Interim Report 2016
3rd quarter 9-Month Report

Selected figures

Sales and result[1]	01/01-09/30/2016	01/01-09/30/2015	Change
Sales (KEUR)	8,820	9,868	-11%
EBITDA (KEUR)	-5,326	-4,465	-19%
EBIT (KEUR)	-7,197	-5,746	-25%
EBT (KEUR)	-7,250	-5,881	-23%
Net result (KEUR)	-7,310	-5,791	-26%
Cash flow and investments[2]	**01/01-09/30/2016**	**01/01-09/30/2015**	**Change**
Operative cash flow (KEUR)	-4,965	-2,497	-99%
Investing activities in intangible assets (KEUR)	-1,174	-891	-32%
Investing activities in tangible assets (KEUR)	-879	-1,229	+28%
Total investing activities (KEUR)	-2,043	-2,120	+4%
Value development[1]	**09/30/2016**	**12/31/2015**	**Change**
Intangible assets (KEUR)	10,946	10,441	+5%
Tangible assets (KEUR)	7,782	7,675	+1%
Working capital (KEUR)	12,550	11,427	+10%
Working capital ratio[3] (sales)	0.9	1.1	-18%
Non-current assets (KEUR)	19,476	19,203	+1%
Current assets (KEUR)	47,221	35,743	+32%
Capital structure[2]	**09/30/2016**	**12/31/2015**	**Change**
Total assets (KEUR)	66,697	54,946	+21%
Shareholders' equity (KEUR)	57,004	40,307	+41%
Equity ratio	85%	73%	+16%
Share[4]	**01/01-09/30/2016**	**01/01-09/30/2015**	**Change**
Total amount of shares 09/30 (million pieces)	30.83	30.83	+0%
Closing price 09/30 (EUR/Share)	1.21	2.14	-43%
Market Capitalization 09/30 (million EUR)	37.31	65.98	-43%
Average Price (EUR/Share)	1.34	2.46	-46%
High (EUR/Share)	1.67	2.82	-41%
Low (EUR/Share)	1.09	2.04	-47%
Ø Daily turnover (KEUR)	21.95	49.18	-55%
Employees[1]	**09/30/2016**	**12/31/2015**	**Change**
Employees (Headcount)	156	179	-13%
Employees (FTE)	149	159	-6%

[1] Figures relate to the continued operation.
[2] Figures relate to the group.
[3] Sales of the last four quarters.
[4] XETRA closing prices.

Note: In the figures, as shown in the quarterly report, technical rounding differences could exist, which have no impact on the entire statement.

Product image front page: LOQTEQ® VA Plate with screw (simulation)

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Foreword by the Management Board

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

In the third quarter of 2016 we managed to make further important progress towards the goals of our management agenda and implementation of our strategy while we had to cope with several challenges at the same time.

We were able to achieve our financial targets in the third quarter of 2016 on both the sales and the earnings level. Thus, in the reporting period, we generated sales of EUR 2.9 million in the continued operation, which were therefore within the guidance published in August 2016 of EUR 2.5 million to EUR 4.0 million. EBITDA in the continued operation was at EUR -1.8 million in the third quarter and thus also within the forecasted range of EUR -2.0 million to EUR -1.2 million. In this context it should be mentioned that in the reporting period, EBITDA was burdened by one-time effects from the termination of a long-term license agreement in connection with the LOQTEQ® technology (EUR 0.3 million) as well as a value adjustment on customer receivables (EUR 0.2 million) totaling approximately EUR 0.5 million. Adjusted for these effects, recurring EBITDA amounted to EUR -1.3 million in the third quarter and was therefore at the upper end of the guidance.

A closer analysis of the previous sales trend reveals an ambivalent picture. On the one hand, the positive news is that we were able to continue making good progress towards our target of focusing on established markets such as North America, the DACH region and further European countries. We could significantly increase sales in North America and extend customer access in the DACH region. In North America we were able to generate sales of EUR 0.7 million in the third quarter with local distributors and global partners who sell *aap* products under their own name or the *aap* label in North America, which equates to a significant year-on-year increase (Q3/2015: EUR 0.1 million). In total, *aap* achieved sales of around EUR 2.0 million in North America in the first nine months of the current financial year (9M/2015: EUR 0.4 million), which significantly surpassed our expectations. Moreover, in the third quarter, we recorded a significant increase of procedures with our trauma products in North American hospitals, with strongly growing tendency. We can see a dynamic development here, which is set to continue in the coming months. At the same time, we made also further progress with acquiring new customers. Thus, in Puerto Rico and Ecuador, we gained some promising customers for our LOQTEQ® products who have already realized first sales in the third quarter.

On the other hand, we had also set ourselves the goal of stabilizing sales development in the BRICS and SMIT countries. In this respect, especially China continues to present us with substantial challenges. In 2015 China was despite halted growth a main sales market but failed however to make a sales contribution in the first nine months of the current financial year. We are currently still in negotiations about a continuation of the distribution business and expect a conclusion as well as a corresponding recovery of the business until the end of the financial year. Overall, the realized pleasing sales increases in North America in financial year 2016 could not compensate the so far missing sales contributions from China.

We were able to make further progress with the planned completion of our LOQTEQ® portfolio. Following the necessary preparations in the third quarter, we have been able to launch various additions to our portfolio on the market in the last few weeks. These are the innovative periprosthetic LOQTEQ® system and the polyaxial LOQTEQ® VA ankle system. We are planning further rollouts of various polyaxial LOQTEQ® systems for different anatomical regions in the near future.

In the area of our innovative silver coating technology, good progress was also made overall in the third quarter of 2016 regarding the current CE conformity assessment procedure for a silver-coated LOQTEQ® plate. The emphasis was on a continued intensive and constructive exchange with the notified body. With regard to the aimed approval in the USA, preparations are underway to submit the required documents to the US Food and Drug Administration (FDA).

As part of our strategy to transform *aap* into a pure player in trauma with IP protected innovative technologies, we reached the decisive milestone in spring with the sale of *aap* Biomaterials GmbH. In addition, there is still one last minority shareholding in *aap* Joints GmbH left which does not belong to our core trauma business and that we want to part with in the short term. In this context, we concluded a notarial share purchase agreement on September 23, 2016 relating to the sale of the remaining stake of 33% in *aap* Joints GmbH for EUR 0.4 million. The prerequisite for the closing of the transaction is the successful recertification of three products until year end 2016. Here it should be noted that the prolongation of the CE approval is a very challenging task as these products are so-called class III products which are in a difficult approval environment with constantly increasing requirements and partly long reaction times of the approval authorities. The conclusion of the contract led to a value adjustment on the stake in *aap* Joints GmbH of EUR 0.4 million in the third quarter of 2016.

Furthermore, in the reporting period, *aap* succeeded in reaching an amicable agreement with a co-developer of the LOQTEQ® technology for a premature termination of an existing long-term license agreement. The co-developer will receive an indemnity payment as compensation, which is provided as a first fixed payment in 2016 and will subsequently be payed out in tranches if certain sales targets are reached only in the next three years. By terminating the license agreement, the term of which was originally tied to the terms of the LOQTEQ® patents, *aap* has succeeded in providing mid- and long-term as well as sustainable relief on the earnings level. The first indemnity payment of EUR 0.3 million leads to an one-off extraordinary charge on earnings in the third quarter of 2016.

At this point, we would like to address once again the change to the Supervisory Board of *aap*. In September, we announced in a press release that our long-standing Supervisory Board member Ronald Meersschaert had stepped down for personal reasons. Since the beginning of October, his successor has been Jacqueline Rijsdijk, who was elected as a replacement member by the annual general meeting in 2014. In Ms. Rijsdijk we have acquired another proven economic and financial expert, and the Supervisory Board will therefore be very well placed to deal with matters in this area in the future. We look forward to the cooperation and are confident that *aap* will benefit from her excellent network and considerable wealth of experience. At the same time, we would like to take this opportunity to thank Ronald Meersschaert once again for his enormous dedication and commitment and the outstanding work he has done over recent years to transform *aap* into a focused trauma company.

Overall, we firmly believe that, with our implemented and planned measures, we are on the right track to lead *aap* back to the growth path. So far, much of the progress made has, however, not been reflected in our results. The shift in our sales to the established markets will continue with a further on very dynamic development expected in North America. At the same time we will, however, continue to make the necessary effort to stabilize the key markets of the BRICS and SMIT countries in order to ensure that we are able to achieve sustainable growth again at a diversified level.

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 Technology All Share Index
Prime Sector	Pharma & Healthcare
Capital Stock (09/30/2016)	EUR 30,832,156
Number of Bearer Shares (09/30/2016)	30,832,156
Authorized Capital (09/30/2016)	EUR 30,832,156

Key Figures* of aap's Share

	Q3		9M	
	2016	2015	2016	2015
Closing Price 09/30 (EUR/Share)	1.21	2.14	1.21	2.14
Market Capitalization 09/30 (million EUR)	37.31	65.98	37.31	65.98
Average Price (EUR/Share)	1.25	2.30	1.34	2.46
High (EUR/Share)	1.33	2.52	1.67	2.82
Low (EUR/Share)	1.20	2.04	1.09	2.04
Ø Daily Turnover (KEUR)	17.60	29.65	21.95	49.18

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

After the uncertainty caused by the UK's vote to leave the European Union, global stock markets showed marked signs of recovery in the third quarter of 2016. While investor sentiment was characterized by concerns about the consequences of Brexit at the beginning of the reporting period, positive signals dominated from that point onwards and served to calm the markets. In addition to the continuing low interest-rate environment and rising oil prices, the upward trend was supported by factors such as improved economic data in China and stable labor market data in the US. In contrast, market sentiment was only temporarily weighed down by emerging concerns regarding the stability of the European banking sector and political events such as the attempted coup in Turkey.

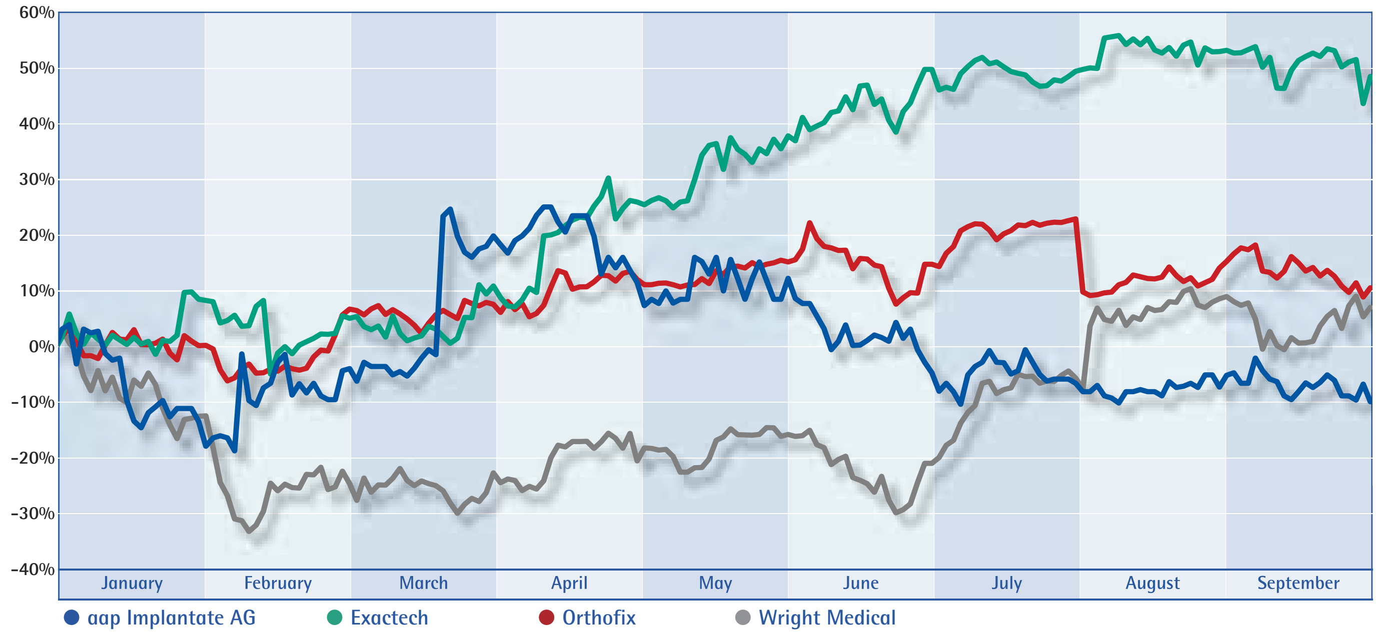
At the beginning of the third quarter of 2016, *aap*'s share initially came under pressure and, starting from the XETRA closing price of EUR 1.30 on July 1, 2016, it reached the quarterly low of EUR 1.20 on July 8, 2016. The share subsequently posted a temporary upwards trend, hitting its quarterly high of EUR 1.33 on both July 14 and 21, 2016. The weeks that followed were primarily characterized by price declines, with the quarterly low of EUR 1.20 reached once more on August 9, 2016. The share showed slight signs of recovery in the further course of the reporting period, but these were repeatedly thwarted by temporary downward movements. The share closed the third quarter on September 30, 2016 with a XETRA closing price of EUR 1.21, representing an overall loss in value for the reporting period of around 7%.

Considering the first nine months of 2016, the capital market environment paints a very varied picture. While the first two quarters were marked by predominantly high volatility, the stock markets increasingly calmed down in the third quarter. At the beginning of the year, market sentiment was dampened in particular by falling commodity prices and uncertainty about the situation in the Middle East, which led to some significant price decreases. After a temporary upward trend, uncertainty returned in the further course of the reporting period due to speculation about a change in the US Federal Reserve's key interest rate and, in particular, due to the Brexit vote in the UK. This resulted once again in share price declines before clear signs of recovery along with corresponding price increases were recorded in the third quarter.

In the first nine months of 2016, the *aap* share was initially hit by a downward trend and, starting from the XETRA closing price of EUR 1.33 on January 4, 2016, it reached its lowest level in the reporting period of EUR 1.09 on February 9, 2016. After moving predominantly sideways in the following weeks, on March 22, 2016, the share price rose significantly in response to the news of the sale of *aap* Biomaterials GmbH. As a result, one day later, the share achieved its annual high to date of EUR 1.67, which it also reached on April 13 and 14, 2016. In the further course of the reporting period, however, the share was unable to maintain this level and came under increasing pressure. Despite temporary upturns, the share gave up the price gains achieved at the end of the first quarter, and it leveled off, trending between EUR 1.20 and EUR 1.30 over the last few weeks of the reporting period. The XETRA closing price for the first nine months of 2016 was EUR 1.21 on September 30, 2016, equating to a total loss of around 9% of its value over this period.

Indices Share Price Comparison 9M | 2016

Peer Group Share Price Comparison 9M | 2016



Analysts' Recommendations

All research reports by the analysis firms are available at **www.aap.de/en/investoren/aktie/research**. The reports by Edison Investment Research GmbH are only available in English.

Research Company	Analyst	Recommendation	Target Price	Date
Warburg Research GmbH	Harald Hof	Buy	2.10 EUR	02/23/2016
Edison Investment Research GmbH	Dr. Linda Pomeroy	-	-	09/07/2016

Investor Relations

Investor relations work at *aap* aims to achieve a fair valuation of the share by the capital market. In the third quarter of 2016 as well, this was based on a continuous and transparent dialog with all market participants as well as the provision of precise and valuation relevant information. In addition to traditional IR communications, there was a focus on numerous meetings and conference calls with investors during the reporting period.

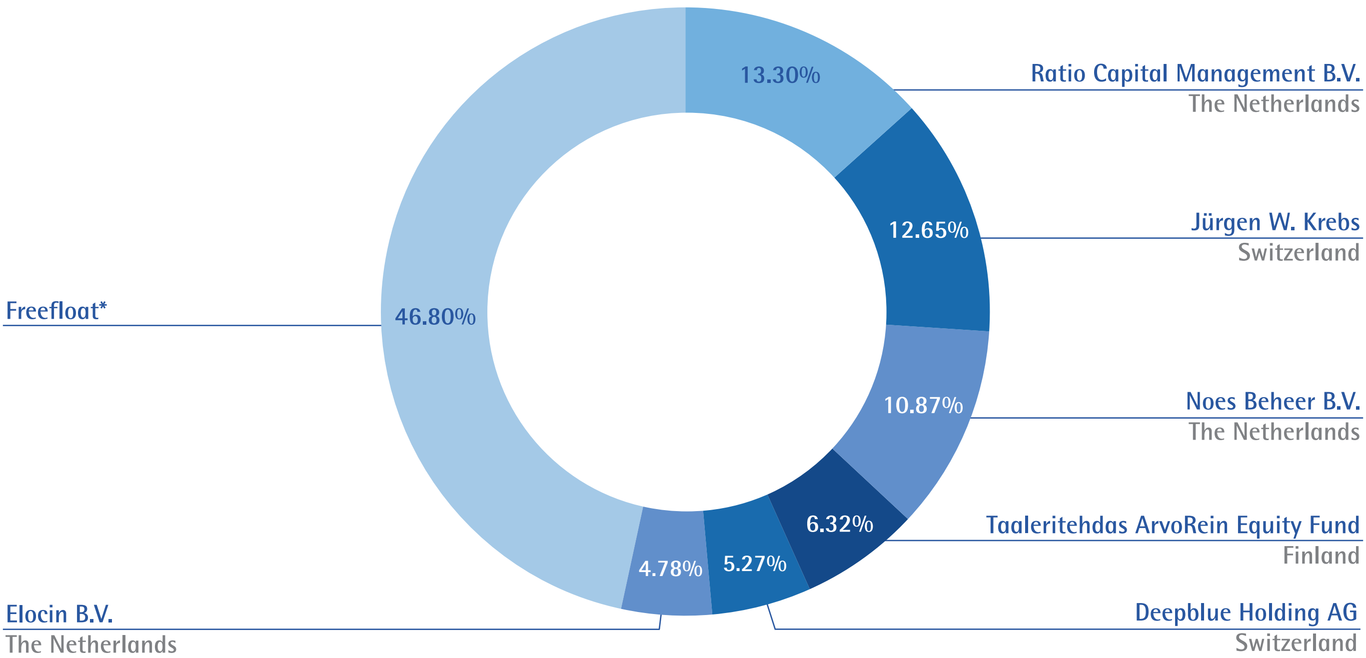
The highlight of the fourth quarter is the German Equity Forum in Frankfurt am Main. *aap* will attend this major capital market event on November 22, 2016. Alongside the traditional corporate presentation, the Management Board has several one-on-one meetings with existing and potential new investors on its agenda.

Investor Relations app download

Shareholder Structure

In the third quarter of 2016, there were no changes within the shareholder structure of *aap*, which therefore continues to be characterized by a high degree of stability with a base of long-term oriented investors. The free float was approximately 46.80% on September 30, 2016.

The following table shows all shareholdings in *aap* ≥ 3% as of September 30, 2016:



* Based on own calculations.

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 September 30, 2016:

	Shares	Options
Supervisory Board Members		
Biense Visser	275,196	150,000
Ronald Meersschaert	0	0
Rubino Di Girolamo	1,626,157	0
Members of the Management Board		
Bruke Seyoum Alemu	160,000	204,000
Marek Hahn	56,000	186,000

Interim Group Management Report

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
aap Joints GmbH Berlin	33
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 magnesium technology should be bundled. The company is based in Berlin.

Holdings

aap Joints GmbH

After the sale of 67% of the shares in June 2013, in the third quarter of 2016, there was a 33% stake in *aap* Joints GmbH. In *aap* Joints GmbH, all the orthopaedic activities (knees, hips, and shoulders) are bundled together with the C~Ment® line. The company is based in Berlin. On September 23, 2016, a notarized share purchase agreement was concluded for the sale of the remaining shareholding of 33% in *aap* Joints GmbH. The prerequisite for the closing of the transaction is the successful re-certification of three products.

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.

Former Subsidiaries

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 former subsidiary was deconsolidated the same day.

Products, Markets & Distribution

Most products are sold under the brand name "*aap*". While products in German-speaking countries are sold directly to hospitals, buying syndicates and hospital groups, the company uses of a broad network of distributors in more than 25 countries at the international level. In regional terms, the most important sales markets, in addition to the DACH region and other European markets, are the USA and the BRICS and SMIT countries.

In the third quarter of 2016, as part of its marketing and sales activities, *aap* was inter alia present at the 35th EBJIS (European Bone and Joint Infection Society) Conference in Oxford, United Kingdom. The EBJIS is committed to the battle against infections in the musculoskeletal system and dedicated its annual meeting, which included more than 500 participants, to the topic of patient management. *aap* used the opportunity to present its innovative antibacterial silver coating technology and antibacterial biomaterials. In addition, the company was also represented during the reporting period at the 57th Congress of the German Hand Surgery Association (Deutsche Gesellschaft für Handchirurgie (DGH)) in Frankfurt am Main, Germany.

Product Developments and Approvals

In the **trauma** business, the focus of research and development activities in the third quarter of 2016 was primarily on preparing the launch of further additions to the LOQTEQ® portfolio. These were in addition to various polyaxial LOQTEQ® implants for the treatment of ankle, elbow and calcaneus fractures the innovative periprosthetic LOQTEQ® system. The system is based on a new patent pending fixation technology and enables the treatment of bone fractures in the immediate vicinity of joint implants already existing in the body. As a result, some of these products were presented at the German Congress of Orthopaedics and Trauma Surgery (Deutscher Kongress für Orthopädie und Unfallchirurgie, DKOU) in Berlin in October and are now available for sale.

In the area of **silver coating technology**, good progress was made overall in the third quarter of 2016 regarding the current CE conformity assessment procedure for a silver-coated LOQTEQ® plate. The focus here was on an intensive and constructive exchange with the notified body. If the conformity assessment procedure is successful, *aap* plans to extend the approval to further trauma products. With regard to the aimed approval in the USA, preparations are underway to submit the required documents to the US Food and Drug Administration (FDA).

In the **magnesium technology** area, *aap* primarily focused on the further technological development of the absorbable implants in the third quarter of 2016.

Employees

As at the reporting date of September 30, 2016, a total of 156 employees were employed in the continued operation (December 31, 2015: 179 employees)

Economic Report

Preliminary remarks on the presentation of the consolidated statement of income

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. In 2015, the operation sold recorded sales of EUR 15.7 million.

Based on this transaction and the fulfillment of the requirements of IFRS 5 in November 2015, the disposed operation 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, the interim financial statements as at 30 June 2016 indicated a deconsolidation profit of EUR 23.3 million, which was allocated to the discontinued operation in the consolidated statement of income. Sale costs totaled EUR 1.6 million within the transaction. Of this amount, a total of EUR 1.1 million was already paid as at 30 September 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. Overall, the discontinued operation realized an EBITDA of EUR 24.1 million, which contains the deconsolidation gain as well as the current profit subject to the provisions of IFRS 5 for the period from 1 January to 11 May 2016.

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

Earnings position

Sales development and total operating performance

Sales in the continued operation were down 15% compared to the third quarter of 2015, from EUR 3.4 million to EUR 2.9 million. Sales with trauma products (implants and trauma-complementary biomaterials) dropped along with it from EUR 2.9 million to EUR 2.3 million. In the first nine months of 2016, sales in the continued operation fell from EUR 9.9 million to EUR 8.8 million, while sales with trauma products declined from EUR 8.8 million to EUR 7.6 million. It must be noted in this context that initial sales invoiced to a new Iranian distributor in the amount of EUR 0.7 million were included in the first quarter of 2015, which were reversed in the course of preparing the 2015 annual financial statements due to non-fulfilled contractual obligations. When this effect is subtracted, the result is a decline from EUR 8.2 million to EUR 7.6 million for the first nine months of both financial years. It should be noted here in particular that China could not make a sales contribution both in the third quarter and the first nine months of 2016. In 2015 China was despite halted growth a main sales market. We are currently still in negotiations about a continuation of the distribution business and expect a conclusion as well as a corresponding recovery of the business until the end of the financial year

One particularly pleasing aspect was the growth in North America, which is one of the key markets in our growth strategy. We were able to increase sales with local distributors and global partners who sell our products under their own name or the *aap* label in North America to EUR 0.7 million in the third quarter of 2016 (Q3/2015: EUR 0.1 million). Over the first nine months of 2016, we have already recorded sales of EUR 2.0 million in North America, compared to EUR 0.4 million in the previous year. Moreover, in the third quarter, we recorded a significant increase of procedures with our trauma products in North

American hospitals, with strongly growing tendency. We can see a dynamic development here, which is set to continue in the coming months. We were also able to make progress in other core markets. In the DACH region we extended customer access through numerous activities. Internationally, we won new customers in countries including Puerto Rico and Ecuador.

Total operating performance includes sales revenues and inventory changes as well as own and development work capitalized. With lower sales revenues, total operating performance of the continued operation decreased in the third quarter of 2016 to EUR 3.3 million (Q3/2015: EUR 4.6 million). With reduced sales revenues, total operating performance in the first nine months of 2016 also fell from EUR 13.0 million to EUR 10.4 million. The reason for this was both reduced sales as well as the reduction in stock, which meant that there was no further increase in inventories in the third quarter of 2016. The build up of finished goods and work in progress in the first nine months of 2016 in the amount of EUR 0.4 million was significantly lower than for the same period in the preceding year (9M/2015: EUR 2.1 million) and was primarily done to build up an inventory buffer for the LOQTEQ® products which were newly launched on the market. This development is very welcome because *aap* increased stock levels significantly in 2015 and can now generate sales partly from existing stocks.

In accordance with IFRS, *aap*, as a development-intensive company, capitalizes not only internally produced capital goods but also expenses for its own and development projects for which approval and economically successful sales are highly likely. *aap* capitalized EUR 0.3 million in the third quarter of 2016 (Q3/2015: EUR 0.2 million) and EUR 1.1 million in the first nine months of 2016 (9M/2015: EUR 1.0 million) of own and development services. The largest additions in this regard concern the development of our silver coating technology and the expansion of our LOQTEQ® portfolio by additional plating systems for certain indication regions and functionalities.

Cost Structure and Result

Other operating income fell from EUR 0.3 million in the third quarter of 2015 to EUR 0.1 million in the reporting period, while the figure decreased in the first nine months of 2016 from EUR 0.6 million in the corresponding period of the previous year to EUR 0.4 million. Based on the provisions of IFRS 5, the charges for services which *aap* provides for the discontinued operation will once again be shown in the continued operation since 11 May 2016. Until the time of deconsolidation, there was a consolidated presentation, which resulted in EUR 0.4 million in income from the continued operation and the same amount in expenses in the discontinued operation not being shown, thereby resulting in an EBITDA shift to the discontinued operation.

The **cost of materials ratio** (with regard to sales revenue and changes in inventories) decreased significantly from 47% to 32% in the third quarter of 2016. The same is shown with regard to the development in the first nine months of 2016: Here, the ratio decreased from 45% to 35%. Also, absolute material expenses fell significantly from EUR 2.1 million to EUR 1.0 million in the third quarter of 2016, while a decrease from EUR 5.4 million to EUR 3.3 million was recorded in the first nine months of 2016. There were two reasons for this development. Firstly, almost all temporary employees were laid off at the end of the second quarter. Secondly, there was a significant reduction in related third-party services both in the third quarter of 2016 and in the first nine months of 2016. The action plan which we started in 2015 and which we have already largely implemented aims, among other things, to lower manufacturing costs sustainably. In this regard, a reduction in the share of external services and an increase in in-house manufacturing are essential to achieving an improvement in margins. In this context, further progress has been recorded. For example, the proportion of third-party services in the cost of materials during the third quarter of 2016 improved to 12% compared to the same period in the previous year (Q3/2015: 33%), while there was an improvement from 32% to 18% in the first nine months of 2016.

Personnel expenses decreased slightly in the third quarter of 2016 from EUR 2.0 million in the same period in the previous year to EUR 1.9 million. Personnel expenses in the first nine months of 2016 similarly fell only slightly from EUR 6.7 million to EUR 6.6 million. Both nine-month periods of comparison include special effects: While the first nine months of 2016 included one-off costs from severance payments totaling EUR 0.3 million due to the adjustment of the cost structure to the reduced size of the company with simultaneously reduced expenses for stock options in the amount of EUR 0.2 million, in the first nine months of 2015, one-off expenses of EUR 0.2 million were incurred due to the revaluation of individual stock option programs. When these effects are eliminated, personnel expenses remained unchanged at EUR 6.5 million in the nine-month period. The personnel cost ratio (based on total operating performance) increased with slightly lower personnel costs and significantly reduced total operating performance in the third quarter of 2016 to 59% (Q3/2015: 43%) and from 51% to 64% in the first nine months of 2016. As of September 30, 2016, a total of 156 people were employed in the continued operation (December 31, 2015: 179 employees).

As compared to the previous year, **other operating expenses** increased in the third quarter of 2016 by EUR 0.1 million to EUR 2.3 million, while the first nine months of 2016 also recorded a slight increase of EUR 6.0 million to EUR 6.2 million. It should be noted here that the third quarter of 2016 was impacted by two special effects totaling EUR 0.5 million: *aap* succeeded in reaching an amicable agreement with a co-developer of the LOQTEQ® technology for a premature termination of an existing long-term license agreement. The co-developer will receive an indemnity payment as compensation, which was provided as a first fixed payment in 2016 and will subsequently be payed out in tranches if certain sales targets are reached only in the next three years. By terminating the license agreement, the term of which was originally tied to the terms of the LOQTEQ® patents, *aap* has succeeded in providing mid- and long-term as well as sustainable relief on the earnings level. The first indemnity payment of EUR 0.3 million leads to an one-off extraordinary charge on earnings in the third quarter of 2016. In addition, a EUR 0.2 million provision for contingent losses was taken following a customer claim, as a distributor's contract was terminated without notice due to breaches of contract and the outstanding claims amount is now being pursued in the courts. When these effects are deducted, other operating expenses decreased in the third quarter of 2016 to EUR 1.8 million (Q3/2015: EUR 2.2 million) and to EUR 5.7 million in the first nine months of 2016 (9M/2015: EUR 6.0 million). As compared to the previous year, the other operating expenses ratio increased as a result overall in the third quarter of 2016 and also in the first nine months of 2016 (related to the total operating performance), from 47% to 69% and from 46% to 60% respectively.

aap therefore achieved an **EBITDA** amounting to EUR -1.8 million in the third quarter of 2016 (Q3/2015: EUR -1.4 million) and EUR -5.3 million in the first nine months of 2016 (9M/2015: EUR -4.5 million). **Recurring EBITDA** adjusted for one-time effects was EUR -1.3 million in the third quarter of 2016 and EUR -4.5 million in the first nine months of 2016, an indication of disciplined cost management with lower sales revenues.

Based on comprehensive investments in machinery and systems with a view to building up capacity in the 2014 and 2015 fiscal years, **scheduled depreciation** increased from EUR 1.3 million to EUR 1.5 million in the first nine months of 2016 while depreciation remained unchanged in the third quarter of 2016 at EUR 0.5 million. Furthermore, we concluded a notarial share purchase agreement on September 23, 2016 relating to the sale of the remaining stake of 33% in *aap* Joints GmbH for EUR 0.4 million. The prerequisite for the closing of the transaction is the successful recertification of three products until year end 2016. Here it should be noted that the prolongation of the CE approval is a very challenging task as these products are so-called class III products which are in a difficult approval environment with constantly increasing requirements and partly long reaction times of the approval authorities. Based on this agreement, the shareholding in *aap* Joints GmbH was devaluated by an **exceptional depreciation** of EUR 0.4 million. Total

depreciation consequently amounted to EUR 0.9 million in the third quarter of 2016 (Q3/2015: EUR 0.5 million) and EUR 1.9 million in the first nine months of 2016 (9M/2015: EUR 1.3 million).

EBIT stood at EUR -2.7 million in the third quarter of 2016 (Q3/2015: EUR -1.8 million) and EUR -7.2 million in the first nine months of 2016 (9M/2015: EUR -5.7 million). **Recurring EBIT** adjusted for one-time effects was EUR -1.8 million in the third quarter of 2016 and EUR -6.0 million in the first nine months of 2016.

The **financial result** changed only slightly and, as in the previous year, has only a very marginal impact on the key performance indicators.

The result from joint ventures and affiliates was fully attributable in the previous year to *aap* Joints GmbH. Upon entering into the agreements in September 2015, the shareholding in *aap* Joints GmbH has been recorded since December 31, 2015 as an available-for-sale asset, as a result of which there is no longer an adjustment in accordance with the at-equity method.

Overall, *aap* achieved a **net result** of EUR -2.7 million for the third quarter of 2016 (Q3/2015: EUR -1.9 million) and EUR -7.3 million in the first nine months of 2016 (9M/2015: EUR -5.8 million).

Asset Position

Due to the deconsolidation of *aap* Biomaterials GmbH on May 11, 2016, *aap*'s balance sheet has changed significantly compared with December 31, 2015. As of September 30, 2016, total assets increased by 21% from EUR 54.9 million at year-end 2015 to EUR 66.7 million. Assets of EUR 14.6 million (December 31, 2015: EUR 13.9 million) and liabilities of EUR 2.8 million (December 31, 2015: EUR 2.2 million) have been retired within the transaction. These were recognized as assets and liabilities held for sale in the consolidated financial statements as of December 31, 2015. For further details, please refer to the information in the notes.

The increase in **non-current assets** as of September 30, 2016 by EUR 0.3 million as compared to year-end 2015 results from investments in development projects and fixed assets. **Capitalized development costs** increased by EUR 0.5 million as compared to the reporting date of December 31, 2015, primarily due to the development activities in the area of silver coating technology and the planned enhancement of the LOQTEQ® portfolio. The proportion of intangible assets to total assets now stands at 16%, having fallen compared to the year-end (December 31, 2015: 19%).

Current assets rose significantly from EUR 35.7 million as of December 31, 2015 to EUR 47.2 million as of the balance sheet date of the reporting period and were primarily influenced by cash inflow from the sale of *aap* Biomaterials GmbH with simultaneous retirement of assets held for sale. In addition, **inventories** rose slightly from EUR 9.7 million at year-end 2015 by EUR 0.4 million to EUR 10.1 million as at September 30, 2016, mainly due to increased safety stock of newly launched LOQTEQ® products. **Trade receivables** fell as of September 30, 2016 from EUR 5.8 million as of December 31, 2015 to EUR 4.5 million, resulting primarily from a consistent reduction of receivables in the third quarter of 2016.

The level of **cash and cash equivalents** increased significantly to EUR 30.8 million as of September 30, 2016 (December 31, 2015: EUR 5.7 million; including EUR 0.8 million attributable to the discontinued operation).

Due to the net result of EUR 16,7 million, **equity** increased as of September 30, 2016 to EUR 57.0 million (December 31, 2015: EUR 40.3 million). With total assets of EUR 66.7 million as of September 30, 2016 (December 31, 2015: EUR 54.9 million), the equity ratio is 85% (December 31, 2015: 73%).

Financial liabilities decreased after payment of the planned settlement payments in the amount of EUR 1.8 million from EUR 3.3 million at the end of 2015 to EUR 1.5 million as of September 30, 2016. **Trade accounts payable** also decreased from EUR 4.1 million as of December 31, 2015 to EUR 2.2 million as of September 30, 2016. The increase in **other financial liabilities** results mainly from the conclusion of an agreement for early, consensual termination of a previously existing license agreement with a co-developer of the LOQTEQ® technology. **Liabilities associated with assets held for sale** in the amount of EUR 2.2 million (December 31, 2015) were also retired as part of the deconsolidation.

Financial position

Starting from a net result of EUR 16.7 million, the **operating cash flow** of the *aap* group in the first nine months of 2016 was down compared to the same period of the previous year to EUR -5.0 million (9M/2015: EUR -2.5 million). The main changes in the year-on-year comparison 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 results of the first nine months in 2015, but only based on four and a half months in 2016
- Deconsolidation profit of EUR 23.3 million from the sale of *aap* Biomaterials GmbH
- Strong reduction of trade accounts payable by EUR 2.0 million with simultaneous increase in other financial liabilities by EUR 1.3 million
- Consistent receivables management with significant reduction of trade receivables especially in the third quarter of 2016 (EUR 1.1 million) and a slight increase in inventories as a result of produced safety stock for new LOQTEQ® products (EUR 0.4 million).

Adequate control of working capital (inventories, trade accounts receivable and trade accounts payable) is 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 32.1 million in the first nine months of 2016 (9M/2015: EUR -2.0 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 September 30, 2016: based on a purchase price for shares in *aap* Biomaterials GmbH (equity value) of EUR 33 million, the company received EUR 34.1 million in total, including the payment of assumed liabilities (EUR 3.7 million) and less selling costs paid (EUR 1.1 million) and retired cash positions (EUR 1.4 million). For more details, please refer to the notes. In addition, *aap* invested EUR 0.9 million in machinery and systems, and in operating and office equipment. A further EUR 1.2 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 1.8 million
- Repayments on finance leasing agreements in the amount of EUR 0.3 million

This resulted in cash outflow of EUR 2.1 million from financing activities during the first nine months of 2016 (9M/2015: cash inflow of EUR 4.0 million).

Cash and cash equivalents increased as of the reporting date, September 30, 2016, to EUR 30.8 million (December 31, 2015: EUR 5.7 million; including EUR 0.8 million attributable to the discontinued operation). The net credit balance (the sum of all cash and cash equivalents minus all interest-bearing liabilities) was EUR 27.6 million as of September 30, 2016 (December 31, 2015: net credit balance of EUR 0.9 million, including a credit balance of EUR 0.8 million attributable to the discontinued operation).

Based on the significant cash inflow from the sale of *aap* Biomaterials GmbH, the master agreement for extension of a revolving credit line was terminated as of August 31, 2016. The *aap* group had access to contractually guaranteed credit lines totaling EUR 4.5 million as at December 31, 2015, none of which had been drawn on as of the reporting date. Thus, *aap* held usable liquidity (sum of available cash and cash equivalents and available undrawn credit lines) of EUR 24.9 million as of the reporting date in this period (December 31, 2015: EUR 10.2 million).

Risk and Opportunity Report

The risk and opportunity situation of *aap* Implantate AG has not materially changed since the end of 2015. There are still no risks that would threaten the company´s continued existence.

A contractual partner is asserting an out-of-court claim for damages of approx. EUR 0.5 million against a former subsidiary. It is claimed that a claim for damages exists due to the fact that a contractual product has not yet been recertified. We have recorded a corresponding risk provision for associated anticipated legal and consultancy costs.

All furthermore existing risks and opportunities as well the structure and set-up of our risk and opportunity management are comprehensively presented in our consolidated annual financial report 2015.

Outlook

In the fourth quarter of 2016, *aap* aims to achieve further progress in its strategy implementation. The Management Board will be focusing on the following topics:

To accelerate value-based innovations, *aap* will be taking forward in a targeted manner the further expansion of the LOQTEQ® portfolio for certain indication areas respectively functionalities and plans the market launch of further polyaxial LOQTEQ® systems for different anatomical regions.

In the area of silver coating technology, the active interaction with the approval authorities will be continued regarding the current CE conformity assessment procedure. For the US approval the necessary approval documents are being prepared for submission to the US authorities.

The company wants to enhance market access by means of two approaches: Firstly, sales activities in the established markets in North America and Western Europe are to be expanded further. Based on the very pleasing sales development in North America in the first nine months of 2016 we expect a continuation of the sales dynamics in the fourth quarter of 2016. Secondly, further endeavours will be undertaken to stabilize sales in growth markets such as the BRICS and SMIT countries.

Following the successful divestment of *aap* Biomaterials GmbH, *aap* has already initiated extensive measures to reduce personnel and material costs in order to take into account the reduced size of the company. We will push this cost optimization process further in the next quarters.

Based on the business performance to date and taking into account the one-time effects as well as the ongoing negotiations, the Management Board expects sales and EBITDA to be at the lower end of the guidance for financial year 2016.

Bruke Seyoum Alemu
Chairman of the Management Board / CEO

Marek Hahn
Member of the Management Board / CFO

Interim Consolidated Financial Statements

Consolidated Balance Sheet

ASSETS (KEUR)	2016	2015
	09/30/2016	12/31/2015
Non-current assets	19,476	19,203
• Intangible assets	10,946	10,441
• Capitalized services	10,803	10,293
• Other intangible assets	143	148
• Tangible assets	7,782	7,675
• Accounts receivable (trade debtors)	0	310
• Financial assets	192	192
• Deferred taxes	556	585
Current assets	47,221	35,743
• Inventories	10,181	9,703
• Accounts receivable (trade debtors)	4,519	5,516
• Other financial assets	599	725
• Other assets	762	202
• Cash and cash equivalents	30,760	4,941
• Assets classified as held for sale	400	14,656
Total assets	66,697	54,946

LIABILITIES AND SHAREHOLDERS' EQUITY (KEUR)	2016	2015
	09/30/2016	12/31/2015
Shareholders´equity	57,004	40,307
• Subscribed capital	30,832	30,670
• Contributions to implement the capital increase resolved	0	162
• Capital reserve	17,535	17,615
• Revenue reserve	228	228
• Other reserve	490	490
• Consolidated balance sheet profit / loss	7,852	-8,864
• Currency differences	67	6
Non-current liabilities (above 1 year)	3,750	3,406
• Financial liabilities	511	0
• Other financial liabilities	1,168	1,340
• Deferred taxes	1,172	1,140
• Provisions	10	22
• Other liabilities	889	904
Current liabilities (up to 1 year)	5,943	11,233
• Financial liabilities	1,000	3,260
• Trade accounts payable	2,150	4,102
• Other financial liabilities	2,215	940
• Provisions	316	276
• Other liabilities	262	504
• Liabilities directly associated with assets classified as held for sale	0	2,151
Total liabilities and shareholders' equity	66,697	54,946

Consolidated Statement of Comprehensive Income

INCOME STATEMENT (KEUR)	Continued operation	
	2016	2015
	07/01/2016 – 09/30/2016	07/01/2015 – 09/30/2015
• Sales	2,875	3,387
• Changes in inventories of finished goods and work in progress	90	1,009
• Other own work capitalized	329	221
Total revenue	3,294	4,617
• Other operating income	116	272
• Cost of purchased materials and services	-962	-2,069
• Personnel expenses	-1,927	-1,992
• Other operating expenses	-2,285	-2,181
• Other taxes	0	-3
EBITDA	-1,764	-1,356
• Depreciation of tangible assets, intangible assets and assets held for sale	-912	-452
EBIT	-2,676	-1,808
• Financial result	-23	-22
• Income / Expenses from joint ventures and associates	10	-48
EBT	-2,689	-1,878
• Income tax	0	0
Net result / Total comprehensive income	-2,689	-1,878
• Assets which can be reclassified in income statement: Differences from currency translation*	0	25
Other net result / Other comprehensive income	-2,689	-1,853
• Net income per share (undiluted) in EUR	-0.09	-0.06
• Net income per share (diluted) in EUR	-0.09	-0.06
• Weighted average shares outstanding (undiluted) in thousand pieces	30,832	30,670
• Weighted average shares outstanding (diluted) in thousand pieces	30,964	31,357

* Other result which could be reclassified in the income statement in subsequent periods if necessary.

	Discontinued operation		Group Total	
	2016	2015	2016	2015
	07/01/2016 – 09/30/2016	07/01/2015 – 09/30/2015	07/01/2016 – 09/30/2016	07/01/2015 – 09/30/2015
	0	5,018	2,875	8,405
	0	-741	90	268
	0	52	329	273
	0	**4,329**	**3,294**	**8,946**
	0	24	116	296
	0	-1,394	-962	-3,463
	0	-817	-1,927	-2,809
	0	-499	-2,285	-2,680
	0	35	0	32
	0	**1,678**	**-1,764**	**322**
	0	-235	-912	-687
	0	**1,443**	**-2,676**	**-365**
	0	-27	-23	-49
	0	0	10	-48
	0	**1,416**	**-2,689**	**-462**
	0	248	0	248
	0	**1,664**	**-2,689**	**-214**
	0	0	0	25
	0	**1,664**	**-2,689**	**-189**
	0.00	0.05	-0.09	-0.01
	0.00	0.05	-0.09	-0.01
	30,832	30,670	30,832	30,670
	30,964	31,670	30,964	31,357

Consolidated Statement of Comprehensive Income

INCOME STATEMENT (KEUR)	Continued operation	
	2016	2015
	01/01/2016 – 09/30/2016	01/01/2015 – 09/30/2015
• Sales	8,820	9,868
• Changes in inventories of finished goods and work in progress	430	2,101
• Other own work capitalized	1,102	1,013
Total revenue	10,352	12,982
• Other operating income	401	587
• Cost of purchased materials and services	-3,257	-5,370
• Personnel expenses	-6,626	-6,679
• Other operating expenses	-6,192	-6,013
• Other taxes	-4	28
EBITDA	-5,326	-4,465
• Depreciation of tangible assets, intangible assets and assets held for sale	-1,871	-1,281
EBIT	-7,197	-5,746
• Financial result	-53	-30
• Income / Expenses from joint ventures and associates	0	-105
EBT	-7,250	-5,881
• Income tax	-60	60
Net result / Total comprehensive income	-7,310	-5,821
• Assets which can be reclassified in income statement: Differences from currency translation*	0	30
Other net result / Other comprehensive income	-7,310	-5,791
• Net income per share (undiluted) in EUR	-0.24	-0.19
• Net income per share (diluted) in EUR	-0.24	-0.19
• Weighted average shares outstanding (undiluted) in thousand pieces	30,832	30,670
• Weighted average shares outstanding (diluted) in thousand pieces	30,964	31,357

* Other result which could be reclassified in the income statement in subsequent periods if necessary.

	Discontinued operation		Group Total	
	2016	2015	2016	2015
	01/01/2016 – 09/30/2016	01/01/2015 – 09/30/2015	01/01/2016 – 09/30/2016	01/01/2015 – 09/30/2015
	4,201	12,134	13,021	22,002
	711	5	1,141	2,106
	15	181	1,117	1,194
	4,927	**12,320**	**15,279**	**25,302**
	23,397	321	23,798	908
	-2,095	-4,355	-5,352	-9,725
	-1,252	-2,561	-7,878	-9,240
	-896	-1,555	-7,088	-7,568
	-1	-2	-5	26
	24,080	**4,168**	**18,754**	**-297**
	-33	-698	-1,904	-1,979
	24,047	**3,470**	**16,850**	**-2,276**
	-10	-80	-63	-110
	0	0	0	-105
	24,037	**3,390**	**16,787**	**-2,491**
	-10	265	-70	325
	24,027	**3,655**	**16,717**	**-2,166**
	0	0	0	30
	24,027	**3,655**	**16,717**	**-2,136**
	0.78	0.12	0.54	-0.07
	0.78	0.12	0.54	-0.07
	30,832	30,670	30,832	30,670
	30,964	31,670	30,964	31,357

Consolidated Statement of Cash Flows

(KEUR)	2016	2015
	01/01/2016 – 09/30/2016	01/01/2015 – 09/30/2015
• Net income (after tax) from continued operations	-7,310	-5,821
• Net income (after tax) from discontinued operations	24,027	3,655
Net income after tax	**16,717**	**-2,166**
Changes in working capital	**-1,143**	**-1,581**
• Stock options expenses without effect on payments	-80	-40
thereof: • Cash settlement	0	-11
• Stock option expenses	-18	-28
• Depreciation and impairment loss of fixed assets and assets held for sale	1,904	1,979
• Changes in provisions	29	-54
• Gain / loss from disposal of subsidiaries	-23,322	0
• Share of net profit / loss of investments	0	106
• Changes in other assets	-465	-340
• Changes in other liabilities	1,395	-402
Cash flow from operating activities	**-4,965**	**-2,497**
• Outgoing payments from investing activities	-2,043	-2,120
• Grants	0	78
• Incoming payments from disposal of shares from subsidiaries less outgoing cash	34,122	0
Cash flow from investing activities	**32,079**	**-2,042**
• Incoming payments from equity injection	0	177
• Inflow from loans	14	4,630
• Redemption of loans	-1,750	-747
• Redemption of finance leases	-338	-50
Cash flow from financing activities	**-2,074**	**4,010**
Changes of cash fund due to exchange rate effects	**0**	**30**
• Increase / Decrease in cash & cash equivalents	25,040	-499
• Cash & cash equivalents at beginning of period	5,720	12,165
Cash & cash equivalents at end of period	**30,760**	**11,666**
thereof restricted cash & cash equivalents	5,936	0
thereof account for the discontinued operation	0	494

Consolidated Statement of Changes in Equity

				Revenue reserves		Non-cash changes in equity					
(KEUR)	Subscribed capital	Initial capital payments made for capital increase	Capital reserve	Legal reserves	Other revenue reserves	Reserve for available-for-sale assets	Other revenue reserves	Difference from currency translation	Total	Balance sheet result	Total
Status 01/01/2016	30,670	162	17,615	0	228	490	0	6	496	-8,865	40,306
									0		
Increase in shares	162	-162							0		0
Stock options			-80						0		-80
Income of the group as of 09/30/2016									0	16,717	16,717
Currency differences								61	61		61
Total comprehensive income								61	61	16,717	16,778
Status 09/30/2016	30,832	0	17,535	0	228	490	0	67	557	7,852	57,004
Status 01/01/2015	30,670	0	17,609	42	186	490	0	0	490	-3,573	45,424
Increase in shares		162	15						0		177
Stock options			-40						0		-40
Income of the group as of 09/30/2015									0	-2,166	-2,166
Other comprehensive income								31	31		31
Total comprehensive income								31	31	-2,166	-2,135
Status 09/30/2015	30,670	162	17,584	42	186	490	0	0	490	-5,739	43,426

Notes to the Interim Consolidated Financial Statements

1. Accounting and Valuation Methods

The unaudited interim financial statements as at September 30, 2016 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 fiscal year 2015. For more information, please refer to the consolidated financial statements of December 31, 2015, 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

No new or revised standards which may be relevant for the group were mandatory with effect as at 01/01/2016. The changes have no impact on the asset, financial and earnings position of the group.

3. Changes to the Composition of the Company

Until September 30, 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 23.3 million, which was allocated to the discontinued operation in the consolidated statement of comprehensive income. Total selling costs of KEUR 1,600 were accrued. Furthermore, the buyer receives a profit share from *aap* Biomaterials GmbH of KEUR 133 for the period from 01/01/2016 to 05/11/2016.

Cash inflows generated from the sale were recorded in the statement of cash flows under cash flow from investing activities. The cash inflow as at 09/30/2016 is summarized as follows:

	KEUR
Purchase price payment received	32,955
Payment for liabilities assumed	3,669
Disposal of cash flow positions	-1,362
Paid sale costs	-1,138
Cash inflow as at 09/30/2016	**34,124**

As *aap* Biomaterials GmbH was sold on 05/11/2016, assets classified as held for sale and liabilities directly associated with assets classified as held for sale as at 12/31/2015 are no longer included in the balance sheet as at the reporting date.

As at 05/11/2016 and 12/31/2015, the main categories of assets and liabilities of the discontinued operation comprise the following:

	05/11/2016	12/31/2015
	KEUR	KEUR
Intangible assets	5,454	5,592
Tangible assets	1,544	1,293
Inventories	4,367	3,819
Accounts receivable (trade debtors) and other assets	1,841	2,372
Cash	1,362	779
Disposal of assets	**14,568**	**13,855**
Deferred taxes	-986	-1,010
Trade accounts payable	-1,106	-679
Financial liabilities	-81	-188
Other liabilities	-626	-275
Disposal of liabilities	**-2,799**	**-2,152**

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4. Share-based Remuneration

The group-wide share-based remuneration system for the employees of *aap* Implantate AG and its affiliated companies was reported separately in the consolidated financial statements as at December 31, 2015. For further information please refer to the consolidated financial statements.

517,500 options were exercisable as of September 30, 2016.

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

	Significant Terms of the Applicable Option Programs	
	2010	2012, 2013, 2014, 2015
Subscription right	Each option grants the beneficiaries the right to subscribe one no-par value bearer share in aap Implantate AG upon payment of the exercise price	
	The pecuniary benefit is limited to four times the exercise price	
Authorized individuals	• Employees and Management Board members of the company • Employees and members of the management of associated companies in accordance with Sections 15 et seqq. of the German Companies Act (AktG)	• Employees of the company • Employees of affiliated companies in accordance with Sections 15 et seqq. AktG • Only in the 2015 option program: Board members of the company
Issue period	Until 12/19/2011	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 • After the company's Annual General Meeting • After the date on which the management has made the annual financial statements, the half-year financial statements or the interim report for the first or third quarter of the company's fiscal year available to the public at the stock exchange	
Exercise price	The average closing price of the aap 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 purchase period, at least according to the lowest issue price in accordance with Sec. 9 para. 1 AktG	
Performance target	Option programs 2010, 2012, 2013 and 2014: The (average) closing auction price of the aap 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 has to exceed the exercise price by at least 10%	
	Option program 2015: The closing price of the aap share in electronic trading (XETRA or a successor system) on the Frankfurt Stock Exchange on the last trading day prior to the date on which the subscription right is exercised has to be at least EUR 3.50	
Fulfilment	The company can choose whether to fulfil the obligation by issuing equity instruments or cash settlements	

All stock options within the stock option programs were issued in two or more tranches. In the past, realized compensations have been settled in cash. On 12/19/2014, the Management Board decided that, with immediate effect, additional options can only be exercised through the acquisition of equity instruments. Due to the legal requirements, only the options granted to the former chairman of the Management Board and the current chairman of the Supervisory Board are settled in cash. His stock options that may be exercised in the future are valued at the reporting date using the fair value of the future pay-off obligation and recorded as a provision.

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	0.501
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
2015	07/01/2015	90,000	06/30/2023	2.51	1.00

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

	2016		2015	
	Quantity	WAEP in EUR	Quantity	WAEP in EUR
Pending as of 01/01	1,453,500	1.16	1,344,600	1.20
Granted	30,000	1.36	454,000	1.62
Expired / waived / forfeited	-387,000	1.62	-123,000	1.53
Exercised	0	0.00	-222,100	1.11
Pending as of 09/30	**1,096,500**	**1.43**		
Pending as of 12/31			**1,453,500**	**1.32**
of which exercisable	**517,500**		**532,500**	

The range of exercise prices for the stock options pending as of 09/30/2016 ranged from EUR 1.00 to EUR 2.51 (previous year: 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 4.5 years (previous year: 5.7 years). The income shown in the reporting period from current option programs amounted to KEUR 47 (2015 total expenses: KEUR 110), of which KEUR 18 from programs to be settled through equity instruments and KEUR 27 from programs to be settled in cash in order to increase the provision, as the right to select the way of exercise of the company for fulfilling by equity instruments actually no longer exists with respect to the Supervisory Board.

5. Reporting on Financial Instruments

The following table shows the financial instruments held by the group as at September 30, 2016. Additional information on financial instruments can be found in the consolidated financial statements as at December 31, 2015.

	Valuation categories in accordance with IAS 39	Book value 09/30/2016	Amortized costs	Fair value without impacting on income	Valuation acc. to IAS 17	Fair Value 09/30/2016
Assets		KEUR	KEUR	KEUR	KEUR	KEUR
Financial assets	AfS	192	192			0
Accounts receivable	LaR	4,642	4,642			4,642
Receivables from service contracts		0				0
Other financial assets	LaR	599	599			599
Cash and cash equivalents	LaR	30,760	30,760			30,760

	Valuation categories in accordance with IAS 39	Book value 09/30/2016	Amortized costs	Fair value without impacting on income	Valuation acc. to IAS 17	Fair Value 09/30/2016
Liabilities		KEUR	KEUR	KEUR	KEUR	KEUR
Financial liabilities	FLAC	1,511	1,511			1,511
Accounts payable	FLAC	1,234	1,234			1,234
Development orders with debit balances		0				0
Capital lease obligations		1,641			1,641	
Other financial liabilities	FLAC	1,742	1,742			1,742

	Valuation categories in accordance with IAS 39	Book value 09/30/2015	Amortized costs	Fair value without impacting on income	Valuation acc. to IAS 17	Fair value 09/30/2015
Assets		KEUR	KEUR	KEUR	KEUR	KEUR
Financial assets	AfS	192	192			0
Accounts receivable	LaR	11,264	11,264			11,264
Receivables from service contracts		101				101
Other financial assets	LaR	883	883			883
Cash and cash equivalents	LaR	12,266	12,266			12,266
Liabilities		TEUR	TEUR	TEUR	TEUR	TEUR
Financial liabilities	FLAC	8,741	8,741			8,741
Accounts payable	FLAC	4,588	4,588			4,588
Development orders with debit balances						
Capital lease obligations		413			413	
Other financial liabilities	FLAC	1,319	1,319			1,319

of which aggregated by valuation categories in accordance with IAS 39 for the continued operation:

	Valuation categories in accordance with IAS 39	Book value 09/30/2016	Amortized costs	Fair value without impacting on income	Fair value 09/30/2016
		KEUR	KEUR	KEUR	KEUR
Financial assets available for sale	AfS	192	192		0
Loans and receivables (including cash and cash equivalents)	LaR	36,001	36,001		36,001
Total financial assets		**36,193**	**36,193**	**0**	**36,193**
Liabilities held at amortized costs	FLAC	4,487	4,487		4,487
Total financial liabilities		**4,487**	**4,487**		**4,487**

	Valuation categories in accordance with IAS 39	Book value 09/30/2015	Amortized costs	Fair value without impacting on income	Fair value 09/30/2015
		KEUR	KEUR	KEUR	KEUR
Financial assets available for sale	AfS	192	192		0
Loans and receivables (including cash and cash equivalents)	LaR	24,413	24,413		24,413
Total financial assets		**24,605**	**24,605**		**24,605**
Liabilities held at amortized costs	FLAC	14,648	14,648		14,648
Total financial liabilities		**14,648**	**14,648**		**14,648**

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. Accordingly, 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, which were recognized at fair value as at September 30, 2015 without effect on net income. The information required to determine fair value was not available as at the reporting date of December 31, 2015. The shareholding was therefore valued at its amortized costs in the quarterly financial statements as at September 30, 2016 due to a lack of an active market and the fact that the fair value cannot be reliably assessed.

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
09/30/2016	**KEUR**	**KEUR**	**KEUR**
Proceeds from sales of goods and services	0	970	0
Purchases of goods and services	0	0	0
Accounts receivable / other receivables	0	30	0
Accounts payable / other liabilities	0	0	55
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			
Loan obligations	0	0	0

	Individuals and companies with significant influence on the group	Associated companies	Individuals in key positions within the group
09/30/2015	**KEUR**	**KEUR**	**KEUR**
Proceeds from sales of goods and services	0	1,257	0
Purchases of goods and services	0	0	0
Accounts receivable / other receivables	0	792	0
Accounts payable / other liabilities	0	0	55
Interest income	0	5	0
Interest rate	0	*6.5%*	0
Loan receivables	0	115	0
Interest expenses	0	0	0
Interest rate			
Loan obligations	0	0	0

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

7. Other Events

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.

aap Implants Inc. successfully further expanded its business activity as distribution company for the North American market.

8. Release of the Consolidated Financial Statements

The Management Board of *aap* Implantate AG released the consolidated interim financial statements for the third quarter of 2016 on November 14, 2016 for submission to the Supervisory Board and subsequent publication.

Bruke Seyoum Alemu
Chairman of the Management Board / CEO

Marek Hahn
Member of the Management Board / CFO

Company Calendar

2016

- **November 21 – 23, 2016**

German Equity Forum 2016 (Analyst Meeting)

Frankfurt am Main

Lorenzweg 5 • 12099 Berlin • Germany

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.

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