International, Hildenborough, United Kingdom, has informed us according to Section 21 para. 1 of the WpHG (German Securities Trading Act) that via shares its voting rights on aap Implantate AG, Berlin, Germany, have fallen below the 3% threshold of the voting rights on 29 October 2015 and on that day amounted to 1.47% (this corresponds to 453215 voting rights). 1.47% of voting rights (this corresponds to 453215 voting rights) are attributed to FIL Investments International, Hildenborough, United Kingdom, according to Section 22 para. 1 sent. 1 no. 6 of the WpHG.

FIL Holdings (UK) Limited, Hildenborough, United Kingdom, has informed us according to Section 21 para. 1 of the WpHG (German Securities Trading Act) that via shares its voting rights on aap Implantate AG, Berlin, Germany, have fallen below the 3% threshold of the voting rights on 29 October 2015 and on that day amounted to 1.47% (this corresponds to 453215 voting rights). 1.47% of voting rights (this corresponds to 453215 voting rights) are attributed to FIL Holdings (UK) Limited, Hildenborough, United Kingdom, according to Section 22 para. 1 sent. 1 no. 6 in connection with sent. 2 of the WpHG.

FIL Limited, Hamilton, Bermuda, has informed us according to Section 21 para. 1 of the WpHG (German Securities Trading Act) that via shares its voting rights on aap Implantate AG, Berlin, Germany, have fallen below the 3% threshold of the voting rights on 29 October 2015 and on that day amounted to 1.47% (this corresponds to 453215 voting rights). 1.47% of voting rights (this corresponds to 453215 voting rights) are attributed to FIL Limited, Hamilton, Bermuda, according to Section 22 para. 1 sent. 1 no. 6 of the WpHG.

Fidelity Funds SICAV, Luxembourg, Luxembourg, has informed us according to Section 21 para. 1 of the WpHG (German Securities Trading Act) that via shares its voting rights on aap Implantate AG, Berlin, Germany, have fallen below the 3% threshold of the voting rights on 29 October 2015 and on that day amounted to 1.47% (this corresponds to 453215 voting rights).

Ratio Capital Management B.V., Amsterdam, Netherlands has informed us according to Section 21 para. 1 of the WpHG (German Securities Trading Act) that via shares its voting rights on aap Implantate AG, Berlin, Germany, have exceeded the 10% threshold of the voting rights on 29 October 2015 and on that day amounted to 13.30% (this corresponds to 4100000 voting rights). 13.30% of voting rights (this corresponds to 4100000 voting rights) are attributed to Ratio Capital Management B.V., Amsterdam, Netherlands according to Section 22 para. 1 sent. 1 no. 6 of the WpHG. Voting rights of the following shareholders holding 3% each or more in aap Implantate AG, Berlin, Germany, are to be attributed to Ratio Capital Management B.V., Amsterdam, Netherlands: Stichting Bewaarder Ratio Capital Partners, Amersfoort, Netherlands.

Stichting Bewaarder Ratio Capital Partners, Amersfoort, Netherlands, has informed us according to Section 21 para. 1 of the WpHG (German Securities Trading Act) that via shares its voting rights on aap Implantate AG, Berlin, Germany, have exceeded the 10% threshold of the voting rights on 29 October 2015 and on that day amounted to 13.30% (this corresponds to 4100000 voting rights).

FIL Investments International, Hildenborough, United Kingdom, has informed us according to Section 21 para. 1 of the WpHG (German Securities Trading Act) that via shares its voting rights on aap Implantate AG, Berlin, Germany, have fallen below the 5% threshold of the voting rights on 13 October 2015 and on that day amounted to 4.76% (this corresponds to 1468090 voting rights). 4.76% of voting rights (this corresponds to 1468090 voting rights) are attributed to FIL Investments International, Hildenborough, United Kingdom, according to Section 22 para. 1 sent. 1 no. 6 of the 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.

FIL Holdings (UK) Limited, Hildenborough, United Kingdom, has informed us according to Section 21 para. 1 of the WpHG (German Securities Trading Act) that via shares its voting rights on aap Implantate AG, Berlin, Germany, have fallen below the 5% threshold of the voting rights on 13 October 2015 and on that day amounted to 4.76% (this corresponds to 1468090 voting rights). 4.76% of voting rights (this corresponds to 1468090 voting rights) are attributed to FIL Holdings (UK) Limited, Hildenborough, United Kingdom, according to Section 22 para. 1 sent. 1 no. 6 in connection with sent. 2 of the 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.

FIL Limited, Hamilton, Bermuda, has informed us according to Section 21 para. 1 of the WpHG (German Securities Trading Act) that via shares its voting rights on aap Implantate AG, Berlin, Germany, have fallen below the 5% threshold of the voting rights on 13 October 2015 and on that day amounted to 4.76% (this corresponds to 1468090 voting rights). 4.76% of voting rights (this corresponds to 1468090 voting rights) are attributed to FIL Limited, Hamilton, Bermuda, according to Section 22 para. 1 sent. 1 no. 6 of the 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.

Fidelity Funds SICAV, Luxembourg, Luxembourg, has informed us according to Section 21 para. 1 of the WpHG (German Securities Trading Act) that via shares its voting rights on aap Implantate AG, Berlin, Germany, have fallen below the 5% threshold of the voting rights on 13 October 2015 and on that day amounted to 4.73% (this corresponds to 1457187 voting rights).

Mr William Geoffrey Oldfield, United Kingdom has informed us according to Section 21 para. 1 of the WpHG (German Securities Trading Act) that via shares his voting rights on aap Implantate AG, Berlin, Germany, have fallen below the 3% threshold of the voting rights on 30 January 2015 and on that day amounted to 2.89% (this corresponds to 887047 voting rights). 2.89% of voting rights (this corresponds to 887047 voting rights) are attributed to Mr William Geoffrey Oldfield in accordance with Section 22 para. 1 sent. 1 no. 6 of the WpHG in connection with sent. 2 of the WpHG.

Ennismore Fund Management Limited, London, United Kingdom has informed us according to Section 21 para. 1 of the WpHG (German Securities Trading Act) that via shares its voting rights on aap Implantate AG, Berlin, Germany, have fallen below the 3% threshold of the voting rights on 30 January 2015 and on that day amounted to 2.89% (this corresponds to 887047 voting rights). 2.89% of voting rights (this corresponds to 887047 voting rights) are attributed to Ennismore Fund Management Limited in accordance with Section 22 para. 1 sent. 1 no. 6 of the WpHG.

On 30 January 2015, Ennismore European Smaller Companies Fund, Dublin 2, Ireland has informed us according to Section 21 para. 1 of the WpHG that via shares its voting rights on aap Implantate AG, Berlin, Germany, have fallen below the 3% threshold of the voting rights on 30 January 2015 and on that day amounted to 2.97% (this corresponds to 909816 voting rights).

On 29 January 2015, Marcel Martinus Jacobus Johannes Boekhoorn, Netherlands, has informed us according to Section 21 para. 1 of the WpHG that via shares his voting rights on aap Implantate AG, Berlin, Germany, have fallen below the threshold of 5% of the voting rights on 29 January 2015 and on that day amounted to 4.80% (this corresponds to 1,474,075 voting rights). 4.80% of voting rights (this corresponds to 1,474,075 voting rights) are attributed to Marcel Martinus Jacobus Johannes Boekhoorn, Netherlands, according to Section 22 para. 1 sent. 1 no. 1 of the 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; Ramphastos Participaties Coöperatief U.A., Rhenen, Netherlands; Elocin B.V., Bennekom, Netherlands.

On 29 January 2015, Semper Fortuna N.V., Rhenen, Netherlands, has informed us according to Section 21 para. 1 of the WpHG that via shares its voting rights on aap Implantate AG, Berlin, Germany, have fallen below the threshold of 5% of the voting rights on 29 January 2015 and on that day amounted to 4.80% (this corresponds to 1,474,075 voting rights). 4.80% of voting rights (this corresponds to 1,474,075 voting rights) are attributed to Semper Fortuna N.V., Rhenen, Netherlands,

according to Section 22 para. 1 sent. 1 no. 1 of the 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; Elocin B.V., Bennekom, Netherlands.

On 29 January 2015, Ramphastos Participaties Coöperatief U.A., Rhenen, Netherlands, has informed us according to Section 21 para. 1 of the WpHG that via shares its voting rights on aap Implantate AG, Berlin, Germany, have fallen below the threshold of 5% of the voting rights on 29 January 2015 and on that day amounted to 4.80% (this corresponds to 1,474,075 voting rights). 4.80% of voting rights (this corresponds to 1,474,075 voting rights) are attributed to Ramphastos Participaties Coöperatief U.A., Rhenen, Netherlands, according to Section 22 para. 1 sent. 1 no. 1 of the 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.

On 29 January 2015, Elocin B.V., Bennekom, Netherlands, has informed us according to Section 21 para. 1 of the WpHG that via shares its voting rights on aap Implantate AG, Berlin, Germany, have fallen below the threshold of 5% of the voting rights on 29 January 2015 and on that day amounted to 4.80% (this corresponds to 1,474,075 voting rights).

Ratio Capital Management B.V., Amsterdam, Netherlands has informed us according to Section 21 para. 1 of the WpHG that via shares its voting rights on aap Implantate AG, Berlin, Germany, have exceeded the 3% and 5% threshold of the voting rights on January 27 2015 and on that day amounted to 8.15% (this corresponds to 2,500,000 voting rights). 8.15% of voting rights (this corresponds to 2,500,000 voting rights) are attributed to the company in accordance with Section 22 para. 1 sent. 1 no. 6 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of the voting rights in aap Implantate AG amounts to 3% or more: Stichting Bewaarder Ratio Capital Partners.

Stichting Bewaarder Ratio Capital Partners, Amersfoort, Netherlands, has informed us according to Section 21 para. 1 of the WpHG (German Securities Trading Act) that via shares its voting rights on aap Implantate AG, Berlin, Germany, have exceeded the 3% and 5% threshold of the voting rights on January 27 2015 and on that day amounted to 8.15% (this corresponds to 2,500,000 voting rights).

On 28 January 2015, Marcel Martinus Jacobus Johannes Boekhoorn, Netherlands, has informed us according to Section 21 para. 1 of the WpHG that via shares his voting rights on aap Implantate AG, Berlin, Germany, have fallen below the threshold of 10% of the voting rights on 23 January 2015 and on that day amounted to 5.46% (this corresponds to 1,674,075 voting rights). 5.46% of voting rights (this corresponds to 1,674,075 voting rights) are attributed to Marcel Martinus Jacobus Johannes Boekhoorn, Netherlands, according to Section 22 para. 1 sent. 1 no. 1 of the 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).

On 28 January 2015, Semper Fortuna N.V., Rhenen, Netherlands (previously trading as Ramphastos Investments N.V., Arnhem, Netherlands), has informed us according to Section 21 para. 1 of the WpHG that via shares its voting rights on aap Implantate AG, Berlin, Germany, have fallen below the threshold of 10% of the voting rights on 23 January 2015 and on that day amounted to 5.46% (this corresponds to 1,674,075 voting rights). 5.46% of voting rights (this corresponds to 1,674,075 voting

rights) are attributed to Semper Fortuna N.V., Rhenen, Netherlands, according to Section 22 para. 1 sent. 1 no. 1 of the 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).

On 28 January 2015, Ramphastos Participaties Coöperatief U.A., Rhenen, Netherlands (previously trading as Boekhoorn M & A B.V., Arnhem, Netherlands), has informed us according to Section 21 para. 1 of the WpHG that via shares its voting rights on aap Implantate AG, Berlin, Germany, have fallen below the threshold of 10% of the voting rights on 23 January 2015 and on that day amounted to 5.46% (this corresponds to 1,674,075 voting rights). 5.46% of voting rights (this corresponds to 1,674,075 voting rights) are attributed to Ramphastos Participaties Coöperatief U.A., Rhenen, Netherlands, according to Section 22 para. 1 sent. 1 no. 1 of the 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).

On 28 January 2015, Elocin B.V., Bennekom, Netherlands (previously trading as Elocin B.V., Arnhem, Netherlands), has informed us according to Section 21 para. 1 of the WpHG that via shares its voting rights on aap Implantate AG, Berlin, Germany, have fallen below the threshold of 10% of the voting rights on 23 January 2015 and on that day amounted to 5.46% (this corresponds to 1,674,075 voting rights).

2014:

In accordance with Section 21 para. 1 WpHG, Merval AG, Zug, Switzerland, notified us on 14 October 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had exceeded the threshold of 3% of the voting rights on 13 October 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 21 August 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had exceeded the threshold of 5% of the voting rights on 19 August 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 21 August 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had exceeded the threshold of 5% of the voting rights on 19 August 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 21 August 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany,

had exceeded the threshold of 5% of the voting rights on 19 August 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 21 August 2014, that via shares its voting rights in *aap* Implantate AG, Berlin, Germany, had exceeded the threshold of 5% of the voting rights on 19 August 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, 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 15 January 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 15 January 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 13 January 2009. On 13 January 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 13 January 2009. On 13 January 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 13 January 2009. On 13 January 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 13 January 2009. On 13 January 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 9 September 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 5 September 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 147 thousand (previous year: EUR 152 thousand)

b) other services EUR 20 thousand (previous year: EUR 38 thousand)

5. Events Occurring after the Reporting Date

By agreement signed March 22, 2016, 100% of the shares in aap Biomaterials GmbH were sold to a private equity firm. The sales price is based on an assumed company value of EUR 36 million and with payment due on completion of the transaction (the "Closing"). Completion of the transaction is subject to the usual conditions precedent to be fulfilled within the next three months. The existing profit transfer agreement between *aap* Implante AG and *app* Biomaterials GmbH terminates with the closing of this transaction.

6. Declaration on the German Corporate Governance Code

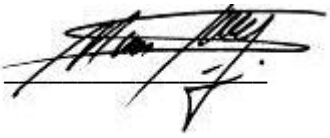
In accordance with Section 161 AktG, *aap* Implantate AG has issued the prescribed declaration to apply the German Corporate Governance Code and made it available to the shareholders on our website (www.*aap*.de/en/investors/corporate-governance/declaration-of-compliance).

7. Publication

These consolidated financial statements as of December 31, 2015 were released by the Management Board of the company on April 28, 2016.

Berlin, April 28, 2016

The Management Board



Bruke Seyoum Alemu
Chairman of the Management Board / CEO

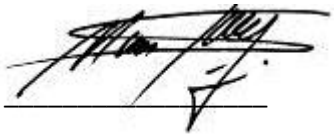
Marek Hahn
Member of the Management Board / CFO

VI. Responsibility Statement by the Legal Representatives pursuant to Section 37y (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 28, 2016

The Management Board



Bruke Seyoum Alemu
Chairman of the Management Board / CEO

Marek Hahn
Member of the Management Board / CFO

VII. 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 the management report of *aap* Implantate AG for the business year from 1 January 2015 to 31 December 2015. 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 Management Board of aap Implantate AG. 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 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 expectations 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 IFRS 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 28, 2016

Roever Broenner Susat Mazars GmbH & Co. KG
Financial Auditing Firm
Tax Auditing Firm

Helmut Schuhmann
Auditor

Ralf Bierent
Auditor

VIII. 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