Consolidated Annual Financial Report 2016

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A. Foreword by the Management Board

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

We could make significant progress in financial year 2016 within our strategy to develop *aap* into a focused trauma company. In this regard, we first sold our subsidiary *aap* Biomaterials GmbH in the first half of the year. The purchase price represented approximately nine times the normalized underlying EBITDA of the company – a very acceptable value if compared with transactions for similar companies. We went then on to sell the remaining stake in *aap* Joints GmbH in the second half of the year, thus taking the final decisive step towards becoming a pure player in trauma. Now we are well-positioned with our IP-protected product and technology base and our strong liquidity position allowing us to take even better advantage of the fast-growing global trauma market. Our three innovative platform technologies – LOQTEQ®, silver coating, and absorbable magnesium – address needs in the health system that to date have largely not been addressed adequately and which offer significant growth potential.

With a view to the sales development in the past financial year an ambivalent picture appears. On the one hand, we made good progress in connection with the aimed focus on established markets such as North America, the DACH region and further European countries. In North America we reported a significant sales increase in 2016 and we could extend customer access in the DACH region meaning, for instance, we have now been relisted at major hospital groups such as Helios and Asklepios. Overall, we successfully increased the share of sales attributable to North America and Europe together by around 50% in financial year 2016. North America, the DACH region and further European countries are also the focus of our sales activities for 2017 and we expect them to drive the planned sales growth so that we see us on a good way in this respect. On the other hand, we were also aiming to stabilize sales development in the BRICS and SMIT countries. Although we recorded slight sales growth in Brazil, China proved to be particularly challenging. China was despite halted growth a main sales market in 2015 and could not make a contribution towards sales in the past financial year. At year-end 2016, we were ultimately able to successfully conclude negotiations on the continuation of the distribution business and the cooperation with our Chinese partner will continue in 2017. Consequently, we expect a slow recovery of the business in China. Overall, the realized pleasing sales increases in North America and Europe in financial year 2016 could however not compensate the missing sales contributions from China, so that sales and EBITDA were below the originally forecasted values.

The acceleration of value-based innovations is another important field of action in our Management Agenda. Here we made good progress over the last year regarding the planned completion of our LOQTEQ® portfolio. An example of this progress is our periprosthetic LOQTEQ® system, which can be used to treat bone fractures in the immediate vicinity of joint implants that are already in the body. We additionally developed various polyaxial LOQTEQ® systems, which are now almost ready for market launch. Polyaxial implants allow angle-stable screws to be set at different angles, thus allowing for flexible fracture treatment. Overall, our portfolio allows us to provide treatment for more than 90% of indications for major bone fractures today, which makes us much more attractive to full-treatment clinics and buying syndicates. We also received an important US patent for our

LOQTEQ® technology in 2016. This property right is distinctive in that it constitutes comprehensive protection ("umbrella patent") that combines and expands upon many existing patents.

With the submission of the design dossier for the CE conformity assessment procedure for our antibacterial silver coating technology to a notified body we were able to reach another decisive milestone regarding the extension of our innovative product portfolio in the last year. An intensive and constructive exchange with the authority followed over the rest of the year. At the same time we also submitted the required documents for pre submission meetings at the US authority FDA. In light of the increased regulatory requirements and based on the recent exchange with the regulatory authorities the performance of a clinical study will be a necessary condition for the granting of a CE and FDA approval. We are currently still in the coordination process with the regulatory authorities regarding the extent of the clinical trial, and we will report on the results and the further course of action in the second quarter of 2017.

Another important objective of the financial year was to align the cost structure of the new *aap* with the reduced size of the company. In this regard, we implemented extensive personnel measures which will result in effective savings of around EUR 1 million in 2017. We also came to an amicable agreement with a co-developer of the LOQTEQ® technology to terminate a long-term license agreement. The contract term was originally bound to the respective terms of the LOQTEQ® patents. Although the termination of this contract resulted in one-off charge on the EBITDA in 2016, this measure successfully enabled us to sustainably discharge the earnings level in the medium and long term.

Finally, at this point we would like to say a few words about the change to the *aap* Supervisory Board. At the beginning of October 2016 the duties of our long-standing Supervisory Board member Ronald Meersschaert concluded. He resigned from his office for personal reasons. We would like to take this opportunity to once again thank Mr. Meersschaert for his great commitment and excellent work for *aap* on the way to a focused trauma company in recent years. At the same time, we are pleased that in Jacqueline Rijsdijk, we were able to attract another economic and financial expert as successor – this means that this area remains very much covered by the Supervisory Board. This also enabled us to increase the gender diversity of this Board, with 33% now made up by female members. Once again, a warm welcome to Jacqueline Rijsdijk.

We would also like to thank our employees for their effort, their commitment and their creativity. It is our goal to return *aap* to the growth track in financial year 2017 and we are confident that we will succeed in doing so by consistently implementing measures derived as part of the strategy. Our growth strategy is focused on North America, the DACH region, and further European countries. In addition to the planned sales growth, we are aiming to improve the EBITDA in 2017 by increasing the gross margin from sales in higher margin markets and simultaneously reducing costs.

Our overriding goal remains to unlock the inherent value of our highly promising product and technology base, thereby creating sustainable value for our shareholders.

Bruke Seyoum Alemu
Chairman of the Management Board / CEO

Marek Hahn
Member of the Management Board / CFO

B. Combined Management Report

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

On March 22, 2016, *aap* signed a notarized share purchase agreement with Keensight Capital for the sale of 100% of the company shares in its subsidiary *aap* Biomaterials GmbH. The transaction was closed on May 11, 2016 and *aap* Biomaterials GmbH was deconsolidated the same day. Unless otherwise stated all statements regarding *aap* both in financial year 2016 and the previous year relate to the continued operation. The continued operation includes the activities bundled in *aap* Implantate AG, Berlin, *aap* Implants Inc., Dover, Delaware, USA, and MAGIC Implants GmbH, Berlin.

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 IP-protected 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. Furthermore, the company has an innovation pipeline with promising development projects such as the antibacterial silver coating technology and magnesium based implants. These technologies address critical problems in surgery that haven't yet been resolved adequately.

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. In Atlanta, Georgia, USA, all orders for the North American market are logistically 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 a broad network of distributors in more than 25 countries at the international level.

Within the orthopaedics industry, *aap* is addressing the fast-growing trauma segment. This field works to aid bone fracture recovery by fixing the bone in such a way that it is returned to its original position and alignment. A general distinction is made between externally applied products (external fixators) and implanted devices such as plates, screws, pins, wires, staples and intramedullary nails. The trauma market posted global sales of around USD 6.3 billion in financial year 2015[1]. This represents approximately 14% of the orthopaedics industry's total market volume. The trauma market is dominated by four large companies in particular – DePuy Synthes, Stryker, Zimmer Biomet and Smith & Nephew. According to estimates, these companies were responsible for around 73% of total global sales in financial year 2015.

[1] Source: "The Orthopaedic Industry Annual Report 2016"; available on request from Orthoworld Inc.

2. Group Strategy

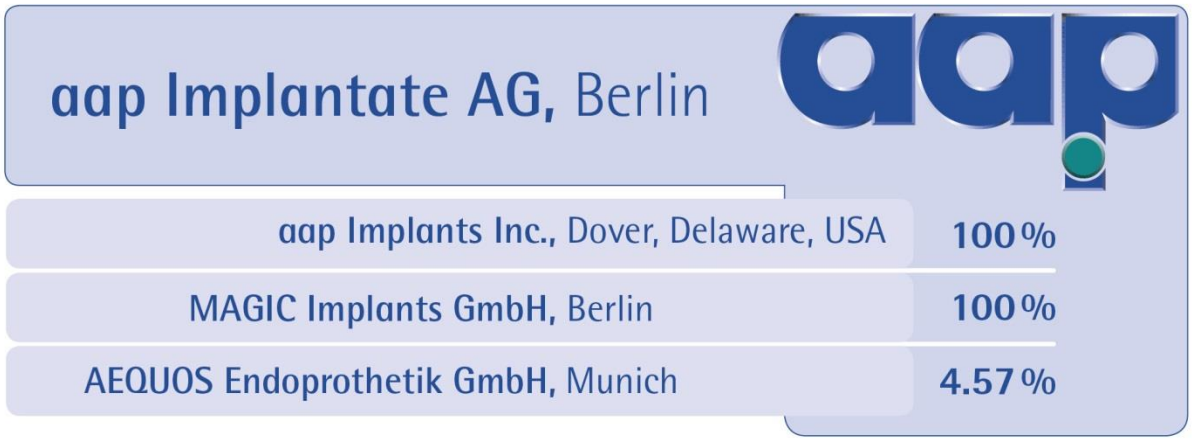
A vital aspect of the recent strategic alignment was developing *aap* into a pure player in trauma. The Management Board believes that this fast-growing segment of the orthopaedic market is presenting good opportunities to gain market share through product innovation and the introduction of new technologies. As part of the strategic goal, over the past few years, *aap* has already parted with several subsidiaries, business areas and products that no longer belonged to its core business. Recently in financial year 2016, the subsidiary *aap* Biomaterials GmbH and the remaining stake in *aap* Joints GmbH were sold. In doing so, the company took the final steps towards becoming a focused trauma company.

As a pure player in trauma, *aap* has a comprehensive IP-protected product and technology portfolio and can take even better advantage of the fast-growing global trauma market with its focused business model. The three platform technologies LOQTEQ®, silver coating and absorbable magnesium offer considerable growth potential over the short to medium term. A major objective of *aap*'s further strategic alignment is to unlock the inherent value of this innovative product and technology base. The company's growth strategy is focused especially on established markets such as North America, the DACH region and further European countries. At the same time sales development in the BRICS and SMIT countries should be stabilized.

The Management Board specifies its goals for the financial year as a Management Agenda within defined strategic and operational action areas. The assessment of the 2016 Management Agenda can be found in the section "Other indicators" of this report. The new Management Agenda for the 2017 financial year is presented in the "Outlook".

3. Organizational Structure

aap Implantate AG is the *aap* Group's parent company. The management reports for *aap* Implantate AG and for the *aap* Group are first-time combined in this management report. The *aap* Group comprised the following fully consolidated subsidiaries as of December 31, 2016: *aap* Implants Inc. and MAGIC Implants GmbH. Furthermore, as at the reporting date, the Group held a 4.57% stake in AEQUOS Endoprothetik GmbH.



Subsidiaries

- ***aap* Implants Inc.**

  aap Implants Inc. is the distribution company of *aap* Implantate AG for the North American 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.

  Changes in Financial Year 2016:

- ***aap* Biomaterials GmbH**

  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 Keensight Capital for the sale of 100% of the company shares in *aap* Biomaterials GmbH. The transaction was closed on May 11, 2016 and the subsidiary was deconsolidated the same day.

Holdings

- **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.

  Changes in Financial Year 2016:

- ***aap* Joints GmbH**

  In *aap* Joints GmbH, all the orthopedic activities (knees, hips, and shoulders) were bundled together with the C~Ment® line. The company is based in Berlin. On September 23, 2016, a notarized share purchase agreement was signed for the sale of the remaining stake of 33% in *aap* Joints GmbH. The transaction was closed on December 14, 2016.

Executive Bodies

- **Management Board**

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

  Mr. Bruke Seyoum Alemu (51) 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 (42) 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* consists of three members.

  Mr. Biense Visser is Chairman of the Supervisory Board and Ms. Jacqueline Rijsdijk is Vice Chairwoman of the Supervisory Board.

  Changes in Financial Year 2016:

  There was a change to *aap*'s Supervisory Board in financial year 2016. Ms Jacqueline Rijsdijk followed Mr Ronald Meersschaert, who resigned from his position on the Supervisory Board for personal reasons. His duties concluded on October 5, 2016. Ms Rijsdijk had already been selected as substitute member for Mr Meersschaert at the 2014 Annual General Meeting. On October 6, 2016, the Supervisory Board unanimously elected her as its Vice Chairwoman. Further information about *aap*'s Supervisory Board can be found in the notes to this report and on the company's corporate website at http://www.aap.de/en/investors/company-bodies.

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 North American market are logistically handled via a service provider of the distribution company *aap* Implants Inc.

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.

With its three largest customers, in the reporting year, *app* generated a sales volume of EUR 2.9 million (2015 financial year: EUR 5.8 million) in the continued operation. This corresponds to 28% of total sales achieved in the 2016 financial year (previous year: 47%).

In regional terms, the most important sales markets, in addition to North America, the DACH region and further European markets, are the BRICS and SMIT countries. In the reporting period, the DACH region, with a sales proportion of around 39% (previous year: 32%), was the *aap* Group's most important sales region in the continued operation. In addition, in terms of total sales, North America accounted for approx. 23% (previous year: 4%), the RoW (Rest of World) region for around 20% (previous year: 51%) and the Europe region for roughly 17% (previous year: 13%).

II. Business and General Conditions

1. Macroeconomic Trend

After a slowdown in 2015, the global economy also lost a little momentum overall in 2016. According to recent estimates, the growth rate in real, price-adjusted gross domestic product (GDP) in 2016 was around 3.1%. Global economic growth therefore fell again compared to the previous year (3.2%)[2]. It appears that, despite continued expansive monetary policy, the economy was particularly weak in developed countries. According to the International Monetary Fund (IMF), real GDP in developed countries grew by around 1.6% in 2016, significantly below the 2015 figure (2.1%)[3]. By contrast, the growth rate in emerging countries was 4.1% in 2016, remaining virtually unchanged compared to the previous year. Although there are not yet predictions for a strong global recovery, the forecasts for 2017 look a little more optimistic, with the IMF predicting global economic growth of around 3.4% in 2017[4]. Overall, the growth prospects for the global economy are still being influenced by various risks. These relate not only to uncertainty around the future political course of the United States, but also to the somewhat protectionist and nationalist path that some EU countries are taking with their economic policy. Other risks include an economic downturn in China and a renewed decline in oil and commodity prices. In addition, there is still uncertainty around how the Brexit process will play out and the effects on other EU member states.

The Eurozone recorded moderate growth in economic output in financial year 2016. This was particularly boosted by further improvement in the labor markets and continued favorable financing conditions. According to IMF estimates, real GDP in the Eurozone increased by around 1.7% in 2016[5]. In the medium term, however, the European economy will be negatively impacted by the UK's impending withdrawal from the EU, giving rise to a slightly lower expected growth rate of around 1.6% for 2017.

The German economy was characterized by solid and steady growth also in 2016. According to the German Federal government's 2017 annual economic report, price-adjusted GDP increased by around 1.9% over the reporting year[6]. This growth was driven in particular by significantly increased government expenditure, as well as by a rise in private consumer spending. Economic growth of around 1.4% is expected in Germany in 2017. According to the German government, the slightly lower growth rate than 2016 will be primarily caused by a reduced number of working days compared to the previous year.

The US economy recorded weaker growth than expected in 2016. According to the IMF, real GDP grew at a rate of around 1.6% in the period under review[7]. The forecasts for 2017, however, are much more positive. Supported by stable private consumption, solid labor market conditions and low interest rates, the USA is expected to record economic growth of around 2.3% in 2017. However, this

[2] Internet source: https://de.statista.com/statistik/daten/studie/197039/umfrage/veraenderung-des-weltweiten-bruttoinlandsprodukts/
[3] Internet source: http://www.imf.org/external/pubs/ft/weo/2017/update/01/
[4] Internet source: http://www.imf.org/external/pubs/ft/weo/2017/update/01/
[5] Internet source: http://www.imf.org/external/pubs/ft/weo/2017/update/01/
[6] Internet source: http://www.bmwi.de/Redaktion/DE/Pressemitteilungen/2017/20170125-fuer-inklusives-wachstum-in-deutschland-und-europa-jahreswirtschaftsbericht-2017-der-bundesregierung-verabschiedet.html
[7] Internet source: http://www.imf.org/external/pubs/ft/weo/2017/update/01/

is dependent on waiting to discover the actual direction politics will take under President Donald Trump, which will most likely become clearer in the coming months.

2. Industry Trend

The medical technology sector is generally considered a growth market with positive prospects. Advances in medical technology, demographic change and increased health consciousness with a view to securing a better quality of life are some factors that are likely to lead to a continued increase in the demand for healthcare services. The 2017 sector report on medical technology from BVMed [Bundesverband Medizintechnologie e.V. – German Association of Medical Technology] draws attention, in this context, to the study entitled "Innovation Impulses in the Healthcare Industry" [Innovationsimpulse in der Gesundheitswirtschaft, (2011)] from the German Federal Ministry of Economics[8]. Accordingly, annual growth rates of around 5% are expected for medical technology worldwide. At least in the short term, this outlook is backed up by the results of the recent BVMed Autumn Survey 2016. For instance, 87% of the 81 MedTech enterprises surveyed expected better worldwide sales in 2016 than in the previous year. Based on the corresponding company sales figures, worldwide growth for the surveyed enterprises in 2016 is calculated at 5.9% compared to the previous year. In 2015, the calculated growth rate stood at 6.8%. Looking towards 2017, 51% of the companies expect a better business situation worldwide.

On the German market 82% of those surveyed expect 2016 to provide better sales than 2015. This results in sales growth for the BVMed companies of 4.0% compared to the previous year for Germany in 2016. A growth rate of 4.3% was calculated for 2015. A significant difference to the global business situation appears if looking at the predictions for 2017. Only 26% of the companies surveyed in Germany expect a better business situation than 2016, while 20% expect things to get worse. The backdrop for relatively poor prospects in Germany might be a result of increasing regulatory barriers caused by additional requirements from the European Medical Device Regulation, which are particularly perceived as a great pressure by small and medium-sized companies.

According to the BVMed 2017 sector report on medical technology, the global market for medical technology had a market volume of around USD 310 billion in 2014 (primary source: Spectaris Yearbook). In terms of domestic production of medical products, the USA represents by far the largest share of this market – around USD 123 billion (39.6% of the global MedTech production volume). The USA is followed by China (11.1%), Germany (10.2%) and Japan (6.1%). Within the European Union, German medical technology companies by far represented the largest share of total European sales (EUR 75 billion), with a total of just under EUR 26 billion.

According to Orthoworld Inc. estimates, global sales in the orthopaedics industry in 2015 amounted to USD 46.7 billion[9]. This represents growth of approximately 1% compared to the previous year. Annual growth rates of between 1.6 and 2.3% are expected for global sales of orthopaedic products in the years from 2017 to 2020. Within the orthopaedics sector, the trauma segment recorded worldwide sales of around USD 6.3 billion in 2015, representing growth of around 1% compared to the previous year. The years from 2017 to 2020 are expected to bring growth rates of between 1.8 and 3.0%, which means the USD 7 billion sales mark should be surpassed in 2020. The top four

[8] The BVMed [Bundesverband Medizintechnologie e.V. – German Association of Medical Technology] 2017 sector report on medical technology is available on request from the association's Press Center.
[9] Source: "The Orthopaedic Industry Annual Report 2016"; available on request from Orthoworld Inc.

companies on the trauma market – DePuy Synthes, Stryker, Zimmer Biomet and Smith & Nephew – represent more than 70% of its sales volume, so the expected relatively low single-digit growth rates in this segment are primarily attributable to the expected sales growth of these companies. By contrast, Orthoworld Inc. expects the majority of trauma companies to continue recording annual growth rates of between 5 and 7%.

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* Implantate AG's 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. *aap* Implantate AG 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.

aap Implantate AG is certified according to the relevant, currently valid EN ISO 13485:2012 standard for manufacturers of medical devices and is also certified in accordance with the European Medical Devices Directive 93/42/EEC. In addition, *aap* Implantate AG has undergone a voluntary certification according to the quality management requirements of 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* Implantate AG pose a direct or indirect risk to the environment.

Notified body DEKRA carried out its annual monitoring audit in financial year 2016. As a result, all *aap* Implantate AG certificates issued by the notified body DEKRA retained their validity.

In general, *aap* Implantate AG is currently faced with significantly increased requirements from the new EU Medical Device Regulation (MDR). According to the BVMed 2017 sector report on medical technology[10], the higher requirements of this European Regulation are perceived as a great pressure in particular by small and medium-sized medical technology companies. *aap* Implantate AG is addressing this changing regulatory environment with the comprehensive quality management program "Quality First". The program was launched at the beginning of financial year 2017 and should lead to a sustainable improvement in the overall quality management system.

III. Economic Report

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

On 22 March 2016, *aap* Implantate AG signed a notarized share purchase agreement with Keensight Capital regarding the sale of 100% of the company's shares in its subsidiary *aap* Biomaterials GmbH. 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.

[10] The BVMed [Bundesverband Medizintechnologie e.V. – German Association of Medical Technology] 2017 sector report on medical technology is available on request from the association's Press Center.

Based on this transaction and the fulfillment of the requirements of IFRS 5 in November 2015, the disposed operation was first presented as a discontinued operation in the consolidated financial statements of December 31, 2015. The consolidated statement of income of the Group is therefore splitted 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 the period from 1 January 2016 to 11 May 2016 and 2015 includes *aap* Biomaterials GmbH, Dieburg and the distribution business of *aap* Implantate AG in bone cements, mixing systems and related accessories.

The transaction was closed on 11 May 2016. After taking account of the disposal of liabilities assumed in connection with the sale, a deconsolidation profit of EUR 23.3 million results, which is allocated to the discontinued operation in the consolidated statement of income and is presented in the other operating income. Sale costs totaled EUR 1.7 million within the transaction. Of this amount, a total of EUR 1.3 million was already paid as at 31 December 2016. The purchaser is also entitled to the profit share of *aap* Biomaterials GmbH generated from 1 January 2016 to 11 May 2016 amounting to EUR 0.1 million.

Sales revenues in the discontinued operation amounted to EUR 4.2 million after elimination of intragroup service relations. The material expenses ratio (with regard to sales revenues and change in inventory) was at 43% and thereby higher than the value in financial year 2015 (38%). In addition, higher expenses for consulting costs and guarantees resulted in higher other operating expenses. Overall, the continued operation realized an EBITDA of EUR 23.9 million (FY/2015: EUR 4.9 million), of which EUR 23.2 million are allocated to the deconsolidation gain from the sale of *aap* Biomaterials GmbH.

Unless otherwise stated, all remarks regarding the asset, financial and earnings position refer to the continued operation.

1. Earnings Position

Sales development and total operating performance

Sales in the continued operation fell in comparison with the previous year by 15% from EUR 12.3 million to EUR 10.5 million. Of these, sales with trauma products (implants and trauma complementary biomaterials) decreased from EUR 10.8 million to EUR 8.9 million. As a consequence *aap* was unable in particular to achieve the original sales target for the trauma business for 2016. In addition, sales of products and services outside of the core area rose slightly from EUR 1.5 million to EUR 1.6 million. *aap* achieved sales of EUR 1.0 million from the product business with *aap* Joints GmbH as well as EUR 0.6 million from distribution services for the former subsidiary *aap* Biomaterials GmbH. Based on the disinvestments carried out in the financial year (sale of *aap* Biomaterials GmbH and the remaining stake in *aap* Joints GmbH), these sales will not be repeated in 2017.

With a view to the sales development in financial year 2016 an ambivalent picture appears which was significantly impacted by two opposite effects. On the one hand, China, which was despite halted growth a main sales market in 2015, could not make a contribution towards sales in financial year 2016 (Sales FY/2015: about EUR 3.3 million). The negotiations about a continuation of the distribution business have been concluded at the end of the year 2016 and the cooperation will

continue in 2017. Consequently, *aap* expects a slow recovery of the business in China. In course of drawing up the annual financial statements for 2016 the Management Board decided as a precautionary measure to revoke an initial sale with a distribution partner invoiced in the financial year. The reason is a delayed payment of the contractual due purchase price. Rescission of the initial business results in a reduction in the preliminary sales figures for the financial year 2016 communicated in February 2017 by KEUR 757. On the other hand, *aap* achieved substantial progress in connection with the aimed focus on established markets such as North America and Europe in 2016. The share of trauma sales attributable to North America and Europe together increased in financial year 2016 compared to the corresponding period in the previous year by about 50% to EUR 6.8 million (FY/2015: EUR 4.5 million). Overall, the realized pleasing sales increases in North America and Europe in financial year 2016 could however not compensate the missing sales contributions from China. The company currently sees in both markets a dynamic development which is expected to continue in the coming months. North America and Europe will stay the main growth drivers for the planned sales development in financial year 2017 as well.

Development is especially positive in North America that represents one of the core markets in the context of our growth strategy. Through our US subsidiary that now has 23 active local distributors, and our global partners who distribute our products under their own or the *aap* label in the US, we were able to increase sales there significantly in 2016 to EUR 2.5 million (FY/2015: EUR 0.5 million). At the same time, we recorded a growing number of weekly operations using our LOQTEQ® products. On the whole, this development is better than we expected, and we anticipate a further growth momentum in the coming quarters.

We also were able to make progress in other core markets. In the DACH region, we expanded access to our customers through numerous activities and are now, for example, again listed with major hospital groups such as Helios and Asklepios. This will be become measurable in higher sales as well in financial year 2017. At international level, we were able to acquire new customers, including in Puerto Rico and Ecuador.

The **total operating performance** includes, in addition to sales revenues, both changes in inventories and other capitalized own and development services. The total operating performance of the continued operation fell by EUR 5.7 million to EUR 12.4 million (-31%).

Along with the decrease in sales, the reason for this is the lower inventory build-up that had been due primarily to a buildup of safety stock for the newly-introduced LOQTEQ® products. This development is a very welcome one since *aap* had increased its inventories significantly in 2015 and was now able to realize sales partly from existing inventories. *aap*'s stated goal is to achieve part of the planned growth in sales in 2017 by using the existing inventory and to report a fall in inventory in the income statement for 2017.

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 1.4 million (previous year: EUR 1.9 million) of own and development services in financial year 2016. 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 and functions. These capitalized development costs will be depreciated over their economically useful life after the products are launched on the market.

Cost Structure and Result

Other operating income in the continued operation rose from EUR 0.9 million in financial year 2015 to EUR 1.0 million in the reporting period. The increase is explained primarily by transition services performed for *aap* Biomaterials GmbH after conclusion of the disinvestment of the company. Based on the regulations of IFRS 5, these services that *aap* performed for the discontinued operation were recognized again under continued operation from May 11, 2016, while a consolidated presentation was made in the previous year and in the first four and a half months of the financial year, which had the effect that income from the continued operation and the same amount of expenses in the discontinued operation were not shown. The substantial income achieved in financial year 2016 from central services for *aap* Joints GmbH and *aap* Biomaterials GmbH will no longer be achieved in 2017 because of the completed divestments and will lead to a corresponding reduction in other operating income.

The **cost of materials ratio** (with regard to sales revenue and changes in inventories) for the continued operation fell significantly in 2016 to 33% (FY/2015: 48%). The same can be seen in the light of the development in absolute values: The cost of materials fell just as heavily from EUR 7.8 million to EUR 3.6 million. The background to this development is firstly that nearly all of the temporary employees were made redundant at the beginning of the second quarter and secondly, that services provided by third parties were significantly reduced. One of the goals of our action plan that was launched in 2015, many parts of which have already been implemented, is to reduce production costs sustainably. In this regard, a reduction in the share of external services towards a higher degree of in-house manufacturing is essential to achieving an improvement in margins. Further progress has already been reported in this regard in the financial year: for example, the share of external services in the cost of materials improved in 2016 compared with the previous year to 16% (FY/2015: 32%).

Although the average number of employees fell from 162 to 148, **personnel expenses** in the continued operation were slightly above the level in the previous year at EUR 8.7 million (FY/2015: EUR 8.6 million). While personnel costs declined at the Berlin site, the expenses in North America increased in course of the development of the sales business. In addition one-time costs of severance payments in the amount of EUR 0.35 million in the financial year, which were incurred in connection with the adjustment of the cost structure to the reduced company size, are to be taken into account. Reductions in personnel were carried out mainly in the production and administration areas. Due to a lower total operating performance, the personnel cost ratio (with regard to total operating performance) rose in the 2016 financial year to 70% (FY/2015: 48%).

As at the reporting date December 31, 2016, a total of 155 employees were engaged in the continued operation of *aap* (December 31, 2015: 179 employees).

Other operating expenses for the continued operation fell by EUR 0.4 million in comparison with the previous year to EUR 9.0 million in the reporting period. The main reasons for the fall were primarily lower development costs (EUR 0.5 million), reduced expenses incurred in previous periods (EUR +0.3 million) and lower advertising and travel costs (EUR +0.2 million) On the other hand, delivery costs (outgoing freight, packaging materials, and sales commissions) rose sharply to EUR 1.4 million in financial year 2016 (FY/2015: EUR 0.8 million). The background to this development is firstly an indemnity payment for the early termination by mutual consent of a previously existing long-term license agreement with a co-developer of the LOQTEQ® technology. The co-developer will receive

further payments as compensation that will be paid in tranches only upon reaching certain sales targets over the next three years. In addition, sales commissions increased significantly in 2016 corresponding to the dynamic sales development in North America. Overall, the share of other operating expenses for the continued operation (with regard to total operating performance) increased compared with the previous year from 52% to 73% in financial year 2016.

Thus, *aap* achieved an **EBITDA** of EUR -7.9 million in the continued operation in 2016 (FY/2015: EUR -6.8 million).

As both financial years include significant one-off effects a comparison makes only sense on the basis of the **recurring EBITDA** (adjusted by one-off effects):

In EUR million	**FY/2016**	**FY/2015**
EBITDA continued operation	**-7.9**	**-6.8**
Pre-operating costs US sales	0.9	0.6
Value reduction non-core products	0.5	0.7
Severance payments personnel measures (incl. consultancy costs)	0.4	0
Termination license agreement LOQTEQ® (incl. consultancy costs)	0.4	0
aap Joints transaction (recertification costs)	0.1	0
Recurring EBITDA continued operation	**-5.6**	**-5.5**

Based on the above mentioned developments, **recurring EBITDA**, adjusted for one-off effects, was EUR -5.6 million in the financial year 2016 and reflects the aimed development: a focus on established markets with higher profit margins and simultaneous a disciplined cost management to improve operational performance. These areas of activity will continue to be of central significance for the management in the financial year 2017.

The **scheduled depreciation** for the continued operation increased slightly from EUR 1.8 million to EUR 1.9 million. In addition, in the third quarter of 2016, we concluded a notarized share purchase agreement for the sale of the remaining stake of 33 % in *aap* Joints GmbH at a purchase price of EUR 0.4 million. The prerequisite for completion of the transaction was the fulfillment of certain conditions precedent, and these were met by the end of the year. As a result of this agreement, the stake in *aap* Joints GmbH was devalued in the third quarter of 2016 by non-scheduled depreciation amounting to EUR 0.4 million.

EBIT in the continued operation in financial year 2016 was EUR -10.2 million (FY/2015: EUR -9.0 million).

The **financial result** increased to EUR 0.3 million after a nearly break-even result in 2015 and resulted primarily from foreign exchange gains from intra-Group loans denominated in foreign currencies.

The **result from joint ventures and associated companies** in the previous year was attributed entirely to *aap* Joints GmbH. With the conclusion of the agreements already in September 2015, the stake in *aap* Joints GmbH has since December 31, 2015 been recorded as asset held for sale, as a result of which adjustments under the at-equity method were no longer performed.

Overall, *aap* achieved a **net result** in the continued operation in financial year 2016 of EUR -9.3 million (FY/2015: EUR -9.5 million). Having taken currency differences into account, *aap* achieved a Group's overall result of EUR 14.6 million (FY/2015: EUR -5.3 million) in the continued operation,

with EUR -9.3 million (FY/2015: EUR -9.5 million) accounting for the continued operation and EUR 23.9 million (FY/2015: EUR 4.3 million) accounting for the discontinued operation**.**

2. Asset Position

Due to the deconsolidation of *aap* Biomaterials GmbH as at May 11, 2016, *aap*'s balance sheet has changed significantly compared to December 31, 2015. For example, total assets increased by 16% from EUR 54.9 million as at the end of the financial year 2015 to EUR 63.9 million as at December 31, 2016. Assets of EUR 14.7 million (December 31, 2015: EUR 13.9 million) and liabilities of EUR 2.8 million (December 31, 2015: EUR 2.2 million) were disposed of in connection with the transaction that had been recorded as assets held for sale in the consolidated financial statements as at December 31, 2015. In addition, the remaining stake in *aap* Joints GmbH in the amount of EUR 0.8 million as at December 31, 2015 had also been recorded as assets held for sale, and has also been disposed of on the basis of agreements concluded in September 2016 by meeting of conditions precedent at year end 2016. Please see the statements in the Notes to the Financial Statements for further details.

The increase in **non-current assets** by EUR 2.9 million as at December 31, 2016 compared with the end of financial year 2015 resulted substantially from investments in development projects and cash payment for bank guarantees transferred to third parties as well as pledged balances at credit institutions to secure financial liabilities which are presented in other financial assets. Capitalized development costs increased by EUR 0.7 million compared with the reporting date as at December 31, 2015, 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 17% and is therefore lower in comparison with the end of financial year 2015 (December 31, 2015: 19%). In addition, long-term trade receivables were no longer recorded as at December 31, 2016, which led to a reduction of EUR 0.3 million in non-current assets.

Current assets increased sharply from EUR 35.7 million as at December 31, 2015 to EUR 41.8 million as at the reporting date for the period and were mainly impacted by the liquidity inflow arising from the sale of *aap* Biomaterials GmbH and the outflow of the assets held for sale at the same time. In addition, **inventories** rose from EUR 9.7 million as at the end of 2015 to EUR 11.1 million as at December 31, 2016 as a result of safety inventories built up for the newly-introduced LOQTEQ® products. **Trade receivables** fell significantly as at December 31, 2016 from EUR 5.8 million to EUR 2.9 million. This resulted primarily from consistent debtor management in financial year 2016.

The change in **other financial assets** by EUR 4.7 million to EUR 5.5 million in comparison with the previous year resulted mainly from deposits pledged to banks as security for financial liabilities, cash payment for bank guarantees transferred to third parties as well as the receipt of the outstanding receivables from the remaining purchase price for the sale of the shares in *aap* Joints GmbH in the amount of EUR 0.4 million in the first quarter of 2016.

The amount of **cash and cash equivalents** increased significantly in financial year 2016 as a result of the cash inflow from the sale of *aap* Biomaterials GmbH to EUR 23.8 million as of the reporting date of December 31, 2016 (December 31, 2015: EUR 4.9 million). Together with liquidity amounts bound under current and non-current other financial assets the cash amounted to EUR 28.9 million as at December 31, 2016.

Impacted by the net result of EUR 14.6 million, the **equity** as at December 31, 2016 rose to EUR 54.8 million (December 31, 2015: EUR 40.3 million). With total assets of EUR 63.9 million as at December 31, 2016 (December 31, 2015: EUR 54.9 million), the equity ratio is 86% (December 31, 2015: 73%).

After the payment of the regularly scheduled loan repayments in the amount of EUR 2.0 million, **financial liabilities** fell from EUR 3.3 million as at year end 2015 to EUR 1.3 million as at December 31, 2016. **Trade receivables** decreased as well from EUR 4.1 million to EUR 2.5 million as at December 31, 2016. **Liabilities associated with assets held for sale** in the amount of EUR 2.2 million as at December 31, 2015 also retired in the context of the deconsolidation.

3. Financial Position

Starting from a net result of EUR 14.6 million, the **operating cash flow** of the *aap* Group in 2016 was down on the previous year to EUR -7.2 million (FY/2015: EUR -2.3 million). The main changes year-on-year can be summarized as follows:

- Decreased operating result (excluding deconsolidation profit) both in the continued operation and in the discontinued operation, with the discontinued operation accounted for based on the result of the entire financial year 2015 in the previous year, but only based on four and a half months in 2016
- Deconsolidation profit of EUR 23.2 million from the sale of *aap* Biomaterials GmbH
- Working capital: Consistent receivables management with a significant reduction in trade receivables in 2016 (EUR 2.9 million) with a simultaneous increase in inventories as a result of a produced safety stock for new LOQTEQ® products (EUR 1.4 million), as well as a reduction in trade payables by EUR 1.6 million
- Effect from the presentation of deposits pledged as security to banks under other financial assets (EUR 1.0 million) and the associated increase in this position

Adequate control of working capital (inventories, trade receivables and trade payables) is still a key element of management for *aap*. In particular, this involves aiming to set adequate limits for capital commitment in inventories and days sales outstanding, taking into account growth momentum.

Cash flow from investing activities increased to EUR 29.8 million in financial year 2016 (FY/2015: EUR -3.1 million). A major influence here was the cash inflow generated from the sale of *aap* Biomaterials GmbH, which is set out as follows in the consolidated cash flow statement as at December 31, 2016: Based on a purchase price for shares in *aap* Biomaterials GmbH (at equity value) of EUR 33 million, the company received EUR 33.9 million in total, including the payment of assumed liabilities (EUR 3.7 million) and less all selling costs paid as at the reporting date (EUR 1.3 million) and divested cash positions (EUR 1.4 million). Furthermore, cash payments amounting to EUR 2.0 million were pledged as security for a granted bank guarantee within the transaction. For more details, please refer to the Notes. In addition, *aap* invested EUR 1.1 million in machinery and systems, and in operating and office equipment. A further EUR 1.4 million was invested in capitalized development projects, and in particular in the innovative silver coating and LOQTEQ® technology.

The main effects in **financing activities** can be summarized as follows:

- Repayments on loan contracts in the amount of EUR 2.0 million
- Repayments on finance leasing agreements in the amount of EUR 0.4 million
- Interest paid on short- and long-term loans in the amount of EUR 0.1 million
- Pledged fixed-term deposits amounting to EUR 2.1 million to secure financial liabilities

This resulted in cash outflow of EUR 4.6 million from financing activities during financial year 2016 (FY/2015: EUR 1.1 million).

Cash and cash equivalents increased as at the reporting date, December 31, 2016, to EUR 23.8 million (December 31, 2015: EUR 5.7 million; including EUR 0.8 million due to the discontinued operation). In addition, EUR 5.1 million of bank balances were presented under other financial assets as these were pledged to the financing bank respectively deposited as security for bank guarantees granted to third parties as part of the process to secure financial liabilities.

The net credit balance (the sum of all cash and cash equivalents minus all interest-bearing liabilities) was EUR 20.9 million as at December 31, 2016 (December 31, 2015: Net credit balance of EUR 0.9 million; including a credit balance of EUR 0.8 million due to the discontinued operation).

Given the significant cash inflow from the sale of *aap* Biomaterials GmbH, the framework agreement on the supply of an operating credit line was terminated on August 31, 2016. The *aap* Group had access to contractually guaranteed credit lines totaling EUR 4.5 million as at December 31, 2015, which were unused as at the reporting date. Furthermore, *aap* held usable liquidity (sum of available cash and cash equivalents and available undrawn credit lines) of EUR 23.8 million as at the reporting date in this period (December 31, 2015: EUR 10.2 million).

IV. *aap* Implantate AG (Condensed version according to the German Commercial Code (HGB))

In addition to reporting on the *aap* Group, in this chapter, we also describe the development of *aap* Implantate AG.

aap Implantate AG is the parent company of the *aap* Group and is based in Berlin. Its principal business activities comprise the development, production and global marketing of trauma products for orthopedics and the management of the activities of the *aap* Group.

In Berlin, the company develops, manufactures and markets all products under one roof. 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 a broad network of distributors in more than 25 countries at the international level. *aap* Implantate AG serves the North American market via its subsidiary *aap* Implants Inc. based in Dover, Delaware, USA.

The annual financial statements of *aap* Implantate AG are prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). This results in some differences with regard to recognition and measurement, primarily relating to intangible assets, provisions and deferred taxes.

The main financial performance indicators for *aap* Implantate AG are **Sales**, **EBITDA**, **Inventory Turnover Rate**[11] and **DSO**[12] (Day Sales Outstanding). The main non-financial performance indicators in financial year 2016 are taken from the 2016 Management Agenda. It can be found in the section "Other indicators"] of this report.

Earnings Position

Sales development and total operating performance

In financial year 2016, the provisions of the Accounting Directive Implementation Act (German BilRUG) were applied for the first time. Because of the first-time application of BilRUG, and due to changes in the definition of sales revenue, the previous year's figures for sales revenue and other operating income are not directly comparable. If BilRUG had been applied in the previous year, this would have yielded sales revenue of EUR 17.6 million, and other operating income of EUR 0.7 million.

Sales in financial year 2016 fell from EUR 16.2 million (FY/2015 BilRUG: EUR 17.6 million) to EUR 14.9 million. These include sales of EUR 4.2 million (Previous year reported: EUR 2.4 million; previous year BilRUG: EUR 2.5 million) from inter-company supplies to the US subsidiary *aap* Implants Inc., which were used to build up sales business with distributors and selling agents in the US. After eliminating inter-company transactions, there remain sales of EUR 10.7 million (Previous year reported: EUR 13.8 million; previous year BilRUG: EUR 15.1 million). The background to the decrease in sales is above all the Chinese market, which was still a major sales market during financial year 2015 (FY/2015: EUR 3.3 million), but in the present reporting year did not provide any contribution to sales. Furthermore, the distribution business with biomaterials in the amount of EUR 2.1 million was included in sales in the previous year. A large part of this business was sold off with the sale of *aap* Biomaterials GmbH, and in financial year 2016 it totaled EUR 0.6 million. In addition, OEM sales in the non-core Recon business (hips, knees and shoulders, as well as the C~Ment® line) fell from EUR 1.5 million to EUR 1.0 million.

The **inventory adjustment** fell sharply from EUR 3.3 million to EUR -0.7 million. This trend is very welcome after the steep increase in inventories in 2015, meaning that part of the sales in the financial year were achieved from the existing inventory, causing a reduction in the levels being held. This trend should continue in 2017.

Based on the slight fall in other capitalized production, **total operating performance** fell, mainly as a result of the fall in sales and the reduction in the inventory from EUR 21.7 million according to BilRUG (Previous year reported: EUR 20.3 million) to EUR 14.8 million.

Cost Structure and Result

Other operating income of EUR 29.0 million includes EUR 28.1 million profit on the sale of *aap* Biomaterials GmbH. If this factor is excluded, the other operating income under BilRUG rose slightly from EUR 0.7 million (FY/2015 as reported: EUR 2.1 million) to EUR 0.9 million.

The **cost of materials** fell sharply from EUR 9.5 million to EUR 3.9 million, which is primarily the result of stopping the use of agency staff from the end of the first quarter of 2016, together with drastically

[11] Definition Inventory Turnover Rate: Inventory Turnover Rate = Sales (per period) / Average inventory at sales prices
[12] Definition DSO: DSO = Trade receivables / Sales * 365

reduced external services, the reduction in inventory levels and the end of the procurement of biomaterials following the sale of the distribution business as part of the sale of *aap* Biomaterials GmbH.

The decrease in **personnel expenses** from EUR 8.4 million to EUR 7.9 million primarily results from a reduction in headcount as part of the adjustment of the cost structure to match expected future sales streams and the reduced company size. During the financial year, there was a charge for redundancies of KEUR 349. As of 12/31/2016, the company had 151 employees (12/31/2015: 177 employees).

Other operating expenses rose from EUR 8.4 million to EUR 9.7 million. These include the following non-recurring one-off items: Sale costs of EUR 1.7 million were incurred as part of the sale of *aap* Biomaterials GmbH. In addition, the sale of the remaining stake in *aap* Joints GmbH led to a book loss of EUR 0.4 million, while the premature termination of a licensing agreement with a co-developer of the LOQTEQ® technology led to a one-off charge of EUR 0.4 million. If these factors are excluded, the other operating expenses fell from EUR 8.4 million to EUR 7.3 million.

While the 2015 financial year showed **earnings from profit transfers** from *aap* Biomaterials GmbH of EUR 5.3 million, in this financial year there was only EUR 0.1 million, thanks to the sale of the company, and this had to be transferred to the buyer under the terms of the agreement.

The rise in **interest income** by EUR 0.2 million to EUR 0.4 million is mainly the result of granting inter-company loans to the US subsidiary.

aap Implantate AG therefore achieved an **annual profit** for the 2016 financial year of EUR 21.2 million (FY/2015: loss of EUR 1.0 million) part of which, EUR 14.5 million, was transferred to the retained earnings, and with the inclusion of the profit carried forward of EUR 1.8 million, this left net profit as at 12/31/2016 of EUR 8.5 million.

Asset Position

During financial year 2016, *aap* Implantate AG's balance sheet changed significantly in some areas compared to the previous year. Total assets rose by 35% to EUR 67.1 million.

Fixed assets fell during the reporting period from EUR 21.1 million to EUR 18.9 million, mainly due to the following factors: Intangible assets rose by EUR 1.0 million to EUR 9.7 million as part of the capitalization of own production and development work, while as a result of the sale of *aap* Biomaterials GmbH, shares in affiliated companies fell by EUR 3.3 million.

Inventories fell during the financial year from EUR 10.5 million to EUR 8.5 million due to a reduction in inventory through sales, as well as the transfer of inventories totaling EUR 1.5 million as part of the sale of *aap* Biomaterials GmbH.

The level of **trade receivables** fell significantly from EUR 5.2 million down to EUR 2.6 million, mainly due to consistent debtor management, but also as a result of lower sales revenues.

Other assets include credit balances with credit institutions of EUR 5.1 million that were pledged to lenders as guarantees for financial liabilities respectively as cash payment to secure bank guarantees granted to third parties during the financial year.

Given the sizable annual profit of EUR 21.2 million, **equity** rose from EUR 38.1 million to EUR 59.4 million as at 12/31/2016. The equity ratio is 88% (12/31/2015: 77%)

Trade payables fell from EUR 3.5 million as at 12/31/2015 to EUR 1.8 million at the end of the reporting period, reflecting the sharply reduced total operating performance.

Amounts owed to credit institutions fell as a result of planned repayments from EUR 4.9 million to EUR 2.8 million as at 12/31/2016.

Financial Position

Cash balances and cash equivalents as at 12/31/2016 were EUR 23.6 million (12/31/2015: EUR 4.8 million). This significant increase was the result mainly of the sale of *aap* Biomaterials GmbH, the reduction of working capital while still using it to finance development activities and *aap* Implantate AG's operational activities, as well as the planned repayments of loan liabilities.

Together with the liquidity amounts bound under other financial assets the cash amounted to EUR 28.9 million as at December 31, 2016.

aap therefore has a strong financial basis to be able to finance the planned sales growth and development activities.

Risks and Opportunities

The business development of *aap* Implantate AG is fundamentally subject to the same risks and opportunities as that of the *aap* Group. *aap* Implantate AG generally participates in the risks of its holdings and subsidiaries line with the percentage of each holding. The risks and opportunities are described in the "Risk and Opportunity Report" of this report.

Outlook

Due to the interrelations between *aap* Implantate AG and its Group companies and the relative size of *aap* Implantate AG within the Group, we refer to the statements in the "Outlook" chapter, which largely reflect our expectations also for the parent company. This also applies to sales and revenue. Without consideration of the one-off effect from the sale of *aap* Biomaterials GmbH in 2016, we expect for *aap* Implantate AG a negative EBITDA in 2017 significantly above the level of the 2016 financial year.

V. Other indicators

1. Research and Development

Research and Development in Medical Technology

A great deal of innovation is generally accredited to the medical technology sector. In fact, according to the BVMed [Bundesverband Medizintechnologie e.V. – German Association of Medical Technology] 2017 sector report on medical technology, German medical technology companies

generate around a third of their sales through products that are no more than three years old[13]. Medical technology companies also 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%. The number of patent applications is another indicator of the innovative strength of the medical technology sector. Accordingly, the medical technology sector filed more patent applications worldwide than any other field of technology at the European Patent Office in Munich in 2015 (12,474; up 11% on 2014). Last but not least, a study conducted by the Federal Ministry of Education and Research found that the medical technology sector's overall research and development share in production value is more than double that of the industrial goods sector.

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 2016 financial year for its research and development activities. As at 12/31/2016, in the continued operation in total 19% of the 155 *aap* employees were working in the company's Research and Development (R&D), Clinical Affairs or Regulatory and Quality Management teams (previous year: 18% of 179 employees). In addition, the share of sales spent on research and development in the 2016 financial year was 17% (previous year: 15%) in the continued operation, making it higher than the sector average of 9% (see above). The proportion of capitalized costs compared to total costs in the reporting year was 67% (previous year: 66%) in the continued operation.

According to a study by the University of Witten-Herdecke (2011), users originally conceive 52% of ideas for new medical products[14]. Consequently, almost all medical technology companies work with open innovation processes and almost 90% often or very often use users' ideas at the product development stage. In research and development, also *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 also 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 in the areas of orthopedics and trauma at an early stage. At the same time, this approach should proactively safeguard existing technologies.

At *aap*, innovations form the basis of continued and sustainable value creation. With this in mind, the company consistently pushes the development and expansion of so-called platform technologies. *aap*'s strategic IP portfolio is aimed at safeguarding these technologies and the resulting products:

[13] The BVMed [Bundesverband Medizintechnologie e.V. – German Association of Medical Technology] 2017 sector report on medical technology is available on request from the association's Press Center.
[14] Source: BVMed [Bundesverband Medizintechnologie e.V. – German Association of Medical Technology] 2017 sector report on medical technology.

Platform Technology	Derivative Products	
Angular stable 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)
Angular stable polyaxial fixation technology	LOQTEQ® VA Anatomical Plating System	Anatomical plates for the upper and lower extremities in treatment using multidirectional, angular stable 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

In the trauma business in financial year 2016, as part of its development activities, *aap* concentrated on completing the LOQTEQ® portfolio, focusing in particular on polyaxial fixation technology and the foot and ankle areas. Once the innovative periprosthetic LOQTEQ® system had proven successful in initial clinical applications in terms of ease of use and flexibility, it was launched on the market in the second half of the year. The periprosthetic system is based on new, patent-pending fixation technology and enables the treatment of bone fractures in the immediate vicinity of joint implants that are already in the body. Additionally, different polyaxial LOQTEQ® systems were developed which will be launched shortly. With polyaxial implants angle-stable screws can be inserted at different angles and thereby fractures treated flexibly.

In the course of focusing on established markets such as North America, *aap* was granted important approvals from the US Food and Drug Administration (FDA) in the reporting period. The company also received a further important US patent for its LOQTEQ® technology in financial year 2016 and was therefore able to reach the next significant milestone in expanding the IP portfolio. This property right is distinctive in that it constitutes comprehensive protection ("umbrella patent") that combines and expands upon many existing patents.

In the field of silver coating technology, *aap* focused on the aimed CE and FDA approval in financial year 2016. In January 2016, the company submitted the design dossier for the performance of the CE conformity assessment procedure for its antibacterial silver coating technology at a notified body. The conformity assessment procedure is initially undertaken for a silver-coated LOQTEQ® plate. In case of a successful conformity assessment, *aap* plans to extend the approval to further trauma products. Over the rest of the year, the focus was on an intensive and constructive exchange with the notified body, with good progress made as a result. With regard to approval in the US, *aap* also submitted the required documents for pre submission meetings at US Food and Drug Administration (FDA).

In light of the increased regulatory requirements and based on the recent exchange with the regulatory authorities the performance of a clinical study will be a necessary condition for the granting of a CE and FDA approval. As the coordination process with the regulatory authorities about

the extent of the clinical study is still running, *aap* will inform about the related approach as well as the corresponding timetable and the required resources in a separate release in the second quarter of 2017.

In the area of magnesium technology, during financial year 2016, *aap* particularly focused on further technological development of the absorbable implants. In addition, the company used various discussions to assess opportunities for cooperation with external partners.

2. Marketing & Sales

As part of its marketing and sales activities, *aap* was present with its product portfolio at a number of internationally significant exhibitions and professional conferences in financial year 2016. Worthwhile mentioning in this context are the AAOS ("American Academy of Orthopaedic Surgeons") in Orlando, Florida, USA, and the German Congress of Orthopaedic and Trauma Surgery (DKOU) 2016 in Berlin, Germany, which are both among the most important events for *aap*. Furthermore, the company visited among others the Arab Health in Dubai, UAE, the 17th EFORT Congress ("European Federation of National Associations of Orthopaedics and Traumatology") in Geneva, Switzerland, the Medica in Düsseldorf, Germany, the 17th ESTES Congress ("European Society for Trauma & Emergency Surgery") in Vienna, Austria, and the 35th EBJIS Conference ("European Bone and Joint Infection Society") in Oxford, United Kingdom. In addition, *aap* organized various training courses and workshops for its customers and product users in financial year 2016. Highlights here included the "International Osteosynthesis Trauma Course", which, following positive feedback from doctors and distributors, the company ran twice in the last year in cooperation with Gießen University Hospital under the auspices of university professor Dr. Christian Heiß. Furthermore, *aap*, together with its Spanish distributor, organized the eighth and ninth versions of its Basic Course in Osteosynthesis Trauma in Berlin over the reporting period. Particular importance was also placed on the company's distributor meeting in Berlin, where 26 doctors and 41 distributors from 23 countries in total attended various training courses and workshops over two days.

3. Employees

On 12/31/2016, a total of 155 employees were working for *aap* in the continued operation – that is 24 less than on the reporting date of the previous year (179 employees).

4. Conclusion or Termination of Cooperation Agreements and Other Important Contracts

Through the notarized share purchase agreement dated March 22, 2016, *aap* sold 100% of the company shares in its subsidiary *aap* Biomaterials GmbH. The purchase price is based on an assumed enterprise value of *aap* Biomaterials GmbH of EUR 36 million. The transaction was completed on May 11, 2016.

aap sold the remaining 33% stake in *aap* Joints GmbH through a share purchase and transfer agreement on September 23, 2016. Once the conditions agreed under the contract were met, the transaction was completed on December 14, 2016.

In order that it can replace a long-term license agreement early, *aap* concluded a termination agreement on September 26, 2016 with a co-developer of the LOQTEQ® technology. The co-developer has already received an indemnity payment as compensation. He will receive further

payments that will be paid in tranches only upon reaching certain sales targets over the next three years.

In December 2016, *aap* signed a distribution contract for its LOQTEQ® products with a leading US healthcare service provider. The object of the contract is an initial 12-month pilot phase in which the contractual partner will sell LOQTEQ® products in a number of selected US states. If it proves to be successful, distribution will gradually be rolled out to further states.

A credit agreement concluded with a leading German financial institution on July 12, 2005, last amended on March 16, 2016, for an operating credit line of EUR 4.5 million was terminated on August 31, 2016. This also brought to an end a global assignment agreement of July 21/September 5, 2005, which had assigned claims from *aap* for deliveries of goods and services against third parties. This meant that all *aap* claims were freed from credit-institution rights.

5. Financial and Non-Financial Performance Indicators

Financial performance indicators

In the management of the Group of Companies, the *aap* Management Board focused primarily on the financial performance indicators **Sales**, **EBITDA**, **Inventory Turnover Rate**[15] and **DSO**[16] (Day Sales Outstanding) in financial year 2016. Thanks to a consequent receivables management the key figure DSO could be decreased as aimed in financial year 2016 to 102 days (FY/2015: 173 days). In contrast, the inventory turnover rate went slightly down in the reporting period to 1.01 (FY/2015: 1.29) against the target. The background is the partial pre-production for sales originally planned for 2016 which shifted to 2017 and the build up of a safety stock for the dynamic business in North America and newly launched LOQTEQ® products. Regarding the central management figure sales *aap* set the target to realize 20% sales growth with trauma products year on year. The company reported a sales decline in trauma of 15% in the reporting period, meaning that it did not reach this goal. Overall, with a view to the sales development in financial year 2016 an ambivalent picture appears which was significantly impacted by two opposite effects. On the one hand, China, which was despite halted growth a main sales market in 2015, could not make a contribution towards sales in financial year 2016 (Sales FY/2015: about EUR 3.3 million). The negotiations about a continuation of the distribution business have been concluded at year end 2016 and the cooperation will continue in 2017. Consequently, *aap* expects a slow recovery of the business in China. On the other hand, *aap* achieved substantial progress in connection with the aimed focus on established markets such as North America and Europe. The share of sales attributable to North America and Europe together increased in financial year 2016 year on year by about 50% to EUR 6.8 million (FY/2015: EUR 4.5 million). Overall, the realized pleasing sales increases in North America and Europe in financial year 2016 could however not compensate the missing sales contributions from China. Furthermore, delays in the sales development in various markets led to a sales shift in financial year 2017. Therefore, *aap* was unable to reach its original sales forecast, instead achieving sales of EUR 10.5 million in financial year 2016 (continued operation). Due to the aforementioned sales development and additionally burdening one-time effects from different measures, the company recorded an EBITDA totaling EUR -7.9 million in the reporting period, which is lower than the targeted range.

[15] Definition Inventory Turnover Rate: Inventory Turnover Rate = Sales (per period) / Average inventory at purchase prices
[16] Definition DSO: DSO = Trade receivables / Sales * 365

Non-financial performance indicators

The main non-financial performance indicators in financial year 2016 are taken from the 2016 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 innovations		
Targets of the 2016 Management Agenda	**Results of the 2016 Management Agenda**	**Target reached?**
LOQTEQ®: Completion of LOQTEQ® portfolio with a focus on polyaxial fixation technology as well as foot and ankle	Important progress in completing the portfolio through the launch of the periprosthetic LOQTEQ® system; additional development of different polyaxial LOQTEQ® systems which will be launched shortly; listing reached at major hospital groups Helios and Asklepios through indication coverage of more than 90% for the treatment of major bone fractures	Yes
Silver coating technology: CE mark for the antibacterial silver coating technology	Submission of the design dossier for the performance of the CE conformity assessment procedure at a notified body; intensive and constructive exchange with notified body and submission of the required documents for pre submission meetings at US FDA	No
Magnesium technology: Accelerated development of magnesium technology (Implants and coating of magnesium-based products)	Further technological development of absorbable implants and discussions with external partners to explore opportunities for cooperation	Yes

Enhancing market access		
Targets of the 2016 Management Agenda	**Results of the 2016 Management Agenda**	**Target reached?**
Established countries: Focus on DACH, Western Europe and the USA as key markets	Increase in the trauma sales share generated jointly in North America and Europe in 2016 compared to the previous year by around 50% to EUR 6.8 million (2015: EUR 4.5 million)	Yes
Emerging countries: Stabilization of sales development in BRICS and SMIT states	No sales contribution from China in 2016 (2015: approx. EUR 3.3 million), partly offset by slight sales growth in Brazil; Cooperation with distributor in China will continue in 2017 and business slowly recover	Partly

Sales organization: Development of a strong international sales team that attracts further talents	Development of a domestic and international sales organization that can generate further sustainable growth in future	Yes

Optimizing operational efficiency		
Targets of the 2016 Management Agenda	**Results of the 2016 Management Agenda**	**Target reached?**
Production efficiency: Reduction of manufacturing costs and increase of ability to provide timely deliveries	Due to the decline in sales compared to 2015, manufacturing costs could not be reduced any further; the number of open contracts per day was reduced by 60%; domestic delivery capacity never dropped below 90% on any single day in 2016	Partly
Sales efficiency: Increase of sales efficiency with higher performance per sales employee and distributor	DACH: No – customer access extended and listing at major hospital groups such as Helios and Asklepios which will be reflected in sales in 2017 North America: Yes – Sales increased to EUR 2.5 million (FY/2015: EUR 0.5 million) International: Partly – New customer acquisition in several markets (e.g. Ecuador and Puerto Rico) and sales growth, in other markets declining sales (e.g. China)	Partly
Working capital: Optimization of working capital management with a higher inventory turnover and a reduction of the figure DSO (days sales outstanding)	Inventory turnover rate slightly down to 1.01 (FY/2015: 1.29) due to partial pre-production for sales originally planned for 2016 which shifted to 2017 and build up of safety stock for dynamic business in North America; DSO decreased to 102 days (FY/2015: 173 days) thanks to consequent receivables management	Partly

Realization of Financial Targets		
Targets of the 2016 Management Agenda	**Results of the 2016 Management Agenda**	**Target reached?**
Sales: 20% growth with trauma products	15% decline in sales with trauma products; pleasing sales increases in North America and Europe could not compensate missing sales contributions from China; additionally delays in sales development in various markets led to a shift of sales in 2017	No
Costs: Implementation of cost-reduction measures with an annualized effect of EUR 2 million	Implementation of an extensive personnel measure and reduction of other costs within the adjustment to future sales streams and reduced company size	Yes
Innovations: Maintenance of a freshness index of at least 20%	Freshness Index in 2016 at approx. 26% (2015: approx. 21%)	Yes

VI. 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 2016 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 prerequisite 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).

- **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
- Product Liability Risks
- Capitalization of Development Costs
- Personnel Risks
- Data Protection
- Legal Risks
- Additional Disclosures Pursuant to Section 315 para. 2 no. 2 letter b of the German Commercial Code (Handelsgesetzbuch, HGB)

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 by 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 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. The requirements for bringing medical devices to the market for the first time are steadily increasing and, with them, the requirements of the *app* quality management system. In this regard, *aap* is currently faced with more stringent requirements specifically as a result of the new EU Medical Device Regulation (MDR). At the same time, the Company expects more intensive monitoring and testing mechanisms to be implemented at the Notified Bodies as a result of the incidents surrounding the defective breast implants and TÜV Rheinland. Furthermore, so-called hybrid products with a pharmaceutical character such as *app*'s innovative silver coating technology require, in addition to a Notified Body, the consultation of a pharmaceutical body as part of the approval process, which additionally increases requirements. A refusal to grant licenses, licensing delays or the withdrawal of licenses 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 moderate, 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. One example of this is *aap*'s comprehensive quality management program "Quality First", which was initiated at the beginning of the 2017 financial year. The program aims to address the changed regulatory environment in light of the new EU Medical Device Regulation and lead to a sustainable improvement in the entire quality management system. Furthermore, *aap* 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, the company is already consulting the regulatory authorities in new product- cases that are real innovations, 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 an 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 whilst at the same time protecting the intellectual property of employees and the *aap* Group.

Dependence on Customers and Suppliers

In 2016, *aap* generated 28% (previous year: 47%) 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 its sales organization, along with further internationalization and the acquisition of additional new clients (stability, sales strength, financial strength). Furthermore, as part of its sales activities, the Company is increasingly focusing on established markets such as North America, the DACH region and other European countries.

Until the end of the 2015 financial year, *aap* 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 in the past two years recorded a comparatively weak economic cycle in comparison with the relatively high growth rates of previous years. Macroeconomic developments in these countries may cause the economic conditions offered to individual *aap* customers to deteriorate, which could lead to a decrease in sales and payment behavior to deteriorate, leading to 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 by focusing its sales activities on established markets such as North America, the DACH region and other European countries. In this regard, the Company has successfully increased the joint sales share from North America and Europe in financial year 2016 by around 50% to EUR 6.8 million (FY/2015: EUR 4.5 million). Furthermore, the Company is increasingly ensuring complete or substantial 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 such as 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 this 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. Since *aap*'s sales activities are increasingly focused on established markets such as North America and it is generating a growing share of sales there, this risk will increase further.

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). With regard to 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. *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 absorbable 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 financial year 2017. 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. Following the divestments of recent years, *app* has successfully reduced the proportion of intangible assets to total assets to 17% as at the end of 2016 (12/31/2015: 19%).

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 supporting continuous professional development, 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 Company's competitive advantage. *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. A high level of data protection was achieved here 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 continual basis to guarantee that data protection remains at a high level. The rights of individuals, in particular with regard to the right of those affected to be kept informed, are implemented by the data protection officer in collaboration with the relevant departments. Furthermore, a new IT service provider was contracted in October 2015 in order to further improve IT processes and infrastructure. As a result, extensive data security measures were implemented in financial year 2016. In addition, the IT infrastructure was significantly stabilized and user satisfaction clearly improved. Furthermore, *aap* will be extensively renewing the entire IT infrastructure in the 2017 financial year. This will lead to a significant improvement in data security, data availability, ease of validation, contingency planning and a reduction in maintenance costs.

Legal Risks

A contractual partner is claiming damages of approx. EUR 1.5 million out of court from a former subsidiary. The assertion is that claims for damages arose due to the fact that the contractual product has not yet been recertified. For the expected future legal and consulting expenses associated with this, we have recorded a corresponding risk provision.

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 with a combination of different maturities and fixed and variable-rate positions. In the case of interest-bearing liabilities of the continued operation, all liabilities have a fixed rate. Consequently, as at 12/31/2016, around 100% (previous year: 72%) of the continued operation's borrowed capital had a fixed interest rate. Changes to market interest rates 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. Due to the fact that as at 12/31/2016 all liabilities had fixed interest rates no sensitivity analyzes were performed for the floating rate liabilities. In contrast in financial year 2015 sensitivity analyzes were performed. 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 either an increase of income before income taxes by EUR 7,000 or a decrease of EUR 7,000.

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 2016: EUR 539,000, previous year EUR 302,000). Furthermore, as part of its sales activities, the Company is focusing on established markets such as North America, 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 funding sources. We face a liquidity risk with a healthy mix of short- and long-term credits. Based on the significant cash inflow in 2016 the company does not rely on external financing in the mid-term. The gross risk in terms of probability is estimated as low, with a low potential level of damage.

In the 2016 financial year, *aap* generally only arranged internal foreign currency hedging, as there was only a low **currency risk**. Going forward, however, due to higher US-dollar sales, *aap* plans to arrange external hedging for these receivables.

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 result 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 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 or withdrawal of licenses	Moderate	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 *aap* Group's products the Company 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 could 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. 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 effective 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 at 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 market. Earlier than currently expected market-readiness of our development projects could improve our sales and earnings position and our cash flows.

Opportunities through International Presence

The opening up of additional health care markets (e.g., in Asia or the Middle East) to international medical technology companies could 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 *aap* Group sales and earnings over 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 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.

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 way, the members of the Management Board participate in the Company's long-term and sustainable increase in value. 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 component 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 inter alia on the Company's economic result, ensures a long-term effect of the behavior incentives.

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 sales and cash flow parameters determined for the calendar year 2016 with a weighting of 50% each. In the previous year the determined parameters were trauma sales USA (weighting 28%), trauma sales for the rest of the market (weighting 28%) as well as a cash flow target achievement (weighting 22%). In addition, a variable remuneration for the submission of approval for the silver coating technology was agreed which accounted for 22% of the quantitative bonus.

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% of the quantitative bonus is paid in in equal parts after the Annual General Meeting in the second and 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 2016 could therefore be reduced if the targets are not met in 2017 and 2018. The bonus is only forfeited in full if both quantitative targets are not met.

If the contract begins or ends during a financial 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 into 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 already receive an irrevocable subscription right to insurance benefits before reaching the statutory non-forfeiture period. In accordance with the remuneration system, the members of the Management Board are entitled to a company car for unlimited use, to accident insurance and to an allowance amounting to half the private health and nursing care insurance premiums up to the employer's maximum rate if there is a statutory health and nursing care insurance obligation. In addition, Mr Alemu receives half of the relevant maximum contribution rate for statutory pension insurance each month.

Taking into account a deductible, the members of the Management Board are included in the insurance via a pecuniary damage liability insurance policy (D&O insurance) taken out by the company.

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: These 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 financial year 2016 was as follows:

	Remuneration components				
	Performance-unrelated	**Performance-related**	**With long-term incentivizing effect**	**Total 2016**	**Total 2015**
	KEUR	**KEUR**	**KEUR**	**KEUR**	**KEUR**
Bruke Seyoum Alemu, CEO	321	135	14	470	470
Marek Hahn, CFO	227	95	9	331	317
	548	230	23	801	787

Furthermore, both Management Board members were granted stock options under various stock option programs. Specifically, on December 31, 2016, both Management Board members had stock options from the following stock option programs with the corresponding conditions:

2010 Stock Option Program

On December 31, 2016, 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 financial 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, 2016, 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 financial 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.

In the following tables, both the benefits granted to each member of the Management Board for the financial year and the inflows in respectively for the financial year are individually presented according to the recommendations of the German Corporate Governance Code (GCGC).

Total "granted benefits to the Management Board according to GCGC" for financial year 2016 are calculated based on

- the basic remuneration for 2016,
- taxable pecuniary benefits and other ancillary benefits in 2016,
- the qualitative annual bonus for 2016 due for payment in 2017 and the 50% share of the quantitative annual bonus for 2016,
- the 25% share of the quantitative annual bonus for 2016 due for payment in 2018,
- the 25% share of the quantitative annual bonus for 2016 due for payment in 2019,
- the fair value of accrued claims arising from granted stock options (SOP),
- special compensation granted in accordance with the resolution of March 28, 2017 with the obligation to acquire *aap* shares with a holding period.

Total "granted benefits to the Management Board according to GCGC" for financial year 2015 are calculated based on

- the basic remuneration for 2015,
- taxable pecuniary benefits and other ancillary benefits in 2015,
- the qualitative annual bonus for 2015 due for payment in 2016 and the 50% share of the quantitative annual bonus for 2015 including the component not arranged as long-term,
- the 25% share of the quantitative annual bonus for 2015 due for payment in 2017,
- the 25% share of the quantitative annual bonus for 2015 due for payment in 2018,
- the fair value of accrued claims arising from granted stock options (SOP),
- contractual one-off, performance-based additional remunerations 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); associated herewith was the obligation of acquiring *aap* shares and holding them for a period of at least 3 years starting from the time of purchase and not selling them or encumbering them in any way was also associated herewith.

Benefits granted to the Management Board as per the GCGC (in KEUR)	Bruke Seyoum Alemu				Marek Hahn			
	CEO				CFO			
for financial year	**2015**	**2016**	**2016 (min)**	**2016 (max)**	**2015**	**2016**	**2016 (min)**	**2016 (max)**
Fixed remuneration	270	270	270	270	190	190	190	190
Ancillary services	61	51	51	51	32	37	37	37
Total	**331**	**321**	**321**	**321**	**222**	**227**	**227**	**227**
One-year variable remuneration (due in the following year)	14	14	0	14	10	10	0	10
Multi-annual variable remuneration								
Deferred bonus (due in 2016)	10	-	-	-	7	-	-	-
Deferred bonus (due in 2017)	5	30	0	61	3	21	0	43
Deferred bonus (due in 2018)	5	14	0	30	3	11	0	21
Deferred bonus (due in 2019)	-	14	0	30	-	11	0	21
SOP 2015	11	14	14	14	9	9	9	9
Special payment for share acquisition with holding period	94	63	-	-	63	44	-	-
Total	470	470	335	470	317	331	236	331
Pension-related expenses	-	-	-	-	-	-	-	-
Total remuneration	470	470	335	470	317	331	236	331

Total “inflows to the Management Board according to GCGC” for financial year 2016 are calculated based on

- the basic remuneration for 2016,
- taxable pecuniary benefits and other ancillary benefits in 2016 and
- the qualitative and quantitative annual bonus for 2015 paid in 2016 based on the Supervisory Board decision of July 8, 2016.

Total “inflows to the Management Board according to GCGC” for financial year 2015 are calculated based on

- the basic remuneration for 2015,
- taxable pecuniary benefits and ancillary benefits in 2015 and
- the qualitative and quantitative annual bonus for 2012 to 2014 paid in 2015 based on the Supervisory Board decision of March 2, 2015.

Inflows to the Management Board (in KEUR)	Bruke Seyoum Alemu		Marek Hahn	
	CEO		CFO	
in financial year	**2016**	**2015**	**2016**	**2015**
Fixed remuneration	270	270	190	190
Ancillary services	71	40	37	32
Total	**341**	**310**	**227**	**222**
One-year variable remuneration	14	14	10	10
Multi-annual variable remuneration				
Deferred bonus 2012 (due in 2015)	-	13	-	12
Deferred bonus 2013 (due in 2015/2016)	-	13	-	9
Deferred bonus 2014 (due in 2015)	-	13	-	9
Deferred bonus 2014 (due in 2016/2017)	-	13	-	9
Deferred bonus 2015 (due in 2016)	10	-	7	-
Deferred bonus 2015 (due in 2017/2018)	10	-	7	-
Special bonus payment 2014	-	14	-	6
Special payment for share acquisition with holding period	-	94	-	62
Total	**375**	**484**	**251**	**339**
Pension-related expenses	-	-	-	-
Total remuneration	**375**	**484**	**251**	**339**

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

The growth prospects of the global economy for financial year 2017 are more positive than in the year under review. As such, the International Monetary Fund (IMF) anticipates global economic growth of 3.4% in 2017, which corresponds to a slight increase over the year from 2016's growth rate of 3.1%[17]. However, in this context it is important to mention the various risks that could significantly affect the development of the global economy. These relate not only to uncertainty around the future political course of the United States, but also to the somewhat protectionist and nationalist path that some EU countries are taking with their economic policy. Other risks include an economic downturn in China and a renewed decline in oil and commodity prices. In addition, there is still uncertainty around how the Brexit process will play out and the effects on other EU member states. Britain's imminent withdrawal from the EU will likely have a particular impact on the European economy, therefore, despite an improvement in the labour markets and continued favourable financing conditions, the growth forecast for the eurozone is 1.6%, slightly below the figure for 2016 (1.7%)[18]. For Germany, economic growth of around 1.4% is anticipated for 2017[19]. According to the German government, the slightly lower growth rate than 2016 will be primarily caused by a reduced number of working days compared to the previous year. Overall, it anticipates a continuation of the 2016 growth trend, which was driven mainly by an increase in consumer spending and significantly increased government expenditure. For the US, the IMF anticipates a growth rate of around 2.3% in 2017, resulting in higher growth than in the reporting period (1.6%)[20]. In addition to stable private consumption, this is supported by a solid labour market and continued low interest rates. A degree of uncertainty remains, however, with regard to the country's exact economic/political orientation under the leadership of Donald Trump.

The MedTech Environment

Overall, the prospects for the medical technology sector are largely positive. Advances in medical technology, demographic change and increased health consciousness with a view to securing a better quality of life are some factors that are likely to lead to a continued increase in the demand for healthcare services. According to the 2017 sector report on medical technology from BVMed [Bundesverband Medizintechnologie e.V. – German Association of Medical Technology][21] annual growth rates of around 5% are expected in medical technology in the Federal Ministry of Economics' study "Innovation Impulses in the Healthcare Industry" [Innovationsimpulse in der Gesundheitswirtschaft, (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% to 16% by 2020, and between 3% and 4% within industrial nations. The BVMed Autumn Survey 2016 provides further insight into the outlook for the sector. Globally, 51% of companies surveyed anticipate a more favourable business situation in 2017. In relation to the German market, only 26% of companies surveyed believe this to be the case, while 20% expect the business situation to deteriorate. The backdrop for relatively poor prospects in Germany might inter alia be a result of increasing regulatory barriers caused by

[17] Internet source: http://www.imf.org/external/pubs/ft/weo/2017/update/01/
[18] Internet source: http://www.imf.org/external/pubs/ft/weo/2017/update/01/
[19] Internet source: http://www.bmwi.de/Redaktion/EN/Pressemitteilungen/2017/20170125-fuer-inklusives-wachstum-in-deutschland-und-europa-jahreswirtschaftsbericht-2017-der-bundesregierung-verabschiedet.html
[20] Internet source: http://www.imf.org/external/pubs/ft/weo/2017/update/01/
[21] The BVMed 2017 sector report on medical technology is available on request from the association's Press Center.

additional requirements from the European Medical Device Regulation, which are particularly perceived as a great burden by small and medium-sized companies. Orthoworld Inc. predicts annual growth rates of between 1.6 and 2.3% for global sales of orthopaedic products in the years from 2017 to 2020[22]. The company expects the majority of trauma companies to continue recording annual growth rates of between 5 and 7%.

Strategy and Long-Term Outlook

A key objective of our strategy is to develop *aap* into a focused trauma company. The Management Board believes that this fast-growing segment of the orthopaedic market is presenting good opportunities to gain market share through product innovation and the introduction of new technologies. As part of this strategic goal, over the past few years, *aap* has already parted with several subsidiaries, business areas and products that no longer belonged to its core business. Most recently, the subsidiary *aap* Biomaterials GmbH and the remaining stake in *aap* Joints GmbH were sold in financial year 2016. In doing so, the company took the final steps on the way to a pure player in trauma.

In January 2016, *aap* reached another milestone by submitting the design dossier for the performance of a CE conformity assessment procedure for its antibacterial silver coating technology at a notified body. An intensive and constructive exchange with the authority followed over the year. At the same time, the necessary documents for pre submission meetings with the US Food and Drug Administration (FDA) were submitted. As a platform technology, *aap*'s 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.

Lastly, in financial year 2016, *aap* made good progress in completing its LOQTEQ® portfolio. Overall, the company's portfolio can provide treatment for more than 90% of indications for major bone fractures, which makes it much more attractive to full-treatment clinics and buying syndicates.

The aforementioned progress provides the basis for the fundamental and long-term orientation, and thus also the potential, of *aap*. As a pure player in trauma, *aap* has a comprehensive IP-protected product and technology portfolio, as well as a strong liquidity position, and can take even better advantage of the fast-growing global trauma market with its focused business model. The three innovative platform technologies – LOQTEQ®, silver coating, and absorbable magnesium – address needs in the health system that to date have largely not been addressed adequately and which offer significant growth potential. A major objective of *aap*'s further strategic development is to unlock the inherent value of this innovative product and technology base. In principle, all of the company's platform technologies are predestined to develop their full value potential in cooperation with global partners. Therefore, *aap* collaborates with a leading corporate finance company and develops and evaluates the different ways of generating value. Monetizing the products and technologies as efficiently as possible creates sustainable value for the company's shareholders.

[22] Source: "The Orthopaedic Industry Annual Report 2016"; available on request from Orthoworld Inc.

Outlook for 2017

aap intends to return to the growth track in financial year 2017. In line with the strategic focus in particular established markets such as North America, the DACH region and further European countries shall serve as drivers of the sales increase. At the same time sales development in BRICS and SMIT countries shall be stabilized. Overall, the Management Board anticipates a moderate development over the first six months and a more dynamic growth in particular in the second half of the year.

Following its recent divestments, the sales structure of *aap* will change in financial year 2017. In the past financial year the company generated total sales of around EUR 1.6 million from its product business with *aap* Joints GmbH (EUR 1.0 million) and from distribution services for the sold former subsidiary *aap* Biomaterials GmbH (EUR 0.6 million). These sales will not be repeated in 2017.

In light of these changes the Management Board expects sales of EUR 10.0 million to EUR 13.0 million for this financial year.

aap intends to improve EBITDA in financial year 2017 by raising gross margin while at the same time reducing costs. *aap* plans to increase gross margin, in particular by growing sales in higher margin markets, such as North America or the DACH region. *aap* also plans to close a technology deal (e.g. co-development agreement, licensing, granting of distribution rights etc.) in financial year 2017 for its LOQTEQ® and/or silver coating technology.

In terms of costs, firstly, the personnel measures already implemented in financial year 2016 and the actions taken to improve operational efficiency will produce their effect during the current financial year. Secondly, the company is planning to further optimize its cost structure with the aim of realizing additional saving effects.

In contrast, to sustainably improve the entire quality management system and against the background of the higher requirements of the new EU Medical Devices Regulation, *aap* has launched the comprehensive quality management program “Quality First”. It will result in one-time costs of around EUR 0.5 million in the current financial year.

Another fact worth mentioning is that *aap* generated not insignificant earnings in financial year 2016 from central services provided for *aap* Joints GmbH and from transitional services for *aap* Biomaterials GmbH, which were reported under other operating income and will not be repeated this year.

Based on the planned measures and developments as described above, the Management Board expects an EBITDA in financial year 2017 of EUR -6.5 million to EUR -4.5 million.

Building on the indication coverage level of more than 90% that has already been achieved in the treatment of major bone fractures, *aap* is planning to further complete the LOQTEQ® portfolio in financial year 2017. Its product development activities will focus particularly on polyaxial fixation technology as well as foot and ankle.

In light of the increased regulatory requirements and based on the recent exchange with the regulatory authorities *aap* now assumes that the performance of a clinical study will be a necessary condition for the granting of a CE and FDA approval for the silver coating technology. As the

coordination process with the regulatory authorities about the extent of the clinical study is still running, *aap* will inform about the related approach as well as the corresponding timetable and the required resources in a separate release in the second quarter of 2017.

The Management Board of *aap* has specified its targets for the 2017 financial year as a Management Agenda in four strategic and operational action areas: "Accelerating value-based innovations", "Enhancing market access", "Optimizing operational efficiency", and "Realization of financial targets". Thereby the capital market and the general public shall obtain a better understanding of the operative and strategic framework in which targets are set and their implementations are measured.

Management Agenda Targets for 2017

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 – Application on LOQTEQ®: Decisive steps regarding CE and FDA approval with focus on clinical study
Silver coating technology – Development projects with global companies: Initiation of joint product development and product approval projects

Enhancing Market Access
Established countries: Focus on DACH, Western Europe and North America as key markets
Emerging Countries: Stabilization of sales development in BRICS and SMIT states
Global partnerships: Distribution networks and licensing deals with global orthopaedic companies

Optimizing Operational Efficiency
Quality First: Comprehensive program to improve the entire quality management system
Production efficiency: Reduction of manufacturing costs and increase of ability to provide timely deliveries
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 and EBITDA: Sales between EUR 10.0 million and EUR 13.0 million, and EBITDA between EUR -6.5 million and EUR -4.5 million
Costs: Further optimization of the cost structure with the aim of realizing additional saving effects
Innovations: Maintenance of a freshness index of at least 20%

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 2017 and beyond, we are expecting to see increasing sales and aim at a continuous EBITDA improvement. 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 absorbable 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. In addition, product approvals could be delayed or completely refused, particularly with regard to future technologies silver coating and magnesium. Also approvals for products which are already marketed could be revoked.

The Management Board is confident with the consequent implementation of the measures derived from the strategy to lead *aap* back on the growth track and to unlock the inherent value of its innovative product and technology base.

IX. Disclosures pursuant to Art. 315 (4) and Art. 289 (4) of the German Commercial Code

1. Composition of Subscribed Capital

As of December 31, 2016, the Company's share capital amounted to EUR 30,832,156.00 divided into 30,832,156 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.

Changes compared with December 31, 2015:

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. In the 2015 financial year the Company issued 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 had not yet taken place at the time the statements for financial year 2015 were prepared, so that these payments on the shares were accounted for in the position "Deposits made for implementation of capital increase". The 162,100 shares were entered into the commercial registry on September 6, 2016 and the share capital ratio increased to EUR 30,832,156.00 divided into 30,832,156 fully paid-in bearer shares. Subsequently the position "Deposits made for implementation of capital increase" was closed again.

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 30,832,156.00 exceeding 10% of voting rights existed as at December 31, 2016:

Name	Voting rights in %
1. Ratio Capital Management B.V.	13.30
2. Jürgen W. Krebs	12.65
3. Noes Beheer B.V.	10.87

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 *aap* 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 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 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 financial 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 financial year in which they are issued (Conditional Capital 2012/I). The Conditional Capital 2012/I serves the purpose of fulfilling the exercise of subscription rights granted by December 19, 2014 on the basis of the authorization approved by the 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 financial year in which they are issued (Conditional Capital 2013/I). The Conditional Capital 2013/I serves the purpose of fulfilling the exercise of subscription rights granted by December 19, 2015 on the basis of the authorization

approved by the 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 financial year in which they are issued (Conditional Capital 2014/I). The Conditional Capital 2014/I serves the purpose of fulfilling the exercise of subscription rights granted by December 18, 2016 on the basis of the authorization approved by the 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 financial 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

In order that it can replace a long-term license agreement prematurely, *aap* has concluded a termination agreement which entitles its contractual partner to payments for a period of three years, the amounts of which depend on the achievement of specific sales levels in the future. This termination agreement stipulates that, in the event that *aap*'s shareholder structure changes in such a way that a previous or new shareholder directly or indirectly holds more than 50% of the shares, the contractual partner shall be entitled to immediate payment of the outstanding compensation payments.

aap has sold a 33% stake in a company based on a share purchase and transfer agreement. When a change of control takes place whereby the sold company undergoes a change of ownership structure which bestows on any individual (other than those who hold more than 50% of voting rights) more than 50% of the outstanding voting rights, the sold company has the right to terminate any existing agreements with *aap*.

aap's twelve most valuable client agreements (those with sales of at least EUR 100,000 in the 2016 financial year) involve agreed termination rights in favor of the relevant contractual partner in the event that *aap*'s shareholding structure changes in such a way that at least 50% of the shares are directly or indirectly acquired and to an extent that adversely affects the other party's interests. By the way, *aap* also has this right.

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.

X. Corporate Governance Statement pursuant to Art. 289a of the German Commercial Code

The Management Board of *aap* Implantate AG made a corporate governance statement pursuant to Art. 289a of the German Commercial Code (HGB) with date of 31 March, 2017 and made this publicly accessible on the website under www.aap.de/de/investoren/corporate-governance/erklaerung-zur-unternehmensfuehrung.

Berlin, 31 March, 2017

The Management Board

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	12/31/2016	12/31/2015
Assets		**KEUR**	**KEUR**
Non-current assets		**22,069**	**19,203**
Intangible assets	F.1.	11,145	10,441
Capitalized services		*11,013*	*10,293*
Other intangible assets		*132*	*148*
Tangible assets	F.2.	7,616	7,675
Accounts receivable (trade debtors)	F.6.	0	310
Financial assets	F.3.	192	192
Other financial assets	F.7.	1,802	0
Deferred taxes	F.4.	1,314	585
Current assets		**41,782**	**35,743**
Inventories	F.5.	11,055	9,703
Accounts receivable (trade debtors)	F.6.	2,936	5,516
Other financial assets	F.7.	3,666	725
Other assets	F.8.	351	202
Cash and cash equivalents	F.9.	23,774	4,941
Asset classified as held for sale	D./F.10.	0	14,656
Total assets		**63,851**	**54,946**

	Notes	12/31/2016	12/31/2015
Liabilities and shareholders' equity		**KEUR**	**KEUR**
Shareholders´equity	F.11.	**54,776**	**40,307**
Subscribed Capital		30,832	30,670
Contributions to implement the capital increase		0	162
Capital reserve	F.11.	17,511	17,615
Revenue reserve		14,728	228
Other reserve		490	490
Consolidated Balance Sheet Profit/ Loss		-8,736	-8,864
Currency conversion		-50	6
Non-current liabilities (above 1 year)		**3,432**	**3,406**
Financial liabilities	F.14.	261	0
Other financial liabilities	F.15.	1,049	1,340
Deferred taxes	F.4.	1,266	1,140
Provisions	F.13.	37	22
Other liabilities	F.16.	819	904
Current liabilities (up to 1 year)		**5,643**	**11,233**
Financial liabilities	F.14.	999	3,260
Trade accounts payable	F.14.	2,541	4,102
Other financial liabilities	F.15.	1,082	940
Provisions	F.13.	375	276
Tax liabilities	F.14.	0	0
Other liabilities	F.16.	646	504
Liabilities directly associated with assets classified as held for sale	D.	0	2,151
Total liabilities and shareholders' equity		**63,851**	**54,946**

II. Consolidated Statement of Comprehensive Income

	Notes	2016	2015	2016	2015	2016	2015
		Continued Operation		Discontinued Operation		Group total	
		KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Sales	E.1.	10,486	12,280	4,202	15,698	14,687	27,978
Changes in inventories of finished goods and work in progress		582	3,968	711	-120	1,293	3,848
Other own and development work capitalized	E.2.	1,370	1,881	15	202	1,384	2,083
Total revenue		**12,438**	**18,129**	**4,928**	**15,780**	**17,364**	**33,909**
Other operating income	E.3.	1,046	871	23,272	926	24,318	1,797
Cost of purchased materials and services	E.4.	-3,646	-7,789	-2,095	-5,909	-5,740	-13,699
Personnel expenses	E.5.	-8,695	-8,595	-1,272	-3,456	-9,967	-12,051
Other operating expenses	E.7. u. E.10.	-9,023	-9,409	-934	-2,415	-9,957	-11,824
Other taxes		-8	-9	-1	-3	-9	-12
EBITDA		**-7,888**	**-6,802**	**23,897**	**4,923**	**16,009**	**-1,880**
Depreciation of tangible assets and intangible assets as well as of associated companies	E.6.	-2,294	-2,230	0	-794	-2,294	-3,024
EBIT		**-10,182**	**-9,032**	**23,898**	**4,129**	**13,715**	**-4,904**
Financial result	E.8.	310	-35	9	-163	320	-198
Income / Expense from joint ventures and associates		0	-194	0	0	0	-194
EBT		**-9,872**	**-9,261**	**23,907**	**3,966**	**14,035**	**-5,296**
Income tax	E.11.	603	-280	-10	285	594	5
Net result / Total comprehensive income		**-9,269**	**-9,541**	**23,897**	**4,251**	**14,629**	**-5,291**
Changes not affecting income		**-56**	**6**	**0**	**0**	**-56**	**6**
Total result after taxes		**-9,325**	**-9,535**	**23,897**	**4,251**	**14,573**	**-5,285**
Net income per share (undiluted) in EUR		-0.30	-0.31	0.77	0.14	0.47	-0.17
Net income per share (diluted) in EUR		-0.30	-0.30	0.77	0.14	0.47	-0.17
Weighted average shares outstanding (undiluted) in thousand pieces		30,832	30,670	30,832	30,670	30,832	30,670
Weighted average shares outstanding (diluted) in thousand pieces		30,948	31,287	30,948	31,287	30,948	31,287

III. Consolidated Statement of Cash Flows

See Notes F.9.	**01/01 – 12/31/2016**	**01/01 – 12/31/2015**
	KEUR	**KEUR**
Net income (after tax) from continued operation	-9,269	-9,542
Net income (after tax) from discontinued operation	23,897	4,250
Net income after tax	**14,629**	**-5,292**
Changes in working capital	**149**	**16**
Stock options expenses without effect on payments	-104	-9
Depreciation and impairment loss fixed assets	2,294	3,024
Changes in provisions	380	-9
Gain/loss from disposal of fixed assets	0	-1
Share of net profit/loss of investments	0	194
Interest rate expenses and income	86	198
Income tax expenses and income	0	-4
Changes in other assets	-781	339
Changes in other liabilities	-657	-543
Income tax payments	0	-178
Gain/loss from disposal of subsidiaries	-23,198	0
Cash flow from operating activities	**-7,203**	**-2,265**
Outgoing payments for investing activities	-2,525	-3,142
Incoming payments from disposal of fixed assets	0	12
Incoming payments from disposal of investments and assets	400	0
Grants	0	55
Received interest rates	19	25
Incoming payments from disposal of shares in subsidiaries less outgoing cash	33,933	0
Payment for the granting of securities	-2,000	0
Cash flow from investing activities	**29,827**	**-3,050**
Incoming payments from equity injection	0	177
Inflow from loans	0	1,001
Payment for granting of credit securities	-2,087	0
Redemption of loans	-1,997	-1,997
Redemption of finance lease	-383	-65
Interest rates paid	-107	-222
Cash flow from financing activities	**-4,574**	**-1,106**
Changes of cash fund due to exchange rate effects	3	6
Decrease / Increase in cash & cash equivalents	18,053	-6,415
Cash & cash equivalents at beginning of period	5,721	12,136
Cash & cash equivalents at end of period	**23,774**	**5,721**
Thereof account for the discontinued operation	0	779

IV. Consolidated Statement of Changes in Equity

See Notes F.11.				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 01/01/2016	**30,670**	**162**	**17,615**	**42**	**186**	**490**	**0**	**6**	**496**	**-8,865**	**40,307**
Capital increase	162	-162							0		0
Stock options			-104								-104
Income of the Group as of 12/31/2016					14,500					129	14,629
Currency differences								-56			-56
Other income								0	0	0	0
Total comprehensive income								-56	0	129	14,469
Status 12/31/2016	**30,832**	**0**	**17,511**	**42**	**14,686**	**490**	**0**	**-50**	**496**	**-8,736**	**54,776**
Status 01/01/2015	**30,670**		**17,609**	**42**	**186**	**490**			**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**

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 HRB 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, 2016 to December 31, 2016 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. The Group's production facility is located in Germany. Its principal sales areas are the DACH region 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, 2016 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 (KEUR).

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:

	2016 Shareholding	2015 Shareholding
aap Biomaterials GmbH, Dieburg	-	100%
MAGIC Implants GmbH, Berlin	100%	100%
aap Implants Inc., Dover, Delaware, USA	100%	100%

Please refer to Section D for information regarding the sale of *aap* Biomaterials GmbH.

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.

Significant Accounting 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.

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.

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 two and 20 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 included 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, capitalized development costs not yet in use undergo annual impairment tests. Assets 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, 2016, 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**
IAS 19 Employee Benefits	Pertains to entries of contributions from employees or third parties to a pension plan	as from February 1, 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, improvements to the following standards, among others, have been adopted: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38	as from February 1, 2015
IAS 1 Presentation of the financial statements	Improvement in financial reporting in relation to notes with a particular focus on the principle of materiality	January 1, 2016
IAS 16/IAS 38 Property, plant and equipment/intangible assets	Clarifies that the revenue-based method pursuant to IAS 16 is not considered to be an appropriate depreciation method and is only appropriate subject to certain conditions pursuant to IAS 38	January 1, 2016

IAS 27 Individual financial statements	The option to use the equity method to account for shares 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 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 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	

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, 2017. *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**
IFRS 9 Financial instruments	Reconsideration of the reporting procedure for financial instruments and abolition of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains new provisions on the three valuation categories (including the new category for fair value valuation not recognized in profit and loss), on impairment of financial instruments according to the expected loss model and on hedge accounting. *aap* does not expect any effects on the future consolidated financial statements	January 1, 2018

IFRS 15 Revenue from Contracts with Customers	New standard for revenue recognition that replaces the current standards IAS 18 Revenue Recognition, IAS 11 Construction Contracts and corresponding interpretations thereof. This stipulates how revenue from contracts with customers should be recognized – in particular how much and over which time period. This is done using a “five-step model”. IFRS 15 also includes provisions for the capitalization of expenses in connection with the acquisition or fulfilment of the relevant customer contract. The Group does not expect any effect from the changed standard	January 1, 2018
IAS 7 Statement of Cash Flows	The change to the standard relates to the mandatory disclosure of a reconciliation of borrowing costs with cash flows that are reported or can be reported as part of financing activities	
IAS 12 Income Taxes	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 2 Share-based Payment	Clarification on the consideration of exercise conditions in the accounting of share-based payments made in cash, the classification of share-based payments made in the net amount without withholding taxes and the accounting of a switch from share-based payments made in cash to share-based payments made in equity securities	
IFRS 15 Revenue from Contracts with Customers	Clarification with respect to the identification of employment benefit obligations, principal-agent relationships, licensing and relief provisions for the transition to IFRS 15	
IFRIC 22 Foreign Currency Transactions and Considerations Paid in Advance	IFRIC 22 clarifies the accounting of transactions involving the receipt of considerations paid in foreign currencies	

AIP 2014–2016 Amendments made by way of the Annual Improvements Project, 2014–2016 cycle	Improvements to the following standards: IAS 28, IFRS 1, IFRS 12
IFRS 16 Leases	Reconsideration of lease accounting. IFRS 16 replaces the previous provisions on accounting for leases in IAS 17 and the associated interpretations. The core element of IFRS 16 consists of recording all leases and associated contractual rights and obligations in the balance sheet along with the lessee, with a few exceptions. The previous distinction between a finance lease and an operating lease no longer applies. The provisions for the lessor are similar to those of the IAS 17

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, 2016, the book value of capitalized development costs was KEUR 11,013 (previous year: KEUR 10,293; including assets held for sale: KEUR 14,163). 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 Combined Management Report (Section D). In the financial year 2016 no write-downs of development costs were necessary.

Capitalized development costs are subjected to annual impairment tests. To calculate the value in use, future cash flows of the cash flow generating unit (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.

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 539 (previous year: KEUR 302) were recognized as of the reporting date. Furthermore, customer credit notes for sales from previous years are recorded (KEUR 0, previous year KEUR 287).

By derogation from the published interim financial statements, in March 2017 the Management Board also decided to reverse sales amounting to KEUR 756 in the 2016 consolidated financial statements (previous year: KEUR 721), because the customer failed to fulfil contractual duties.

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, 2016 was KEUR 412 (previous year: KEUR 298).

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 2017 financial year.

D. Business Combinations, Acquisition and Sale of Shares

Discontinued Operation

Until December 31, 2016, the following changes had been made to the consolidation entity of the *aap* group.

aap Biomaterials GmbH

On March 22, 2016, *aap* Implantate AG signed a notarized share purchase agreement with Keensight Capital for the sale of 100% of the company shares in *aap* Biomaterials GmbH. The transaction was closed on May 11, 2016 and *aap* Biomaterials GmbH was deconsolidated the same day. The sale resulted in a deconsolidation profit of EUR 23.2 million, which was allocated to the discontinued operation in the consolidated statement of comprehensive income. Total selling costs of KEUR 1,693 were accrued. Furthermore, the buyer receives a profit share from *aap* Biomaterials GmbH of KEUR 133 for the period from January 1, 2016 to May 11, 2016. Cash inflows generated from the sale were recorded in the statement of cash flows under cash flow from investing activities. The cash inflow as of the date of the consolidated financial statements is summarized as follows:

	KEUR
Purchase price payment received	32,955
Payment for liabilities assumed	3,640
Disposal of cash flow positions	-1,362
Paid sale costs	-1,300
Cash inflow as of 12/31/2016	**33,933**

As *aap* Biomaterials GmbH was sold on May 11, 2016, assets classified as held for sale and liabilities directly associated with assets classified as held for sale as of December 31, 2015 are no longer included in the balance sheet as of the reporting date.

As of May 11, 2016 and December 31, 2015, the main categories of assets and liabilities of the discontinued operation comprise the following:

	05/11/2016	**12/31/2015**
	KEUR	**KEUR**
Intangible assets	5,694	5,592
Tangible assets	1,415	1,293
Inventories	4,367	3,819
Trade receivables and other assets	1,841	2,372
Cash	1,362	779
Disposal of assets	**14,679**	**13,855**
Deferred taxes	-986	-1,010
Trade accounts payable	-1,106	-679
Financial liabilities	-81	-188
Other liabilities	-553	-275
Disposal of liabilities	**-**	**-**
	1621,1062,726	**1143,012,152**

As of May 11, 2016, *aap* Biomaterials had additional liabilities to *aap* Implantate AG totaling EUR 3.8 million respectively EUR 3.6 million as at December 31, 2015.

aap Joints GmbH

On September 23, 2016, *aap* Implantate AG signed a notarized share purchase agreement for the sale of the remaining stake of 33% in *aap* Joints GmbH. The transaction was closed on December 14, 2016 and the share transfer was executed the same day. Until year end 2016 *aap* realized a cash inflow of around KEUR 400 and a result of KEUR -400 from the transaction.

The company generated sales of about EUR 1.2 million with a relative low margin share with *aap* Joints GmbH in 2016. In financial year 2017 the business relationship will be restricted to few manufacturing services and service activities which will only make a low contribution towards sales.

E. Notes on the Consolidated Statement of Comprehensive Income

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

1. Sales

By region	2016 KEUR	2015 KEUR
D-A-CH	4,124	3,900
Europe	1,822	1,549
America	2,453	520
Other	2,087	6,311
	10,846	**12,280**

By category	2016 KEUR	2015 KEUR
Products	10,486	12,280
	10,486	**12,280**

By product group	2016 KEUR	2015 KEUR
Trauma	8,875	10,837
Others	1,611	1,443
	10,486	**12,280**

The sales in the DACH region include sales with *aap* Joints GmbH and *aap* Biomaterials GmbH of EUR 1.6 million (previous year: EUR 1.5 million), which will not be realized in financial year 2017 due to the divestments of both companies in financial year 2016.

In the financial year 2016, three of the company's major customers accounted for KEUR 2,887 (previous year: KEUR 5,758) in sales.

2. Capitalized own and development costs

Capitalized internally produced assets and development work in the amount of KEUR 1,370 (previous year: KEUR 1,881) primarily involve assets capitalized in connection with development projects.

3. Other Operating Income

	2016 KEUR	2015 KEUR
Income from services	324	0
Income from the release of provisions and the expiration of liabilities	154	135
Income from monetary benefit (use of company car)*	97	101
Income from investment allowances	95	106
Currency differences	63	84
Expenditure grants	61	78
Income from services of associated companies	59	228
Leasing income	33	33
Income from the reduction of value adjustments	26	25
Income relating to other reporting periods	8	19
Other	126	62
Total	**1,046**	**871**

*Note: Due to the change in the presentation of monetary benefit of use of a company car from personnel expenses to other operating income, the figures for 2015 were adjusted accordingly

4. Cost of materials

	2016 KEUR	2015 KEUR
Raw materials, consumables, supplies and purchased goods	3,076	5,309
Expenses for purchased materials and services	570	2,480
Total	**3,646**	**7,789**

5. Personnel Expenses

	2016 KEUR	2015 KEUR
Salaries and wages	7,506	7,187
Social security contributions	673	779
Pension benefits, contribution-oriented	523	536
Stock options granted to employees	-8	93
Total	**8,694**	**8,595**

*Note: Due to the change in the presentation of monetary benefit of use of a company car from personnel expenses to other operating income, the figures for 2015 were adjusted accordingly

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	2016	2015
Production	69	88
Research & Development	13	14
Quality management	17	17
Sales	38	29
Administration	11	14
Total	**148**	**162**
Manual workers*	79	91
Executives	69	71
Total	**148**	**162**

* incl. technical workers

6. Depreciation

Scheduled depreciation amounted to KEUR 1,255 (previous year: KEUR 1,075) for tangible fixed assets and KEUR 639 (previous year: KEUR 684) for intangible assets.

Additionally, the stake in *aap* Joints GmbH was devalued by non-scheduled depreciation amounting to KEUR 400 (previous year: KEUR 470) before the sale.

7. Other Operating Expenses

	2016 KEUR	2015 KEUR
Consultancy fees	2,155	2,013
Outgoing freight, packaging materials, delivery costs	1,404	781
Advertising costs and travel expenses	1,163	1,353
Cost of premises	925	1,002
Research, analysis, experiments and sterilization	836	1,300
Repairs, maintenance	388	456
Insurance, contributions, duties	325	289
Patent and other fees	267	240
Value adjustments on receivables	263	249
Office supplies, telephone, fax, postage	262	331
Vehicle costs	215	246
Employment agencies	133	152
Supervisory Board	85	120
Expenses incurred in prior periods	61	370
Other	541	507
Total	**9,023**	**9,409**

8. Financial Result

	2016 KEUR	2015 KEUR
Not realized income from intercompany loans at balance sheet date	396	0
Not realized exchange rate result	396	0
Other interest and similar income	19	138
Other interest and similar income expense:		
- Interest on non-current loan liabilities	-66	-64
- Interest on current liabilities to banks	-39	-109
Interest result	-86	-35
Total	**310**	**-35**

*Currency exchange differences include unrealized income from inter-company loans as of the reporting date

9. Result from joint ventures

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

10. Exchange Rate Differences

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

	2016 KEUR	2015 KEUR
Income from exchange rate differences in other operating income	63	84
Expenditure on exchange rate differences in other operating expenses	-59	-33
Not realized income from intercompany loans at balance sheet date	396	0
Total	**400**	**51**

11. Income Tax

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

Income tax expenses by origin	2016 KEUR	2015 KEUR
Income tax paid or owed		
- Germany	0	-1
- Other countries	0	0
	0	-1
Deferred taxes		
- From time differences	400	88
- From losses carried forward affecting net income	203	-368
	603	-280
Total	**603**	**-281**

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%.

The income tax expenses from continued operations which are presented in the consolidated profit and loss statement can be derived to the theoretical tax expenses as follows:

	Continued Operation 2016 KEUR	Continued Operation 2015 KEUR
Earnings before taxes	-9,872	-9,261
Theoretical tax expense (income) 30.2% (previous year: 30.2%)	2,981	2,795
Tax effects on		
Non-utilizable losses carried forward or utilization of off-balance sheet losses carried forward and depreciation of losses carried forward	-2,388	-2,911
Permanent differences	0	-131
Non-tax deductible expenses and additional amounts for trade tax	-30	-42
Tax-exempt income	40	8
Total tax effects	-2,378	-3,076
Income tax expenses in the income statement for continuing business in the income and loss statement	603	-281
Effective tax rate in %	*6.11*	*-3.03*

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. 2016	Jan - Dec. 2015
Undiluted share count (in thousands)		30,832	30,670
Earnings from the continued operation	KEUR	-9,325	-9,541
Undiluted earnings per share	EUR	-0.30	-0.31
Earnings from the discontinued operation	KEUR	23,897	4,250
Undiluted earnings per share	EUR	0.77	0.14
Consolidated total earnings	KEUR	14,573	-5,292
Diluted earnings per share	EUR	0.47	-0.17
Diluted share count (in thousands)		30,948	31,287
Earnings from the continued operations segment	KEUR	-9,325	-9,541
Diluted earnings per share	EUR	-0.30	-0.30
Earnings from the discontinued operation segment	KEUR	23,897	4,250
Diluted earnings per share	EUR	0.77	0.14
Consolidated total earnings	KEUR	14,573	-5,292
Diluted earnings per share	EUR	0.47	-0.17

F. Notes on the Consolidated Balance Sheet

1. Intangible Assets

2016

	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, 2016	0	13,360	1,826	25	15,210
Additions	0	1,370	53	0	1,423
Disposals	0	-70	-218	0	-288
Disposals of discontinued operations	0	0	0	0	0
Transfers	0	0	0	0	0
As of December 31, 2016	**0**	**14,660**	**1,661**	**25**	**16,346**
Cumulative depreciation					
As of January 1, 2016	0	-3,066	-1,703	0	-4,769
Depreciation of the continuing operation segment	0	-580	-59	0	-639
Depreciation of the discontinued operation segment	0	0	0	0	0
Disposals	0	0	208	0	208
Disposals of discontinued operations	0	0	0	0	0
Transfer	0	0	0	0	0
As of December 31, 2016	**0**	**-3,646**	**-1,554**	**0**	**-5,200**
Book values					
As of December 31, 2016	**0**	**11,013**	**107**	**25**	**11,146**

2015

	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**

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

Goodwill

Goodwill in the previous year 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) and was transferred to the buyer in course of the sale of *aap* Biomaterials GmbH.

Development Costs

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

	Useful life in years	Book value 12/31/2016 KEUR	Book value 12/31/2015 KEUR	Addition 2016 KEUR
Development of LOQTEQ ® without polyaxial system and foot/ankle	7	2,025	2,364	3
Development of LOQTEQ for foot/ankle	-*	675	267	407
Development of polyaxial system	10	1,048	905	213
Development of nano silver-coated osteosynthesis products	-*	4,083	3,336	747
Development of absorbable metal implants based on magnesium alloys	-*	2,786	2,786	0
		10,617	9,659	1,370

-* 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 KEUR 590 (previous year: KEUR 764).

In addition, on December 31, 2016 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 8.50% and 11.69% p.a. (previous year: between 10.67% and 13.52%) before and between 5.95% and 6.30% p.a. (previous year: between 6.6% and 7.0%) after taxes.

2. Tangible Assets

2016

	Land, land rights and buildings, incl. buildings on third-party land	Technical plants and machinery	Other plant, office and factory equip-ment	Advance payments made	Subtotal
Costs of acquisition and manufacture	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**
As of January 1, 2016	864	10,878	2,025	1,090	14,858
Additions	0	994	234	0	1,228
Disposals	0	-318	-62	0	-380
Disposals of the discontinued operation	0	0	0	0	0
Transfers	0	1,090	0	-1,090	0
As of December 31, 2016	**864**	**12,644**	**2,197**	**0**	**15,706**
Cumulative depreciation					
As of January 1, 2016	-444	-5,686	-1,053	0	-7,183
Depreciation of the continued operation	-8	-1,082	-165	0	-1,255
Impairment	0	0	0	0	0
Disposals	0	311	38	0	349
Disposals of the discontinued operation	0	0	0	0	0
Transfer	0	0	0	0	0
As of December 31, 2016	-452	-6,457	-1,180	0	-8,089
Book values					
As of December 31, 2016	**412**	**6,187**	**1,017**	**0**	**7,616**

2015

	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**

The book value of leased fixed assets as of December 31, 2016 was KEUR 2,088 (previous year: KEUR 1,558). The leasing contracts are financings for 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 1,570 (previous year: KEUR 1,666).

The book value of tangible assets assigned as collateral for liabilities is KEUR 1,874 (previous year: KEUR 1,927).

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, 2016		December 31, 2015	
	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

2016

	Opening balance	Recorded in P&L with effect on results	Recorded directly in shareholders’ equity with no effect on results	Debts in connection with assets classified as held for sale	Closing balance
	KEUR	KEUR	KEUR	KEUR	KEUR
Intangible assets	70	-70	0	0	0
Development costs	-2,767	-214	0	0	-2,981
Tangible assets	-33	33	0	0	0
Financial assets	9	-31	0	0	-22
Inventories	449	813	0	0	1,262
Trade receivables	-1	-115	0	0	-116
Liabilities	16	-16	0	0	0
Total	-2,257	400	0	0	-1,857
Tax losses	1,702	203	0	0	1,905
Total amount*	**-555**	**603**	**0**	**0**	**48**

*If active and passive deferred taxes are balanced

2015

	Opening balance	Recorded in P&L with effect on results	Recorded directly in shareholders' equity with no effect on results	Debts in connection with assets classified as held for sale	Closing balance
	KEUR	KEUR	KEUR	KEUR	KEUR
Intangible assets	2	69	0	-1	70
Development costs	-3,431	-363	0	1,027	-2,767
Tangible assets	0	-34	0	0	-33
Financial assets	12	-3	0	0	9
Inventories	71	369	0	9	449
Trade receivables	10	13	0	-24	-1
Receivables from development orders	-329	329	0	0	0
Provisions	24	-22	0	-2	0
Liabilities	0	15	0	1	16
Total	-3,641	373	0	1,010	-2,257
Tax losses	2,070	-368			1,702
Total amount*	**-1,571**	**5**	**0**	**1,010**	**-555**

*If active and passive deferred taxes are balanced

The deferred taxes in the **continued operation** (previous year: continued operation) result from the following balance sheet items:

	12/31/2016		12/31/2015	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	KEUR	KEUR	KEUR	KEUR
Intangible assets	0	0	70	0
Development costs	0	-2,981	0	-2,767
Tangible assets	0	0	0	-33
Financial assets	0	-22	12	-3
Inventories	1,314	-52	504	-55
Trade receivables	0	-116	3	-4
Liabilities	0	0	16	0
Losses carried forward	1,905	0	1,703	0
Total	3,219	-3,171	2,308	-2,862
Balancing	1,905	1,905	-1,722	1,722
Total	**1,314**	**1,266**	**586**	**-1,140**

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

	12/31/2016		12/31/2015	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	KEUR	KEUR	KEUR	KEUR
Loss carryforwards from use	1,905	0	1,703	0
From consolidation	1,314	0	586	-33
From temporary differences	0	-3,171	19	-2,829
Total	3,219	-3,171	2,308	-2,863
Netting	-1,905	1,905	-1,722	1,722
Total	**1,314**	**-1,266**	**586**	**-1,140**

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 21.6 million and EUR 22.3 million respectively as of the end of the reporting year (previous year: EUR 17.4 million and EUR 18.1 million respectively) . 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.

Unused tax loss carryforwards from subsidiaries in other jurisdictions for which no latent deferred tax claims were capitalized total KEUR 2,058.

The tax loss carryforwards exist 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

	12/31/2016	12/31/2015
	KEUR	KEUR
Raw materials, consumables and supplies	1,164	821
Work in progress	1,291	1,560
Finished goods and commercial products	8,546	7,275
Advance payments made	54	47
Total	11,055	9,703

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

	2016 KEUR	2015 KEUR
Cumulative value adjustments as of January 1	3,193	3,154
Thereof		
- Marketability discounts	2,891	3,019
- Reported net realizable value	302	135
Expenses for marketability discounts	0	0
Expenses for net realizable price	6	167
Utilization through the disposal of inventories	-408	-129
Reversal of impairment/utilization of net realizable price	0	0
Cumulative value adjustments as of December 31	2,791	3,193
Thereof		
- Marketability discounts	2,483	2,891
- Reported net realizable value	308	302

The book value of inventories stated at their net realizable value amounts to KEUR 760 (previous year: KEUR 1,021). No inventories (previous year: KEUR 0) were assigned as collateral for liabilities. As in the previous year, no reversals of asset impairment were carried out in the reporting year 2016.

6. Trade Receivables

Trade receivables less write-downs totaled KEUR 2,936 as of the reporting date (previous year: KEUR 5,826). KEUR 2,936 were due within one year in the reporting year (previous year: KEUR 5,516). 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:

	2016 KEUR	2015 KEUR
Cumulative value adjustments as of January 01	**302**	**237**
Disposals due to changes in scope of consolidation	0	-24
Expenditure in the reporting period	237	238
Utilization of individual value adjustment	0	0
Payments received and impairment reversal of receivables originally written off	0	149
Cumulative value adjustments as of December 31	**539**	**302**

The maturities of the trade receivables as of December 31, 2016 are as follows:

Book value **December 31, 2016**	Neither overdue nor value-adjusted	Thereof: not value-adjusted as of the date of the financial statements and overdue in the following periods				
		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
2,936	52	309	2	920	870	783

Book value **December 31, 2015**	Neither overdue nor value-adjusted	Thereof: not value-adjusted as of the date of the financial statements and overdue in the following periods				
		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

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.

7. Other Financial Assets

	12/31/2016 KEUR	12/31/2015 KEUR
Security deposits at banks	5,086	0
Public sector grants	162	156
Receivables from the residual purchase price for the purchase of shares in *aap* joints	0	400
Other	220	169
	5,468	725

In the reporting year, aap pledged fixed-term deposits of KEUR 2,087 at the financing bank as security deposits for financial liabilities. In addition, credit balances at financial institutions of KEUR 2,999 were deposited as security for bank guarantees extended to third parties.

Of the financial assets, KEUR 3,666 were due within a year (previous year: KEUR 723). Non-current financial assets in the amount of KEUR 1,802 (previous year: KEUR 1) are due within the next two years.

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

	12/31/2016 KEUR	12/31/2015 KEUR
Cumulative value adjustments as of January 01	**0**	**0**
Expenditure in the reporting period	0	0
Reversal of asset impairment/utilization	0	0
Cumulative value adjustments as of December 31	**0**	**0**

The maturities of the other financial assets as of December 31, 2016 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				
12/31/2016		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
5,468	5,468	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				
12/31/2015		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

8. Other Assets

	12/31/2016 KEUR	12/31/2015 KEUR
Tax refund entitlements	188	14
Deferred expenses and accrued income	163	188
	351	**202**

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, 2016 totaled KEUR 7 (previous year: KEUR 7).

9. Cash and Cash Equivalents

Cash and bank balances consist solely of cash in hand and with banks and come to KEUR 23,774 (previous year: KEUR 4,941).

For the continued operation the cash flow from operating activities amounts to KEUR 401. The cash flow from investment activities is allocated to investments in the amount of KEUR -99 and in the amount of KEUR 33,933 from the sale of *aap* Biomaterials GmbH to the discontinued operation

10. Financial Assets Held for Sale

Until 12/31/2015, the company held 33% of the shares in *aap* Joints GmbH, Berlin (Joints). In the context of the notarization of various contract amendments with Joints, in September 2015 the sales contract for the remaining 33% of the shares was also notarized and completed in financial year 2016.

11. Capital

The company's subscribed capital as of December 31, 2016 amounted to EUR 30,832,156.00 (previous year: EUR 30,670,056.00) and was divided into 30,832,156 (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 capital increase of EUR 162,100.00 relates to the issue of 162,100.00 shares in fulfillment of subscription rights from exercised stock options in financial year 2015. Notification for registration in the Commercial Register took place on January 27, 2016. Registration and effective issuance were not yet complete at the time of preparing the accounts for the 2015 financial year, so that the payments received for the shares were recognized under the item "Contributions made to implement the capital increase". The entry in the Commercial Register took place on September 6, 2016.

The capital reserve contains premiums from share issues, voluntary additional payments by shareholders and shareholders' contributions arising from the issue of stock options. EUR 0.00 (previous year: EUR 101,578.26) was allocated to capital reserves and EUR 104,171.85 was withdrawn from the capital reserves (previous year: EUR 95,545.93) in this financial year.

Conditional Capital

As of December 31, 2016, *aap* Implantate AG had conditional capital of up to a nominal EUR 2,234,500.00 (previous year: EUR 2,234,500.00) or up to 2,234,500 shares (previous year: 2,234,500 shares) to fulfill exercised stock options issued in the context of various stock option programs. Specifically:

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 financial 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 financial year in which they are issued (Conditional Capital 2012/I). The Conditional Capital 2012/I serves the purpose of fulfilling the exercise of subscription rights granted by December 19, 2014 on the basis of the authorization approved by the 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 financial year in which they are issued (Conditional Capital 2013/I). The Conditional Capital 2013/I serves the purpose of fulfilling the exercise of subscription rights granted by December 19, 2015 on the basis of the authorization approved by the 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 financial year in which they are issued (Conditional Capital 2014/I). The Conditional Capital 2014/I serves the purpose of fulfilling the exercise of subscription rights granted by December 18, 2016 on the basis of the authorization approved by the 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 financial 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 Annual General Meetings on July 16, 2010, July 6, 2012, June 14, 2013, June 13, 2014, and June 12, 2015 (previous year: 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 is currently one authorization in force pursuant to the resolution of the Annual General Meeting held on 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.

Authorized Capital

As of December 31, 2016, *aap* Implantate AG held authorized capital with a total nominal value of EUR 11,142,242 (previous year: EUR 15,335,028) that may be issued in tranches with different time limitations totaling up to 11,142,242 bearer shares (previous year: 15,335,028. For the authorized capital 2010/I amounting to EUR 4,192,786.00 which was presented in the previous year the term of the authorization ended on 15 July, 2015.

	Authorization of the Management Board by the Shareholders' Meeting resolution of	**Period of validity of the authorization**	**Authorized capital in EUR**	**Utilization to date in EUR**	**Remaining authorized capital in EUR**
Authorized capital 2012/I	July 6, 2012	July 5, 2017	4,182,279	0	4,182,279
Authorized capital 2014/I	June 13, 2014	June 12, 2019	6,959,963	0	6,959,963
			11,142,242	**0**	**11,142,242**

The requirements for the increase in authorized 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.

Authorized Capital 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.

Authorized 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 December 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 publishes the company's annual financial statements to the Stock Exchange, or makes 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 value) of the 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 of the exercise of subscription rights exceeds the exercise price by 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 Supervisory Board will be settled in cash due to legal requirements. Stock options exercised by these persons during the previous year

were compensated in cash. Their 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). 96,500 options were issued during the reporting year under the 2014 stock option plan to employees of the *aap* Group. In the previous year, 75,500 options were issued in the previous year from the 2013 stock option program, and also 288,500 options from the 2014 program and 90,000 options from the 2015 program, for a total of 454,000 options. Of these, 364,000 were allotted to employees of the *aap* Group and 90,000 to members of the Board. The fair values were determined for the reporting year using a binomial model. The following parameters were considered in this determination:

	Tranche
2014 Stock option program	3
Grant date	7/4/2016
Performance target	EUR 1.49
Risk-free interest rate	0.00 %
Expected volatility	43.48 %
Expected income from dividends	EUR 0
Share price on valuation date	EUR 1.27
Expected option term	5 years

	Tranche
2014 Stock option program	4
Grant date	12/1/2016
Performance target	EUR 1.44
Risk-free interest rate	-0.21 %
Expected volatility	41.30 %
Expected income from dividends	EUR 0

Share price on valuation date	EUR 1.18
Expected option term	5 years

	Tranche
Stock option program 2013	3
Stock option program 2014	1
Stock option program 2015	1

Grant date	7/1/2015
Performance target SOP 2013 & 2014	EUR 2.76
Performance target SOP 2015	EUR 3.50
Risk-free interest rate	0.01 %
Expected volatility	41.11 %
Expected income from dividends	EUR 0
Share price on valuation date	EUR 2.44
Expected option term	5 years

	Tranche
Stock option program 2013	4
Stock option program 2014	2

Grant date	12/2/2015
Performance target	EUR 1.68
Risk-free interest rate	-0.21 %
Expected volatility	42.72 %
Expected income from dividends	EUR 0

Share price on valuation 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 times the exercise price.

Option program	Grant date per tranche	Number of options granted	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
2014	07/04/2016	30,000	07/03/2024	1.36	0.54
2014	12/01/2016	66,500	11/30/2024	1.31	0.46
2015	07/01/2015	90,000	06/30/2023	2.51	1.00

No options were exercised during the reporting year. In the previous year, 162,100 options under the 2010 (Tranche 1 to 3) stock option program were exercised with the fulfillment of conditions for their exercise by the purchase of equity. The difference between the respective exercise price on the grant date and the closing price of shares at the time of transfer was transferred in the previous year to the capital reserve (KEUR 15). The average share price on the exercise date in the previous year was between EUR 2.18 and EUR 2.50.

The range of exercise prices for the stock options outstanding on December 31, 2016 runs from EUR 1.00 to EUR 2.51 (previous year: EUR 1.00 to EUR 2.51).

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

	2016		2015	
	Number	**WEAP in EUR**	**Number**	**WEAP in EUR**
Outstanding as of January 1	1,453,500	1.32	1,344,600	1.20
Granted	96,500	1.33	454,000	1.62
Expired/waived/forfeited	-504,000	1.59	-123,000	1.53
Exercised	-	-	-222,100	1.11
Outstanding as of Dec 31	**1,046,000**	**1.42**	**1,453,500**	**1.32**
Thereof: exercisable	**552,500**		**532,500**	

Stock options outstanding at the end of the financial year had a weighted average residual term of 4.4 years (previous year: 5.3 years).

Income arising in connection with current options programs recorded in the reporting period totaled KEUR 107 (previous year: costs of KEUR 91), including KEUR 107 (previous year: costs of KEUR 68) for programs with compensation through equity instruments and KEUR 0 (previous year costs of KEUR 23) for programs with compensation through cash. In the previous year, with the exercise of stock options, the capital reserve was reduced by KEUR 35, the amount of contributions made for the stock options to be paid out in cash. Furthermore, in the previous year, KEUR 45 were reclassified from capital reserves to provisions, as the company's right to choose to fulfill through equity instruments no longer in fact exists for their fulfillment for the Supervisory Board.

13. Provisions

2016

	Balance 01/01/2016	**Consumption**	**Release**	**Addition**	**Reclassification**	**Withdrawal based on IFRS 5**	**Balance 12/31/2016**	**RT* > 1 year**
	KEUR	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**
Employee commitments	86	0	0	0	-45	0	41	0
Storage costs	27	0	0	0	0	0	27	22
Other uncertain liabilities	184	-184	0	0	0	0	0	0
Other provisions	0	0	-17	315	45	0	343	15
Total	298	-184	-17	315	0	0	412	37

* RT= residual term

2015

	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

** RT= residual term

14. Liabilities

The residual terms of the liabilities are as follows:

2016

		Residual term (RT)			
	Total 12/31/2016	Up to 1 year	1-5 years	More than 5 years	Previous year
	KEUR	KEUR	KEUR	KEUR	KEUR
Financial liabilities	1,260	999	261	0	3,260
Trade liabilities	2,541	2,541	0	0	4,102
Other financial liabilities	2,131	1,082	1,049	0	2,280
Liabilities relating to income tax	0	0	0	0	0
Other liabilities	1,465	646	405	414	1,408
	7,397	5,268	1,715	414	11,050

2015

		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 KEUR 2,129 (previous year: KEUR 2,244), KEUR 1,310 (previous year: KEUR 1,320) was interest-bearing. Of the current liabilities (RT < 1 year) of KEUR 5,268 (previous year: KEUR 8,806), KEUR 1,520 (previous year: KEUR 3,586) was interest-bearing. The average interest burden was about 2.4% (previous year: 2.7%).

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:

	12/31/2016 Total KEUR	thereof KEUR	Currency	KEUR	Currency	KEUR	Currency
Trade liabilities	41	30	USD	11	CHF	0	GBP

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

15. Other Financial Liabilities

2016

		Residual term (RT)		
	12/31/2016	Up to 1 year	1-5 years	More than 5 years	Previous year
	KEUR	KEUR	KEUR	KEUR	KEUR
Financial leasing liabilities	1,570	521	1,048	0	1,666
Other financial liabilities	560	561	0	0	614
	2,131	**1,082**	**1,049**	**0**	**2,280**

2015

		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 and royalties totaling KEUR 315 (previous year: KEUR 262), travel expenses of KEUR 98 (previous year: KEUR 98), compensation payments for employees of KEUR 50 (previous year: KEUR 0) and liabilities for Supervisory Board remuneration of KEUR 0 (previous year: KEUR 85).

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: 2.5%).

16. Other Liabilities

2016

		Residual term (RT)			
	12/31/2016	Up to 1 year	1-5 years	More than 5 years	Previous year
	KEUR	KEUR	KEUR	KEUR	KEUR
Special investment allowance items	865	94	357	414	960
Personnel related liabilities	477	429	48	0	327
Tax liabilities	122	122	0	0	120
Other liabilities	1	1	0	0	1
	1,465	646	405	414	1,408

2015

		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:

2016

		Loan repayments		
	12/31/2016	2017	2018 to 2021	to 2022
	KEUR	KEUR	KEUR	KEUR
Future payments from rent	3,107	641	2,466	0
Future payments from other operating lease contracts	355	142	213	0
Future payments from financing lease contracts	1,628	550	1,078	0
Future payments for non-current assets	72	72	0	0
Future payments from framework contracts	1,000	0	1,000	0
	6,162	**1,405**	**4,757**	**0**

2015

	12/31/2015 KEUR	2016 KEUR	Loan repayments 2017 to 2020 KEUR	to 2021 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**

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 KEUR 837 (previous year: KEUR 1,002).

Future payments from financing lease contracts are KEUR 1,628 (previous year: KEUR 1,870) and include future interest payments of KEUR 58 (previous year: KEUR 76). The stated book value amounts to KEUR 1,570 (previous year: KEUR 1,666).

18. Contingent Liabilities

Contingent liabilities totaling KEUR 780 (previous year: KEUR 793) 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.

A contractual partner is claiming damages of approx. EUR 1.5 million out of court from a former subsidiary. The assertion is that claims for damages arose due to the fact that the contractual product has not yet been recertified. For the expected future legal and consulting expenses associated with this, we have recorded a corresponding risk provision.

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:

2016

	IAS 39 balance valuation categories	Book value December 31, 2016	Amortized cost	Fair value without effect on results	Carrying amount in accordance with IAS 17	Fair value December 31, 2016
		KEUR	KEUR	KEUR	KEUR	KEUR
Assets						
Financial assets	AfS	192	192			192
Trade receivables	LaR	2,936	2,936			2,936
Other financial assets	LaR	5,467	5,467			5,467
Cash and cash equivalents	LaR	23,774	23,774			23,774
Liabilities						
Financial liabilities	FLAC	1,260	1,260			1,260
Trade liabilities	FLAC	2,541	2,541			2,540
Finance leasing liabilities	-	1,570	-	-	1,570	-
Other financial liabilities	FLAC	1,465	1,465			1,465

Thereof: aggregated by IAS 39 valuation categories for the continued operation:

	IAS 39 balance valuation categories	Book value December 31, 2016	Amortized cost	Fair value without effect on results	Fair value December 31, 2016
		KEUR	KEUR	KEUR	KEUR
Financial assets held available for sale	AfS	192	192		192
Loans and receivables (incl. cash and cash equivalents)	LaR	32,177	32,177		32,177
Total financial assets		**32,369**	**32,369**		**32,369**
Financial liabilities stated at fair value and measured at amortized cost	FLAC	5,266	5,266		5,266
Total financial liabilities		**5,266**	**5,266**		**5,266**

2015

	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
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
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**	**11,492**
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**

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.

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	
	2016 KEUR	**2015 KEUR**	**2016 KEUR**	**2015 KEUR**
Income from intercompany loans at balance sheet date	396	0	0	0
Realized currency gains	4	0	0	0
Interest income	19	24	0	0
Interest expense	0	0	-105	-173
Impairment expenses	-263	-264	0	0
Income from write-ups	73	109	0	4
Net result	**229**	**-132**	**-105**	**-168**

Interest income from value adjusted assets totaled KEUR 0 in the financial year (previous year: KEUR 0). 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 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 with a combination of different maturities and fixed and variable-rate positions. In the case of interest-bearing liabilities of the

continued operation, all liabilities have a fixed rate. Consequently, as at 12/31/2016, around 100% (previous year: 72%) of the continued operation's borrowed capital had a fixed interest rate. Changes to market interest rates 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. Due to the fact that as at 12/31/2016 all liabilities had fixed interest rates no sensitivity analyzes were performed for the floating rate liabilities. In contrast in financial year 2015 sensitivity analyzes were performed. 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 either an increase of income before income taxes by EUR 7,000 or a decrease of EUR 7,000.

Foreign Currency Risks

Determinations were made as part of sensitivity analyses for transactions in US dollars. The impact of other foreign currencies on the Group is of lesser importance. As of 12/31/2016 foreign currency receivables made up around 15% (previous year: 1.6%) of trade receivables and exclusively involved receivables denominated in US dollars. Foreign currency liabilities amounted to around 7.9% of the Group's borrowings (previous year: 0.38%). The share of US dollar liabilities was about 7.4% (previous year: 0.17%). 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 KEUR 18 higher or KEUR 22 lower (previous year: KEUR 3 higher or KEUR 2 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 risks result from, among other things, a lack of funding sources. We face a liquidity risk with a healthy mix of short- and long-term credits. Based on the significant cash inflow in 2016 the company does not rely on external financing in the mid-term. The gross risk in terms of probability is estimated as low, with a low potential level of damage.

The Group also limits this risk through effective, centralized cash management and the arrangement of sufficient credit lines. Based on the significant cash inflow from the sale of *aap* Biomaterials GmbH the framework contract about the grant of an operating credit line was terminated on 31 August 2016. As of 12/31/2015, the *aap* Group had at its disposal contractually ensured credit lines of EUR 4.5 million which not had been utilized as of this reporting date. As of 12/31/2016, *aap* had usable liquidity (total of cash and bank balances and freely available credit lines) of EUR 23.8 million (previous year: EUR 10.2 million).

In the 2016 financial year, bank loans of KEUR 1,998 were paid back as scheduled.

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

12/31/2016		Repayments			Interest payments		
		2017	2018 to 2021	2022	2017	2018 to 2021	2022
		KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Financial liabilities	1,260	999	261	0	18	4	0
Financial leasing liabilities	1,570	521	1,049	0	29	29	0
Other financial liabilities	561	561	0	0	0	0	0
Total	3,391	2,081	1,310	0	47	33	0

12/31/2015		Repayments			Interest payments		
		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	63	71	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 KEUR 0 (previous year: KEUR 0) in the reporting year.

There were no indications of payment defaults for trade receivables, which were not written down as of December 31, 2016.

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

	12/31/2016	12/31/2015
Interest bearing liabilities	2,830	4,926
EBITDA	-7,888	-6,802
Debt coverage ratio (DCR)	**-0.13**	**-0.34**
Interest expense	105	173
EBITDA	-7,888	-6,802
Interest coverage ratio (ICR)	**-75.1**	**-39.3**

Debt coverage

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

	12/31/2016	12/31/2015
Interest bearing liabilities	2,830	4,926
Cash and cash equivalents	23,774	4,941
Net liabilities	0	0
Equity	54,776	40,307
Net liabilities to equity (ratio)	**0%**	**0%**

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, 2016	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	1,170	0
Purchases of goods and services	0	0	0
Trade receivables/other receivables	0	0	0
Trade liabilities/other liabilities	0	0	0
Interest income	0	0	0
Interest rate			
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, 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

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

2. Management Body, Supervisory Board

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

Mr. Bruke Seyoum Alemu, **Chief Executive Officer,** Berlin

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

The total remuneration of the Management Board amounted to KEUR 801 (previous year: KEUR 787). 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 2016	Total 2015
	KEUR	KEUR	KEUR	KEUR	KEUR
Bruke Seyoum Alemu, CEO	321	135	14	470	470
Marek Hahn, CFO	227	95	9	331	317
	548	230	23	801	787

The company has taken out a D&O liability insurance policy for the Management Board. The fees in 2016 totaled KEUR 29 (previous year: KEUR 29).

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

Mr. Biense Visser (Chairman), CEO of Dümmen Orange, Egmond aan Zee, Netherlands

Ms. Jacqueline Rijsdijk (Deputy Chairwoman), member in several Supervisory Boards, Leiderdorp, Netherlands (since 10/06/2016)

Mr. Rubino Di Girolamo, Delegate of the Management Board of Metalor Dental Holding AG, Oberägeri near Zug, Switzerland

Mr. Ronald Meersschaert (Deputy Chairman), Partner at Ramphastos Investments Management B.V., Oisterwijk, Netherlands (until 10/05/2016)

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 KEUR 85 in the financial year (previous year: KEUR 120). It is comprised as follows:

	2016 KEUR	2015 KEUR
Mr. Rubino Di Girolamo	30	40
Mr. Roland Meersschaert (departed 10/05/2016)	20	40
Mr. Biense Visser	25	40
Ms. Jacqueline Rijsdijk (joined 10/05/2016)	10	0
Total	85	120

In the reporting period payments in the amount of KEUR 170 (previous year: KEUR 65) were made:

	2016 KEUR	2015 KEUR
Mr. Biense Visser	40	25
Ms. Jacqueline Rijsdijk (joined 10/05/2016)	10	0
Mr. Rubino Di Girolamo	65	20
Mr. Roland Meersschaert (departed 10/05/2016)	55	20
Total	170	65

Payments of KEUR 170 occurred in the reporting year (previous year: KEUR 65). Of that amount, there were no payments to former Supervisory Board members (previous year: KEUR 0).

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	Gerlin N.V. fund of Teslin Capital Management B.V., Maarsbergen (Netherlands), Member of the Supervisory Board (since 1 October 2016)
	HZPC Holland B.V., Joure (Netherlands), Chairman of the Supervisory Board (until 30 September 2016)
	Royal Cosun U.A., Breda (Netherlands), Member of the Supervisory Board (until 30 April 2016)
Ms. Jacqueline Rijsdijk	Groenfonds at Triodos Bank N.V., Zeist (Netherlands), Chairwoman of the Supervisory Board
	Deloitte Netherlands, Amsterdam (Netherlands), Member of the Supervisory Board
	Royal Cosun U.A., Breda (Netherlands), Member of the Supervisory Board
	Partner in Toezicht, Amsterdam (Netherlands), Partner
	Airbus Defense and Space Netherlands B.V., Leiden (Netherlands), Member of the Advisory Board
	Free University Amsterdam (till 2016) and Free University Amsterdam Medical Centre, Amsterdam (Netherlands), Member of the Supervisory Board
	Fair Share Fund at Triodos Bank N.V., Zeist (Netherlands), Chairwoman 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
Mr. Ronald Meersschaert	Novum Bank Ltd., Gzira (Malta), Non-Executive Director

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

	Shares		Options	
	2016	2014	2016	2015
Supervisory Board				
Biense Visser	275,196	275,196	150,000	150,000
Jacqueline Rijsdijk (since 10/06/2016)	0	0	0	0
Rubino Di Girolamo	1,626,157	1,626,157	0	0
Ronald Meersschaert (until 10/05/2016)	0	0	0	0
Management Board				
Bruke Seyoum Alemu	160,000	160,000	204,000	204,000
Marek Hahn	56,000	56,000	186,000	186,000

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

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) KEUR 120 (previous year: KEUR 147)

b) other services KEUR 31 (previous year: KEUR 20)

5. Events Occurring after the Reporting Date

In the context of the regular revalidation of transport packaging and protective packaging, tests found that the sterile barrier system of certain sterile packed products was affected. As a precaution, voluntary product recalls were then initiated by *aap* in February and March 2017. The general risk of non-sterility of products subject to the recall was assessed to be very low. The reasons for this were firstly the use of double sterile packaging that guarantees the sterility of the product even when the outer packaging foil is damaged, and secondly the fact that there have been no cases of customer

complaints despite the fact that this packaging has been used for many years. According to our comprehensive risk assessment, no direct or long-term health consequences for patients are to be expected. On the basis of the information available to us today, we are unable at this time to give a reliable estimate of potential financial implications. If there are any effects with material implications for the asset, financial and earnings position, we will provide information accordingly.

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, 2016 were released by the Management Board of the company on March 31, 2017.

Berlin, March 31, 2017

The Management Board

Bruke Seyoum Alemu
Chairman of the Management Board / CEO

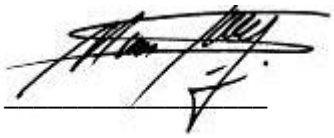
Marek Hahn
Member of the Management Board / CFO

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 combined 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, March 31, 2017

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 combined 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 combined 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 combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 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 combined 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 combined 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 combined 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 combined management report is consistent with the consolidated financial statements, complies with the legal requirements and as a whole provides a suitable view of the Group's positions and suitably presents the opportunities and risks of future development.

Berlin, March 31, 2017

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

Udo Heckeler	Ralf Bierent
Auditor	Auditor