

Interim Report | 2018
2nd quarter | Half-Year Report



Selected figures (unaudited)

Sales and result	01/01-06/30/2018	01/01-06/30/2017	Change
Sales (KEUR)	5,436	5,439	0%
EBITDA (KEUR)	-3,118	-3,307	+6%
EBIT (KEUR)	-3,950	-4,276	+8%
Net result (KEUR)	-3,615	-4,808	+25%
Cash flow and investments	01/01-06/30/2018	01/01-06/30/2017	Change
Operative cash flow (KEUR)	-2,318	-2,933	+21%
Investing activities in intangible assets (KEUR)	995	514	+94%
Investing activities in tangible assets (KEUR)	330	374	-12%
Total investing activities (KEUR)	1,325	888	+49%
Value development	06/30/2018	12/31/2017	Change
Intangible assets (KEUR)	12,472	11,847	+5%
Tangible assets (KEUR)	6,989	7,196	-3%
Working capital (KEUR)	9,598	10,407	-8%
Working capital ratio ¹⁾ (sales)	1.0	1.0	+4%
Non-current assets (KEUR)	21,748	21,704	0%
Current assets (KEUR)	24,503	28,766	-15%
Capital structure	06/30/2018	12/31/2017	Change
Total assets (KEUR)	46,251	50,469	-8%
Shareholders' equity (KEUR)	38,922	42,559	-9%
Equity ratio (%)	84%	84%	
Share²⁾	01/01-06/30/2018	01/01-06/30/2017	Change
Total amount of shares 06/30 (million pieces)	28.67	30.83	-7%
Closing price 06/30 (EUR/Share)	1.94	1.42	+37%
Market Capitalization 06/30 (million EUR)	55.63	43.78	+27%
Average Price (EUR/Share)	1.87	1.32	+42%
High (EUR/Share)	2.17	1.48	+47%
Low (EUR/Share)	1.59	1.06	+50%
Ø Daily turnover (KEUR)	31.20	51.49	-39%
Employees	06/30/2018	12/31/2017	Change
Employees (Headcount)	145	141	+3%
Employees (FTE)	130	132	-2%

¹⁾ Sales for the last four quarters

²⁾ Closing prices XETRA

Note: The figures contained in this quarterly report are unaudited. Technical rounding differences could exist, which have no impact on the entire statement.

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Foreword by the Management Board



Ladies and Gentlemen,

Dear Shareholders,

Dear Employees,

we met our financial targets in the second quarter of 2018 as well. Both sales and EBITDA were within the guidance for the reporting period.

In terms of sales, we were able to achieve double-digit growth in the second quarter. Also in the first six months, our trauma sales were higher than the previous year. The growth drivers were in particular the German market as well as our international business. We are particularly pleased with the sales development in our home and focus market, Germany, in which we were able to post significant double-digit growth in both the quarterly and the half-year comparisons. Here, our preceding sales activities, such as the listing at major German hospital groups, are gradually bearing fruit. By contrast, we were unable to conclude further contracts with global partners in North America during the second quarter. Furthermore, changes at the end customer side at an important US distributor occurred which had a temporary negative influence on second quarter sales. Pleasingly developed, on the contrary, our business on the international level, where we recorded double-digit growth rates in both the quarter and in the first half of the year. The background to this was the expansion of business with existing customers and the acquisition of new customers, for example in South Africa.

With respect to the earnings development, we are benefiting on the one hand from the gross margin, which continues to be at a good level. On the other hand, personnel expenses remained almost unchanged, while we are seeing a declining trend in other expenses. As a result, the EBITDA improved both in the second quarter as well as in the first six months in comparison with the respective values from the previous year.

In the context of the further completion of our LOQTEQ® portfolio, in the second quarter the focus continued to be on different polyaxial LOQTEQ® systems the development of which is already completed and which are now pending approval by the notified body for the European market. In addition, we have dealt intensively with the adaption of internal processes and documentations to the new regulatory requirements. At the same time, the development of sterile packaging for our implants was pushed further.

With a view to the intended CE and FDA approval of our innovative antibacterial silver coating technology, we are continuing to work intensively on the start of the planned human clinical study. In this context, the focus in the second quarter was on the intensive preparation of different applications for the

study at the competent authorities. An additional focus was on the internal validation of relevant processes, which is another important prerequisite to launch the human clinical study. In addition, we have started training the physicians participating in the study to fulfill the approval requirements in this area as well.

Last but not least, we can look back on a successful Annual General Meeting in Berlin in June, which was characterized by the active participation of the shareholders in attendance with several interesting speeches. All agenda items were accepted with a large majority. At this point, we would like to take the opportunity to thank again for the fruitful debate and the confidence expressed by our shareholders.

Several challenges await us in the second half of the year which must be overcome in order to meet our ambitious objectives for financial year 2018. In doing so, we want to maintain the pace of growth of the first half of the year in Germany and on the international level. In North America, we strengthened our sales team at the end of the second quarter in order to improve our growth dynamic in this market. Overall, we will continue to consistently implement our focused strategy and position *aap* sustainably as a pure player in trauma.



Bruke Seyoum Alemu
Chairman of the Management Board / CEO



Marek Hahn
Member of the Management Board / CFO

The Share

General Information about aap's Share

International Securities Identification Number (ISIN)	DE0005066609
Securities Identification Number (WKN)	506 660
Listing	All German stock exchanges, XETRA
Stock Symbol	AAQ
Market Segment	Prime Standard (since 16 May, 2003)
Indices	CDAX Prime All Share Index
Prime Sector	Pharma & Healthcare
Capital Stock (06/30/2018)	EUR 28,674,410.00
Number of Bearer Shares (06/30/2018)	28,674,410
Authorized Capital (06/30/2018)	EUR 28,674,410

Key Figures* of aap's Share

	H1	
	2018	2017
Closing Price 06/30 (EUR/Share)	1.94	1.42
Market Capitalization 06/30 (million EUR)	55.63	43.78
Average Price (EUR/Share)	1.87	1.32
High (EUR/Share)	2.17	1.48
Low (EUR/Share)	1.59	1.06
Ø Daily Turnover (KEUR)	31.20	51.49

* Data source: Bloomberg. Figures relate to XETRA closing prices of the day.

** As of 06/30/2018 the number of bearer shares amounted to 28,674,410 and as of 06/30/2017 to 30,832,156.

Trade war burdens stock exchanges

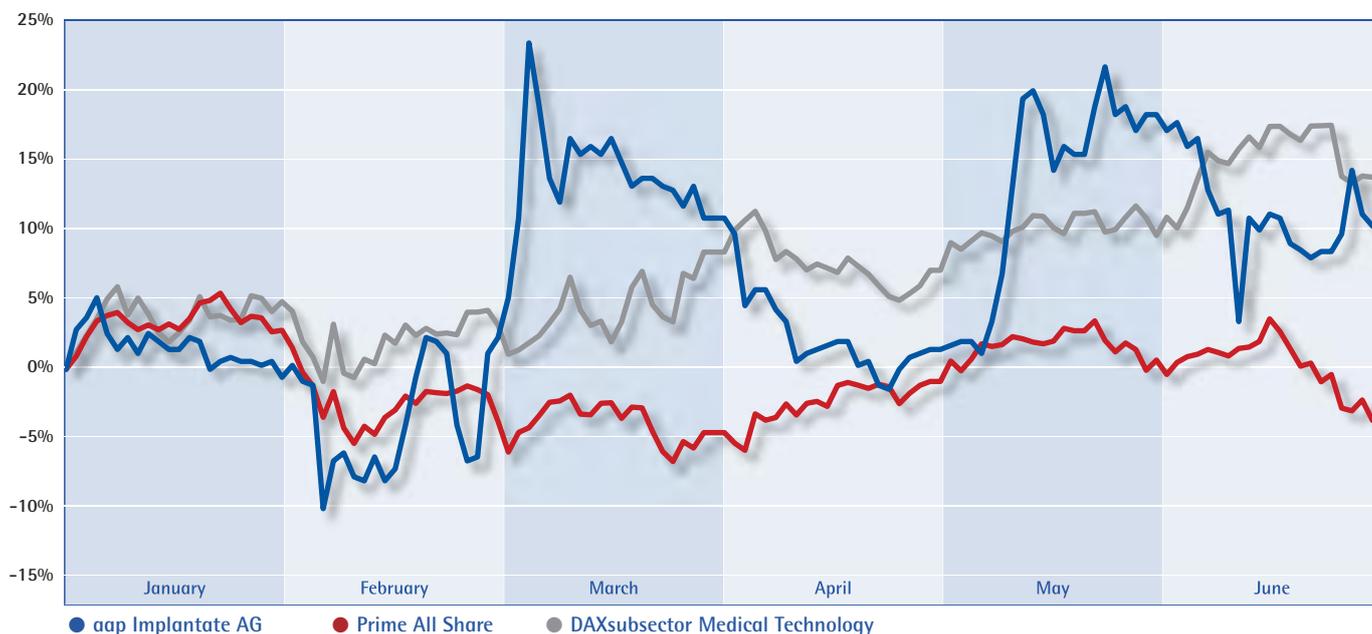
In the first half of 2018, sentiment on the international stock markets was mixed to negative. The major international stock indices, such as the Dow Jones (-1.8% since the beginning of the year) and the Euro Stoxx 50 Index (-3.1%), as well as the DAX (-4.7%), all posted price losses. In particular, the intensifying trade war between the US, China, and Europe had a ne-

gative impact, with the introduction of punitive tariffs and corresponding countermeasures. But also the US Federal Reserve's two interest rate hikes in March and June, as well as the US withdrawal from the nuclear deal with Iran, are likely to have had a negative impact on market sentiment. At the same time, for example, continued robust economic data in the US and China, a strengthening US dollar, and the European Central Bank's decision to keep interest rates unchanged until the summer of 2019 are likely to have capped price losses.

aap share developed positively

The *aap* share posted a positive development in the first half of 2018 and recorded an increase of approx. 10% at the end of the reporting period. The share therefore developed better than, for example, the relevant Prime All Share Index (around -3%). Starting from a XETRA closing price of EUR 1.76 on January 2, 2018, after a short increase, the share initially experienced a downturn, hitting the half-year low of EUR 1.59 on February 6, 2018. The share price recovered slightly over the subsequent days, but was also consistently accompanied by temporary setbacks, before significantly increasing at the end of February. This positive phase resulted in a half-year high of EUR 2.17 on March 6, 2018. However, the share could not sustain this level and the price gain was therefore lost again over the next few weeks. After a further increase in the share price above the significant EUR 2.00 mark in May, the share dropped again slightly in the final weeks of the reporting period, before evening out to around the level of the half-year XETRA closing price of EUR 1.94 (June 29, 2018).

Indices Share Price Comparison H1 | 2018



Analysts' Recommendations

All research reports by the analysis firms are available at <https://www.aap.de/investor-relations/share/analyst-reports>. The reports by Edison Investment Research GmbH are only available in English.

Research Company	Analyst	Recommendation	Target Price	Date
Warburg Research GmbH	Ulrich Huwald	Buy	2.40 EUR	06/06/2018
Edison Investment Research GmbH	Dr. Andy Smith	-	-	02/21/2018

Investor Relations

The objective of investor relations work at *aap* is to achieve a fair valuation of the share through the capital market. In the first half of 2018, this was again based on a continuous dialog with all market participants, as well as the transparent provision of accurate information relevant to the valuation. In addition to conventional IR communications, numerous meetings



Investor Relations app download

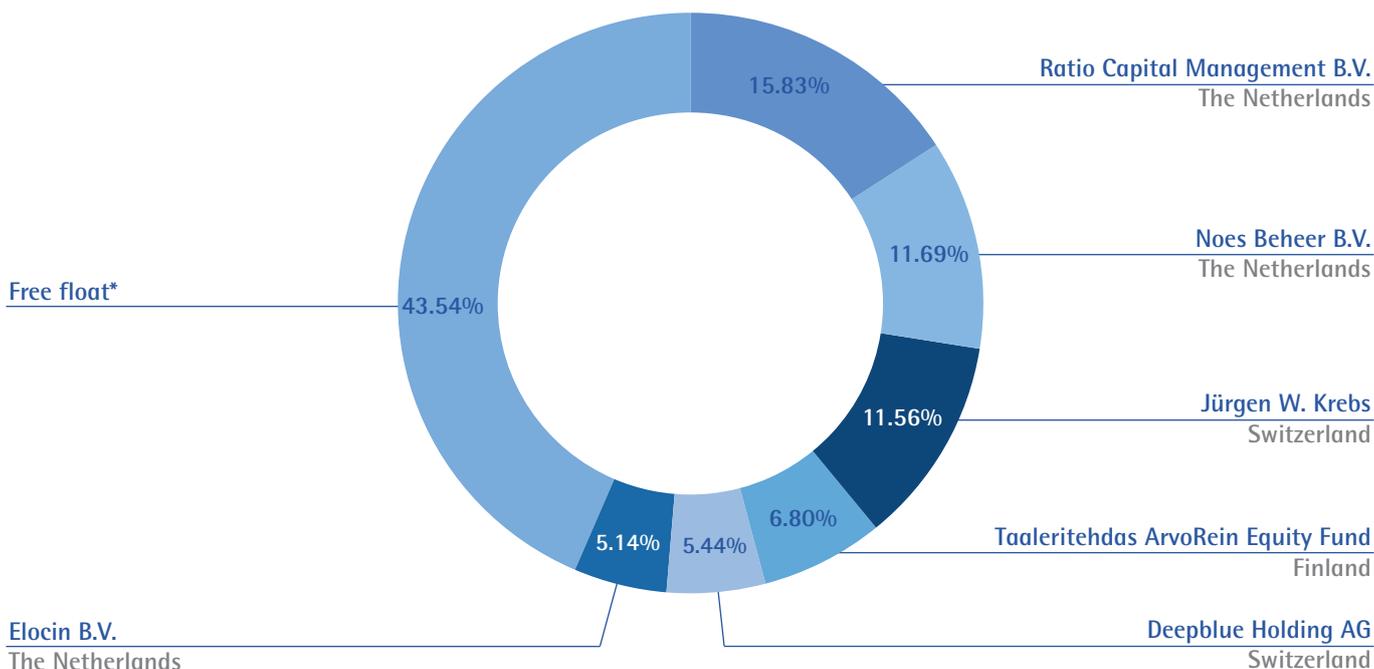
and conference calls were held with investors in the reporting period. The focus of the first half of the year was the spring conference in Frankfurt am Main. Here, the Management Board presented *aap* and held discussions on the equity story and current de-

velopments with existing and potential new investors in 1on1 meetings. In addition, the company was present at the Warburg Small Cap Selection Conference, also in Frankfurt am Main, a day later.

Shareholder Structure

In the first half of 2018, there were no significant changes in *aap*'s shareholder structure, which therefore continues to be characterized by a stable investor base. The free float was approximately 43.54% on June 30, 2018.

The following table shows all shareholdings in *aap* $\geq 3\%$ as of June 30, 2018 according to our information:



*according to Deutsche Börse.

Shareholdings Executive Bodies

The table below shows the direct and indirect shareholdings of all members of the company's Supervisory Board and Management Board as of June 30, 2018:

	Shares	Options
Supervisory Board Members		
Biense Visser	300,373	0
Jacqueline Rijdsdijk	0	0
Rubino Di Girolamo	1,559,258	0
Management Board Members		
Bruke Seyoum Alemu	250,000	359,000
Marek Hahn	85,000	262,000

Annual General Meeting

On June 22, 2018, *aap*'s Annual General Meeting took place at the Ludwig Erhard Haus in Berlin. In this context, the company can look back on a successful event. After an interesting discussion during the general debate with active participation from the shareholders present, all agenda items were accepted by a large majority. Further information on the Annual General Meeting, such as the exact voting results, can be found online at <https://www.aap.de/investor-relations/annual-general-meeting>.

Interim Group Management Report (unaudited)

Business and General Conditions

Organizational and Legal Structure

In the consolidated financial statements, *aap* Implantate AG and all of its companies have been consolidated using the full consolidation method, in which the parent company *aap* Implantate AG directly or indirectly holds the majority of voting rights through consolidated subsidiaries.

	Shareholding in %
aap Implantate AG Berlin	Parent company
aap Implants Inc. Dover, Delaware, USA	100%
MAGIC Implants GmbH Berlin	100%
AEQUOS Endoprothetik GmbH Munich	4.57%

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 the resorbable magnesium implant technology should be bundled. The company is based in Berlin.

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.

Products, Markets & Sales

Most products are sold under the brand name "*aap*". While products in Germany are sold directly to hospitals, buying syndicates, and hospital groups, the company primarily uses a broad network of distributors in more than 25 countries at the inter-

national level. In North America, *aap* is pursuing a hybrid distribution strategy. Distribution takes place both via distribution agents and through partnerships with global orthopedic companies.

One of the highlights of *aap*'s marketing and sales activities in the second quarter of 2018 was the 19th EFORT Congress (European Federation of National Associations of Orthopaedics and Traumatology) in Barcelona. With around 5,500 participants, the largest European congress in the fields of orthopedics and trauma was again well attended this year, allowing the company to present its innovative products and technologies to a large audience. Furthermore, *aap* ran the sixth "International Osteosynthesis Trauma Course" in collaboration with Giessen University Hospital and under the auspices of the Director of the Department of Trauma, Hand and Reconstructive Surgery and University Professor Dr. Christian Heiß. The event continues to be very popular and welcomed 33 participants from six different countries.

Product Developments and Approvals

In the LOQTEQ® area, *aap* focused its development activities on the further completion of the portfolio in the second quarter of 2018. There was a continued focus on various polyaxial LOQTEQ® systems, the development of which is already complete and which are now pending approval by the notified body for the European market. In addition, the company dealt intensively with the adaptation of internal processes and documentations to the new regulatory requirements. At the same time, the development of sterile packaging for implants was pushed further.

In the field of **silver coating technology**, the focus in the second quarter of 2018 was on the preparatory work for the human clinical study for the aimed CE and FDA approval. In this context, *aap* is further on in intensive preparation of various applications for the study at the competent authorities. An additional focus was on the internal validation of relevant processes, which is a further important prerequisite for the beginning of the human clinical study. Additionally, training was

started for the physicians participating in the study in order to meet the approval requirements in this regard as well. *aap* aims to start the human clinical study in the course of financial year 2018.

In the area of **resorbable magnesium implant technology**, *aap* primarily focused on the further technological development of the implants in the second quarter of 2018.

Employees

As at the reporting date of June 30, 2018, a total of 145 employees were employed at *aap* (December 31, 2017: 141 employees).

Economic Report

Earnings position

Sales and margin development as well as total operating performance

Sales increased in the second quarter of 2018 by 13% in comparison with the same period in the previous year to EUR 2.7 million (Q2/2017: EUR 2.3 million) and was therefore at the upper end of the guidance of EUR 1.8 million to EUR 3.0 million. In the first six months of the current financial year, *aap* achieved sales of EUR 5.4 million, which is on the level of the previous year (H1/2017: EUR 5.4 million).

In terms of trauma sales, the company posted year-on-year growth of 16% and 5% in the second quarter and in the first half of the previous year respectively to EUR 2.7 million (Q2/2017: EUR 2.3 million) and EUR 5.5 million (H1/2017: EUR 5.2 million). Growth drivers were in particular the German market and the international business. In Germany, *aap* increased sales in the second quarter by 28% and in the first six months by 15%. This pleasing development shows that the sales activities of the past months, such as the listing at major German hospital groups, are gradually bearing fruit. In contrast, the company could not conclude any further contracts with global partners in North America in the second quarter. Furthermore, changes at the end customer side at an important US distributor occurred which had a temporary negative influence on second quarter sales. Pleasingly developed, on the contrary, the business on an international level. Here, *aap* achieved sales growth of 25% and 28% in the second quarter and in the first half of the year respectively in comparison with the respective periods of the previous year. The background to this was the expansion of business with existing customers and the acquisition of new customers, for example in South Africa. Assuming constant US\$-EUR exchange rates, year-on-year sales grew by 16% and 2% respectively in the second quarter 2018 and the first half of 2018.

Other sales in the second quarter and the first six months of 2017 came from the product business and from sales services

for the former shareholdings / subsidiaries *aap* Joints GmbH and *aap* Biomaterials GmbH, which were omitted in this year due to divestments performed in the previous year.

The **total operating performance** rose by EUR 0.3 million to EUR 3.2 million (+9%) in the second quarter of 2018 in the light of increased sales revenues, while in the first half of the year, at EUR 5.9 million, a value at the level of the previous year was achieved (H1/2017: EUR 5.9 million). In the first six months the reduction of inventory stocks of finished and unfinished goods and a higher volume of capitalized own and development services compared with the prior-year period virtually balanced each other out.

The **cost of materials** rose from 0.4 EUR million in the second quarter of 2017 to EUR 0.6 million in the reporting period and in the first half of the year was EUR 1.1 million, thus on the level of the previous year (H1/2017: EUR 1.1 million). The **cost of materials ratio** (with regard to sales revenues and changes in inventories) increased in the second quarter of 2018 to 24% (Q2/2017: 16%) and in the first six months to 23% (H1/2017: 20%). The background to this development was a changed product/market/customer mix with a higher cost of materials, inter alia temporarily influenced by the reduced share of high margin US sales in total sales, an increased volume of services purchased from third parties and an increased use of temporary workers.

Based on the aforementioned developments, the **gross margin** (in terms of sales revenues, changes in inventories of finished goods and work in progress and cost of purchased materials and services) fell from 84% to 76% in the second quarter of 2018 and from 80% to 77% over the first six months of 2018.

Cost Structure and Result

Personnel expenses in the second quarter of 2018 of EUR 2.0 million were at the same level as the previous year (Q2/2017: EUR 2.0 million), while a slight increase from EUR 3.9 million to EUR 4.0 million was recorded in the first half year comparison. During the second quarter, the personnel cost

ratio (in relation to total operating performance) fell from 68% to 63%, while, with an unchanged total operating performance, it increased in the first six months to 68% (H1/2017: 67%).

As at the reporting date of 06/30/2018, a total of 145 employees were employed at *aap* (12/31/2017: 141 employees).

The **other operating expenses** in the second quarter of 2018 fell by EUR 0.2 million to EUR 2.3 million (Q2/2017: EUR 2.5 million) and in the first six months by EUR 0.5 million to EUR 4.1 million (H1/2017: EUR 4.6 million). The sales-related costs of goods delivery (outgoing freight, packaging material and sales commissions) declined in line with the sales development in North America, while the costs for external employees and the costs for quality assurance measures increased against the backdrop of stricter regulatory requirements of the new EU Medical Devices Regulation (MDR). In contrast, the remaining cost items tended to decrease. Overall, the ratio of the other operating expenses (in relation to total operating performance) fell in comparison with the previous year from 84% to 72% in the second quarter of 2018, and from 79% to 71% over the first half of 2018.

Based on the developments described, *aap* thus recorded an improved year-on-year **EBITDA** of EUR -1.5 million in the second quarter of 2018 (Q2/2017: EUR -1.6 million), which was also at the upper end of the guidance of EUR -1.9 million to EUR -1.4 million issued in May. Overall, the company thus achieved an improvement of EUR 0.2 million in terms of EBITDA, rising to EUR -3.1 million in the first six months of the current financial year (H1/2017: EUR -3.3 million).

As one-time effects are included in both financial years, a comparison on the basis of the **recurring EBITDA** (EBITDA without one-time effects) is meaningful:

in EUR million	Q2/2018	Q2/2017
EBITDA	-1.5	-1.6
Project „Quality First“	0.1	0.0*
Risk provision voluntary product recalls	0.0	0.4
Voluntary share buy back offer	0.0*	0.0*
Personnel measures	0.0	0.1
External staff	0.2	0.0
Recurring EBITDA	-1.2	-1.1

* Expenses in the reporting period <EUR 50k

in EUR million	H1/2018	H1/2017
EBITDA	-3.1	-3.3
Project „Quality First“	0.1	0.2
Value depreciations raw materials	0.0	0.2
Risk provision voluntary product recalls	0.0	0.4
Voluntary share buy back offer	0.0	0.0*
Personnel measures	0.0	0.1*
External staff	0.3	0.0
Recurring EBITDA	-2.7	-2.4

* Expenses in the reporting period <EUR 50k

Based on the developments mentioned above, the **recurring EBITDA**, adjusted for one-time effects, for the second quarter of 2018 amounted to EUR -1.2 million (Q2/2017: EUR -1.1 million) and to EUR -2.7 million over the first half of the year (H1/2017: EUR -2.4 million).

The **EBIT** also improved in both periods under review and in the second quarter of 2018 was at EUR -2.0 million (Q2/2017: EUR -2.1 million) and in the first six months it was EUR -4.0 million (H1/2017: EUR -4.3 million).

The **financial result** increased in the second quarter and in the first six months to EUR 0.5 million (Q2/2017: EUR -0.7 million) and EUR 0.3 million (H1/2017: EUR -0.7 million) respectively. The background to this is the recognition of unrealized currency effects from intercompany transactions within the financial result (US\$/EUR rate as at 06/30/2018: 1.1658 vs. US\$/EUR rate 06/30/2017: 1.1412 and US\$/EUR rate as at 03/31/2018: 1.2321 vs. US\$/EUR rate 03/31/2017: 1.0691).

Overall, *aap* thus achieved a **net result** of EUR -1.4 million in the second quarter of 2018 (Q2/2017: EUR -2.6 million) and EUR -3.6 million over the first half of the year (H1/2017: EUR -4.8 million).

Asset Position

aap's balance sheet had not changed significantly at the end of the first half of 2018 compared to 12/31/2017. As such, total assets decreased by 9% from EUR 50.5 million at year-end 2017 to EUR 46.3 million at 06/30/2018.

The **non-current assets** at 06/30/2018 amounted to EUR 21.7 million and were therefore on the same level as at the end of financial year 2017 (12/31/2017: EUR 21.7 million). The intangible assets rose due to an increased volume of capitalized own work and development costs, while fixed assets decreased due to lower additions from investments in fixed assets in comparison with scheduled depreciation. In addition, the other financial assets fell due to released securities for balances with banks pledged to third parties to secure financial liabilities. The proportion of intangible assets to total assets stood at 27% as at 06/30/2018, having risen in comparison with year-end 2017 (12/31/2017: 23%).

Current assets dropped from EUR 28.8 million as at 12/31/2017 to EUR 24.5 million as at the balance sheet due date of the reporting period and were influenced above all by the reduction in stocks, the fall in other financial assets and the contraction in cash and cash equivalents.

aap was able to generate some of the sales in the first six months of the year from existing stocks, meaning that the inventories were further reduced as at the reporting date (EUR -0.5 million vs. 12/31/2017). Trade receivables as at 06/30/2018 amounted to EUR 2.5 million (12/31/2017: EUR 2.5 million) and the DSO figure (Days Sales Outstanding), which represents a key financial performance indicator for *aap*, is 84 days as at the end of June, and thus remained on a good level (12/31/2017: 85 days).

Cash and cash equivalents fell in the first six months of 2018 and amounted to EUR 9.5 million as at the reporting date (12/31/2017: EUR 13.3 million). Together with the liquidity holdings bound under the current and non-current other financial assets, the **cash holdings** as at 06/30/2018 stood at EUR 12.7 million (12/31/2017: EUR 17.1 million).

Based on the net result of EUR -3.6 million, **equity** decreased to EUR 38.9 million as of 06/30/2018 (12/31/2017: EUR 42.6 million). With total assets of EUR 46.3 million as of 06/30/2018 (12/31/2017: EUR 50.5 million), the equity ratio continues to be at a high level of 84%.

After the payment of the regularly scheduled loan repayments (EUR 0.2 million), **financial liabilities** fell from EUR 0.3 million as at year-end 2017 to EUR 0.2 million as at 06/30/2018. The **trade accounts payable** increased as at 06/30/2018 to EUR 2.1 million (12/31/2017: EUR 1.8 million), while **other financial liabilities** decreased by EUR 0.5 million to EUR 2.1 million. Provisions fell by EUR 0.3 million due to consumption to EUR 0.4 million at the reporting date of the reporting period (12/31/2017: EUR 0.7 million).

Financial position

Starting from a net result of EUR -3.6 million, **aap's operating cash flow** in the first half of 2018 increased to EUR -2.3 million compared to the previous year (H1/2017: EUR -2.9 million). The main changes year-on-year can be summarized as follows:

- Improved operating result (EBIT)
- Working capital: Positive effects from the reduction in inventories (EUR 0.5 million) and the increase in trade accounts payable (EUR 0.3 million) with a consistent level of trade receivables
- The non-cash effect, which is reported in the changes to other accounts payable and other liabilities, primarily results from the currency effect on the valuation of intra-group transactions in the amount of EUR 0.4 million

Cash flow from investing activities increased significantly to EUR -1.3 million in the first six months of 2018 (H1/2017: EUR -0.3 million). Investments in development projects amounted to EUR 1.0 million (H1/2017: EUR 0.5 million) and property, plant and equipment amounted to EUR 0.3 million (H1/2017: EUR 0.4 million), while in the same period of the previous year inflows from investment allowances amounted to EUR 0.5 million.

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

- Repayments on loan contracts in the amount of EUR 0.2 million
- Repayments on finance leasing agreements in the amount of EUR 0.2 million
- Returns from released balances under pledged time deposits in the amount of EUR 0.3 million

This resulted in a cash outflow of EUR -0.1 million from financing activities during the first half of 2018 (H1/2017: EUR -0.1 million).

Cash and cash equivalents therefore decreased as at the reporting date, 06/30/2018, to EUR 9.5 million (12/31/2017: EUR 13.3 million). In addition, EUR 3.2 million in bank balances was recognized under non-current and current other financial assets, as it was pledged or deposited as a security to the financing bank for bank guarantees granted to third parties as part of the process to secure financial liabilities.

The **net balance** (the sum of all cash and cash equivalents minus all interest-bearing liabilities) was EUR 9.0 million as at 06/30/2018 (12/31/2017: EUR 12.7 million).

aap therefore had **cash holdings** (sum of all freely available cash and cash equivalents and the tied-up liquidity holdings under the current and non-current other financial assets) in the amount of EUR 12.7 million as at the reporting date (12/31/2017: EUR 17.1 million).

Risk and Opportunity Report

The risk and opportunity situation of *aap* Implantate AG has not materially changed since the year end 2017. There are still no risks that would threaten the company's continued existence. All existing risks and opportunities as well as the structure and set-up of our risk and opportunity management are comprehensively presented in the consolidated annual financial report 2017.



Bruke Seyoum Alemu
Chairman of the Management Board/CEO

Outlook

For the third quarter of 2018 *aap* expects sales of EUR 2.0 million to EUR 3.8 million and EBITDA of EUR -1.8 million to EUR -0.9 million. Overall, the company confirms its outlook for financial year 2018 and expects sales and EBITDA at the lower end of the guidance of EUR 13 million to EUR 15 million and EUR -5.0 million to EUR -3.4 million respectively.



Marek Hahn
Member of the Management Board/CFO

Interim Consolidated Financial Statements

Consolidated Balance Sheet (unaudited)

ASSETS (KEUR)	2018	2017
	06/30/2018	12/31/2017
Non-current assets	21,748	21,704
• Intangible assets	12,472	11,847
▶ Capitalized services	12,337	11,739
▶ Other intangible assets	135	108
• Tangible assets	6,989	7,196
• Financial assets	192	192
• Other financial assets	680	1,065
• Deferred taxes	1,415	1,405
Current assets	24,503	28,766
• Inventories	9,142	9,617
• Accounts receivable (trade debtors)	2,527	2,543
• Other financial assets	2,797	3,001
• Other assets	505	326
• Cash and cash equivalents	9,532	13,279
Total assets	46,251	50,469

LIABILITIES AND SHAREHOLDERS' EQUITY (KEUR)	2018	2017
	06/30/2018	12/31/2017
Shareholders' equity	38,922	42,559
• Subscribed capital	28,644	28,644
• Capital reserve	19,921	19,865
• Revenue reserve	11,286	11,286
• Other reserve	490	490
• Consolidated balance sheet profit / loss	-21,622	-18,007
• Currency conversion differences	203	280
Non-current liabilities (above 1 year)	2,514	2,790
• Financial liabilities	0	5
• Other financial liabilities	591	744
• Deferred taxes	1,254	1,326
• Provisions	37	37
• Other liabilities	632	679
Current liabilities (up to 1 year)	4,816	5,121
• Financial liabilities	171	333
• Trade accounts payable	2,071	1,752
• Other financial liabilities	1,532	1,922
• Provisions	415	713
• Other liabilities	626	401
Total liabilities and shareholders' equity	46,251	50,469

Consolidated Statement of Comprehensive Income (unaudited)

	2018	2017
	04/01/2018 - 06/30/2018	04/01/2017 - 06/30/2017
INCOME STATEMENT (KEUR)		
• Sales	2,654	2,344
• Changes in inventories of finished goods and work in progress	-63	323
• Other own and development work capitalized	575	243
Total operating performance	3,166	2,910
• Other operating income	184	309
• Cost of purchased materials and services	-630	-423
• Personnel expenses	-1,985	-1,982
• Other operating expenses	-2,265	-2,456
EBITDA	-1,530	-1,642
• Depreciation of tangible assets and intangible assets	-422	-484
EBIT	-1,952	-2,126
• Financial result	497	-655
EBT	-1,455	-2,780
• Income tax	83	140
Net result/ Total comprehensive income	-1,372	-2,641
Total result after taxes	-1,372	-2,641
• Earnings per share (undiluted) in EUR	-0.05	-0.09
• Earnings per share (diluted) in EUR	-0.05	-0.09
• Weighted average shares outstanding (undiluted) in thousand pieces	28,644	30,832
• Weighted average shares outstanding (diluted) in thousand pieces	28,943	30,930

INCOME STATEMENT (KEUR)

	2018	2017
	01/01/2018 - 06/30/2018	01/01/2017 - 06/30/2017
• Sales	5,436	5,439
• Changes in inventories of finished goods and work in progress	-452	-93
• Other own and development work capitalized	877	507
Total operating performance	5,860	5,853
• Other operating income	258	448
• Cost of purchased materials and services	-1,123	-1,058
• Personnel expenses	-3,990	-3,913
• Other operating expenses	-4,135	-4,635
• Other taxes	11	-1
EBITDA	-3,118	-3,307
• Depreciation of tangible assets and intangible assets	-832	-969
EBIT	-3,950	-4,276
• Financial result	259	-671
EBT	-3,691	-4,947
• Income tax	76	139
Net result/ Total comprehensive income	-3,615	-4,808
Total result after taxes	-3,615	-4,808
• Earnings per share (undiluted) in EUR	-0.13	-0.16
• Earnings per share (diluted) in EUR	-0.13	-0.16
• Weighted average shares outstanding (undiluted) in thousand pieces	28,644	30,832
• Weighted average shares outstanding (diluted) in thousand pieces	28,902	30,905

Consolidated Statement of Cash Flows (unaudited)

(KEUR)	2018	2017
	01/01/2018 - 06/30/2018	01/01/2017 - 06/30/2017
Cash & cash equivalents at beginning of period (incl. held for sale)	13,279	23,774
Cash flow from operating activities	-2,318	-2,933
Net income after tax	-3,615	-4,808
• Changes in working capital	796	570
• Share-based compensation	56	21
• Depreciation / Appreciation on fixed assets	832	969
• Change in provisions	-298	-39
• Changes in other assets	324	-415
• Changes in other liabilities	-426	738
• Interest rate allowance / income	14	27
• Income tax allowance / income	7	0
• Income tax payments	-7	3
Cash flow from investment activities	-1,325	-342
• Outflows for investments in fixed assets	-330	-374
• Outflows for investments in intangible assets	-995	-514
• Other in- and outflows from investment grants	0	542
• Interest rates received	0	3
Cash flow from financial activities	-120	-147
• Outflows for redemption of loans	-166	-499
• Outflows from redemption of finance lease	-219	-283
• Inflows from regranting of loan securities	279	665
• Interest rates paid	-14	-30
Change of liquidity from exchange rate changes	17	-12
• Increase / Decrease in cash & cash equivalents	-3,747	-3,434
Cash & cash equivalents at end of period	9,532	20,340

Consolidated Statement of Changes in Equity (unaudited)

(KEUR)	Subscribed capital	Initial capital payments made for capital increase	Capital reserve	Revenue reserves		Non-cash changes in equity		Total	Balance sheet result	Total
				Legal reserves	Other revenue reserves	Reserve for available-for-sale assets	Difference from currency translation			
Status 01/01/2018	28,644	0	19,865	42	11,244	490	280	770	-18,007	42,559
Increase in shares								0		0
Share buyback program			56					0		56
Stock options								0		0
Income of the group as of 06/30/2018								0	-3,615	-3,615
Currency conversion differences							-77	-77		-77
Total comprehensive income	0	0	56	0	0	0	-77	-77	-3,615	-3,637
Status 06/30//2018	28,644	0	19,921	42	11,244	490	203	693	-21,622	38,922
Status 01/01/2017	30,832	0	17,511	42	14,687	490	-50	440	-8,736	54,776
Increase in shares								0		0
Stock options			21					0		21
Income of the group as of 06/30/2017								0	-4,808	-4,808
Currency conversion differences							197	197		197
Total comprehensive income	0	0	21	0	0	0	197	197	-4,808	-4,590
Status 06/30/2017	30,832	0	17,532	42	14,687	490	147	637	-13,544	50,186

Notes to the Interim Consolidated Financial Statements (unaudited)

1. Accounting and Valuation Methods

The unaudited interim financial statements as at 06/30/2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The same accounting policies are applied in the interim financial statements as in the consolidated financial statements for financial year 2017. For more information, please refer to the consolidated financial statements of December 31, 2017, which form the basis for these interim financial statements.

During the preparation of consolidated financial statements for interim reporting in accordance with IAS 34, the Management Board is required to make judgements and estimates as well as assumptions that affect the application of accounting principles within the group and the approach, recognition and measurement of assets and liabilities, income and expenses. The actual amounts may differ from these estimates.

The consolidated interim financial statements account for all current transactions and deferrals that the Management Board deems necessary for an accurate presentation of the interim results. The Management Board is confident that the information and comments presented convey a true and fair view of the asset, financial and earnings position.

2. New and Amended Standards and their Application

With effect as at 01/01/2018 the following new or amended standards which may be relevant for the group have been applied mandatorily:

- IFRS 9 Standard
- IFRS 15 Standard
- IFRS 2 Standard

The changes have no impact on the asset, financial and earnings position of the group.

The effects of the changes to the IFRS 16 standard, which will replace the IAS 17 standard on 01/01/2019 mandatorily, will be stated in the 2018 consolidated financial statements. There has already been provided an outlook to the expected changes in the 2017 consolidated financial statements.

3. Changes to the Composition of the Company

Until June 30, 2018, no changes were made to the consolidation entity of the *aap* group.

4. Share-based Remuneration

The group-wide share-based remuneration system for the employees of *aap* and its affiliated companies was reported separately in the consolidated financial statements as at December 31, 2018. For further information please refer to the consolidated financial statements.

451,000 options were exercisable as of 06/30/2018.

The significant terms of the programs in force during the reporting period are summarized in the following overview:

Significant Terms of the Applicable Option Programs		
	2010, 2017	2012, 2013, 2014, 2015
Subscription right	Each option grants the beneficiaries the right to subscribe one no-par value bearer share in <i>aap</i> Implantate AG upon payment of the exercise price.	
	The pecuniary benefit is limited to four times the exercise price.	
Authorized individuals	<ul style="list-style-type: none"> Employees and Management Board members of the company Employees of associated companies in accordance with Sections 15 et seq. AktG Only in option program 2010: Members of the management of associated companies in accordance with Sections 15 et seq. AktG 	<ul style="list-style-type: none"> Only in option programs 2012, 2013 and 2014: Employees of the company and employees of associated companies in accordance with Sections 15 et seq. AktG Only in the 2015 option program: Management Board members of the company
Issue period	2010: Until 12/19/2011 2017: Until 12/03/2019	2012: Until 12/19/2014, 2013: Until 12/19/2015 2014: Until 12/18/2016, 2015: Until 12/19/2017
Waiting period	4 years from the date of issue	
Term	8 years from the date of issue	
Exercise periods	Within four weeks, beginning on the second trading day of the Frankfurt Stock Exchange <ul style="list-style-type: none"> After the company's Annual General Meeting After the date on which the management publishes at the stock exchange for the general public the company's annual financial report, the half-year financial report or the interim reports for the first or third quarter of the financial year. 	
Exercise price	The average closing price of the <i>aap</i> share in electronic trading (XETRA or a successor system) on the Frankfurt Stock Exchange on the five trading days preceding the first day of the acquisition period, at least at the lowest issue price in accordance with Section 9 para. 1 AktG.	
Performance target	2010, 2012, 2013 and 2014 option programs: The (average) closing auction price of the <i>aap</i> share in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day prior to the date on which the subscription right is exercised must exceed the exercise price by at least 10%. 2015 option program: Closing auction price of the <i>aap</i> share in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day prior to the date on which the subscription right is exercised must be at least EUR 3.50. 2017 Option program: The (average) closing auction price of the <i>aap</i> share in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange must exceed the exercise price on the last trading day prior to the date on which the subscription right is exercised exceeds the exercise price by at least 15%.	
Fulfilment	The company can choose whether to fulfil the obligation by issuing equity instruments or cash settlement.	

All option programs were issued in two or more tranches. In the past, payments have been settled in cash. On December 19, 2014, the Management Board decided that, with immediate effect, further options can only be exercised through the acquisition of equity instruments. Due to the legal requirements, only the options granted to the former Chief Executive Officer and current Chairman of the Supervisory Board have been fulfilled

by cash settlement since the time of the Management Board resolution. As at June 30, 2018 no more exercisable stock options existed which had to be fulfilled by cash settlement.

As at the reporting date, the following option programs have not yet been exercised or fully exercised:

Option program	Date of acceptance per tranche	Number of options granted	Expiration date	Exercise price in EUR	Fair value on the 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

Option program	Date of acceptance per tranche	Number of options granted	Expiration date	Exercise price in EUR	Fair value on the grant date in EUR
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
2015	07/05/2017	60,000	07/04/2025	1.45	0.56
2017	07/05/2017	300,000	07/04/2025	1.45	0.61
2017	12/01/2017	149,500	11/30/2025	1.65	0.67
2017	06/28/2018	50,000	06/27/2026	1.94	0.41

The following table illustrates the quantity and weighted average exercise prices (WAEPs) and the development of the stock options during the reporting period:

	2018		2017	
	Quantity	WAEP in EUR	Quantity	WAEP in EUR
Pending as of 01/01	1,436,000	1.44	1,046,000	1.42
Granted	50,000	1.94	0	-
Expired / waived / forfeited	-40,000	1.40	-55,000	1.87
Exercised	-180,000	1.06	0	-
Pending as of 06/30	1,266,000	1.52	991,000	1.40
Of which exercisable	451,000		552,500	

The range of exercise prices for the stock options pending as of 06/30/2018 ranged from EUR 1.00 to EUR 2.51 (06/30/2017: EUR 1.00 to EUR 2.51). The stock options pending as of the end of the reporting period have a weighted average remaining term of 4.7 years (06/30/2017: 3.7 years). The expense shown in the reporting period for current option programs amounted to KEUR 56 (06/30/2017: KEUR 51) and related solely to the settlement by equity instruments.

5. Reporting on Financial Instruments

The following table shows the financial instruments held by the group as at 06/30/2018. Additional information on financial instruments can be found in the consolidated financial statements as at December 31, 2017.

	Valuation categories in accordance with IAS 39	Book value 06/30/2018	Amortized costs	Fair value without impacting on income	Valuation acc. to IAS 17	Fair value 06/30/2018
Assets		KEUR	KEUR	KEUR	KEUR	KEUR
Financial assets	AfS	192	192			0
Accounts receivable	LaR	2,527	2,527			2,527
Other financial assets	LaR	505	505			505
Cash and cash equivalents	LaR	9,532	9,532			9,532
Liabilities		KEUR	KEUR	KEUR	KEUR	KEUR
Financial liabilities	FLAC	171	171			171
Accounts payable	FLAC	2,071	2,071			2,071
Capital lease obligations		876			876	
Other financial liabilities	FLAC	1,248	1,248			1,248

	Valuation categories in accordance with IAS 39	Book value 06/30/2017	Amortized costs	Fair value without impacting on income	Valuation acc. to IAS 17	Fair value 06/30/2017
Assets		KEUR	KEUR	KEUR	KEUR	KEUR
Financial assets	AfS	192	192			0
Accounts receivable	LaR	2,110	2,110			2,110
Other financial assets	LaR	530	530			530
Cash and cash equivalents	LaR	20,340	20,340			20,340
Liabilities		KEUR	KEUR	KEUR	KEUR	KEUR
Financial liabilities	FLAC	661	661			661
Accounts payable	FLAC	1,969	1,969			1,969
Capital lease obligations		1,287			1,287	
Other financial liabilities	FLAC	520	520			520

The *aap* group holds only primary financial instruments. The volume of primary financial instruments is shown in the balance sheet. The financial asset amount represents the maximum default risk. Where default risks are apparent, they are reflected as value adjustments. The fair values of cash and cash equivalents, current receivables, accounts payable, other current financial liabilities and financial debts correspond to their book values, in particular due to the short maturity of such financial instruments.

Non-current receivables with remaining terms of more than one year are valued on the basis of various parameters such as interest rates, individual creditworthiness of the customer and the risk characteristics of the financing transaction. Accordin-

gly, the book values of these receivables less the shown value adjustments are approximately equivalent to their cash values. The fair value of non-current liabilities to banks and non-current finance lease liabilities are measured by discounting the expected future cash flows at interest market rates which are usual for similar financial liabilities with comparable maturities. The financial assets available for sale relate to shares in AEQUOS Endoprothetik GmbH. A new re-verification will be carried out as part of the preparation of the 2018 consolidated financial statements.

6. Relationships with Related Companies and Individuals

Relationships with related companies and individuals are shown by groups of people.

	Individuals and companies with significant influence on the group	Associated companies	Individuals in key positions within the group
06/30/2018	KEUR	KEUR	KEUR
Proceeds from sales of goods and services	0	0	0
Purchases of goods and services	0	0	0
Accounts receivable / other receivables	0	0	0
Accounts payable / other liabilities	0	0	45
Interest income	0	0	0
Interest rate	0	6.5%	0
Loan and interest receivables	0	0	0
Interest expenses	0	0	0
Interest rate	0	0	0
Loan obligations	0	0	0

	Individuals and companies with significant influence on the group	Associated companies	Individuals in key positions within the group
06/30/2017	KEUR	KEUR	KEUR
Proceeds from sales of goods and services	0	0	0
Purchases of goods and services	0	0	0
Accounts receivable / other receivables	0	0	0
Accounts payable / other liabilities	0	0	0
Interest income	0	0	0
Interest rate	0	6.5 %	0
Loan and interest receivables	0	0	0
Interest expenses	0	0	0
Interest rate	0	0	0
Loan obligations	0	0	0

All transactions do not fundamentally differ from trade relationships with third parties.

7. Release of the Consolidated Financial Statements

The Management Board of *aap* Implantate AG released the consolidated interim financial statements for the second quarter of 2018 on August 13, 2018 for submission to the Supervisory Board and subsequent publication.

Responsibility Statement by the Legal Representatives

To the best of our knowledge and in accordance with the applicable reporting principles for interim consolidated financial statements, these statements present a true and fair view of the group's asset, financial and earnings position and the interim group management report includes a fair review of the de-

velopment and performance of the business and the group's position, together with a description of the principal opportunities and risks associated with the group's expected development in the remainder of the financial year.



Bruke Seyoum Alemu
Chairman of the Management Board / CEO



Marek Hahn
Member of the Management Board / CFO

Company Calendar

2018

- **November 14, 2018**

Quarterly Statement 3rd quarter 2017

- **November 26 - 28, 2018**

German Equity Forum 2018 (Analyst Meeting)

Frankfurt am Main

Forward-looking statements

This report contains forward-looking statements based on current experience, estimates and projections of the management board and currently available information. They are not guarantees of future performance. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. Many factors could cause the actual results, performance or achievements of aap to be materially different from those that may be expressed or implied by such statements. These factors include those discussed in aap's public reports. Forward-looking statements therefore speak only as of the date they are made. aap does not assume any obligation to update the forward-looking statements contained in this release or to conform them to future events or developments.

© **aap Implantate AG**
Lorenzweg 5 • 12099 Berlin • Germany
Phone +49 30 75019 - 133
Fax +49 30 75019 - 290

ir@aap.de
www.aap.de

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aap Implantate AG

Lorenzweg 5 • 12099 Berlin • Germany

Phone +49 30 75019-133

Fax +49 30 75019-290

ir@aap.de • www.aap.de

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