Consolidated Annual Financial Report 2017

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A. Foreword by the Management Board

Ladies and Gentlemen,
Dear Shareholders,
Dear Employees,

2017 was our first year as a pure player in trauma and it was a successful one – with 20% growth in trauma sales.

We met our most important financial targets: both sales and EBITDA were in line with our expectations. The main drivers of the good development of trauma sales were the distribution business in North America, the expansion of the existing business, and the acquisition of new customers in international markets. We are particularly pleased about developments in North America and Germany, which are the focus of our sales activities and should continue to act as growth drivers. In addition, we succeeded in stabilizing the sales development in the BRICS and SMIT countries, and were thus able to achieve another goal of our management agenda.

In terms of earnings, we also made progress in 2017. Two factors were essentially responsible for this: firstly, the gross margin increased noticeably. Here, we are now benefiting in particular from the growing share of sales in established and higher-margin markets. Secondly, we have significantly reduced personnel costs. As a result, we were able to improve our EBITDA compared to the previous year.

As part of our development activities, we have further expanded our LOQTEQ® portfolio. We were able to successfully complete the development of the LOQTEQ® VA foot and ankle system, as well as additional polyaxial LOQTEQ® systems. While the first systems have already been granted approval for the North American market, we plan to get European approval for 2018.

With respect to our antibacterial silver coating technology, the focus was on the preparation of the human clinical study for the aimed CE and FDA approval. Coordination with the authorities involved regarding the scope and design of the study was paramount. Furthermore, we have made significant progress regarding the internal validation of the processes and products for the study. In addition, we have selected a renowned internationally active CRO (= Clinical Research Organization) together with which we have drawn up the study design, prepared various documents for the involved authorities and have already lined up many large and well-known university hospitals to carry out the human clinical study.

Another important step for *aap* as a medical technology company was the implementation of our company-wide “Quality First” package of measures at the beginning of 2017. With the extensive program, we have already substantially improved our quality management system and also addressed the increased regulatory requirements.

Last but not least, we are pleased for our shareholders that the developments of the past year have also been reflected in our share price. Our share gained nearly 40% over the course of the year. In addition, we look back on a successful public share buyback offer. As we had promised, our shareholders thus participated in a part of the proceeds from the sale of *aap* Biomaterials GmbH.

For the year 2018, we have again set ourselves ambitious goals. We want to continue our dynamic sales growth. Specifically, we aim for a growth rate of 20% to 40%. Along with this, our EBITDA should continue to improve. Another important goal for 2018 is the start of the human clinical study for the approval of our antibacterial silver coating technology. With our innovative silver coating technology, we hold a rough diamond in our hands that allows us to address one of the biggest challenges in traumatology: the reduction of surgical site infections. In addition, our silver coating can be used as a platform technology in many other medical fields.

Our overriding goal is and remains to unlock the inherent value of our highly promising and innovative product and technology base, thereby creating sustainable value for our shareholders. We will achieve this only by working as a team with our talented, creative and dedicated employees who work hard to bring *aap* a little closer to this goal every day. For this, we would like to sincerely thank you.

Bruke Seyoum Alemu
Chairman of the Management Board / CEO

Marek Hahn
Member of the Management Board / CFO

B. Combined Management Report

In the following, relationships within the parent company and the Group are reported using the terms *"aap"*, *"aap* Group", "Group", or "Company".

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

I. Principles of the Group

1. Business Model

aap is a globally operating medical device company headquartered in Berlin. The company develops, manufactures and markets trauma products for orthopedics. With its innovative and IP-protected platform technologies and products, *aap* focuses on unmet needs and challenges in trauma. The company has a total of three platform technologies: The anatomical plating system LOQTEQ® (successfully marketed since 2011), the antibacterial silver coating technology (in approval process), and the resorbable magnesium implant technology (under development). In addition to the innovative LOQTEQ® products, the currently marketed IP-protected portfolio includes trauma complementary biomaterials as well as a wide range of cannulated screws and standard plates and screws.

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

Most products are sold under the brand name "*aap*". While products in Germany are sold directly to hospitals, buying syndicates, and hospital groups, the company uses a broad network of distributors in more than 25 countries at the international level. In North America, *aap* is pursuing a hybrid distribution strategy. Distribution takes place both via distribution agents and through partnerships with global orthopedic companies.

Within the orthopedic industry, *aap* is addressing the fast-growing trauma segment. This field works to aid bone fracture recovery by fixing the bone in such a way that it is returned to its original position and alignment. A general distinction is made between externally applied products (external fixators) and implanted devices such as plates, screws, pins, wires, staples and intramedullary nails. The trauma market posted global sales of around USD 6.6 billion in financial year 2016[1]. This represents approximately 14% of the orthopedics industry's total market volume. The trauma market is dominated by four large companies in particular – DePuy Synthes, Stryker, Zimmer Biomet, and Smith & Nephew. According to estimates, these companies were responsible for around 70% of total global sales in financial year 2016.

[1] Source: "The Orthopaedic Industry Annual Report 2017"; available on request from Orthoworld Inc.

2. Group Strategy

Within orthopedics *aap* has focused on trauma. The Management Board believes that this fast-growing segment presents good opportunities to gain market share through product and technology innovation. As a pure player in trauma, *aap* develops innovative platform technologies and products in response to unmet needs and challenges. The company has identified three key market needs: simplifying operation techniques for im- and explantation of the implant, reducing surgical site infections (SSI), and avoiding the need for a second operation to remove the implant by using resorbable metal implants. The three innovative platform technologies LOQTEQ® (successfully marketed since 2011), antibacterial silver coating (in the approval process), and resorbable magnesium implants (under development) address precisely these needs and thus offer considerable growth potential. With its LOQTEQ® products *aap* is active in the fastest growing trauma segments. Furthermore, silver coating and magnesium implants technologies can lower health care system costs significantly by reducing infection risks respectively avoiding a second operation. With this innovative IP-protected product and technology portfolio and its focused business model, *aap* is in an excellent position to exploit the opportunities in the dynamically growing trauma market.

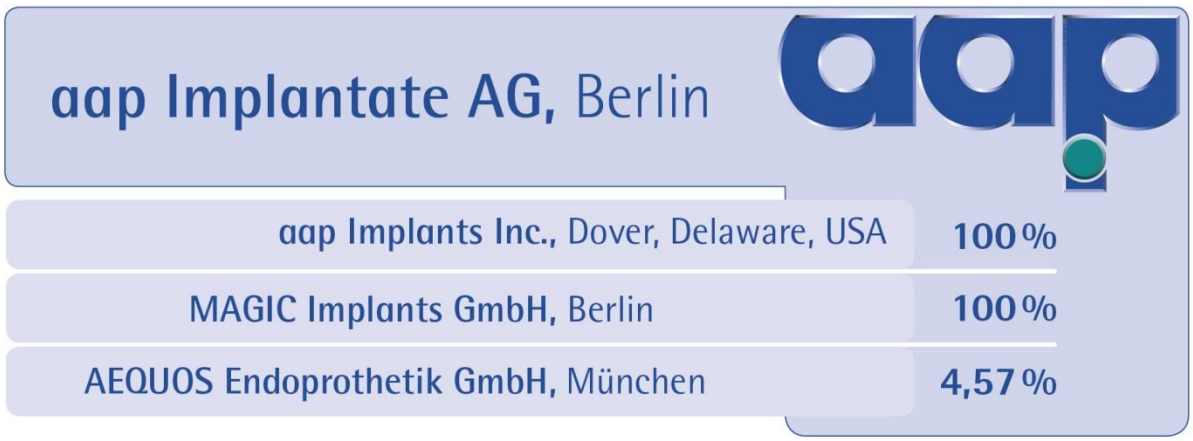
A further major objective of the company's strategy is to unlock the inherent value of this innovative product and technology base. Since all *aap* platform technologies are predestined to develop their full value potential in cooperation with global partners, the company is regularly evaluating strategic alternatives to value generation and enhancement in this context. These include, among other things, co-development partnerships, distribution and license agreements as well as joint venture agreements to corporate transactions (e.g. merger, share or asset deals as well as carve outs).

In sales terms, as part of its growth strategy, *aap* focuses on established markets such as North America, Germany, and Western Europe. At the same time, sales development in the BRICS and SMIT countries is to be further stabilized.

The Management Board specifies its goals for the financial year as a Management Agenda within defined strategic and operational action areas. The assessment of the 2017 Management Agenda can be found in the section "Other indicators" of this report. The new Management Agenda for the 2018 financial year is presented in the "Outlook".

3. Organizational Structure

aap Implantate AG is the parent company of the *aap* Group. The management reports for *aap* Implantate AG and for the Group are summarized in this report. The *aap* Group comprised the following fully consolidated subsidiaries as of December 31, 2017: *aap* Implants Inc. and MAGIC Implants GmbH. Furthermore, as at the reporting date, the Group held a 4.57% stake in AEQUOS Endoprothetik GmbH.



Subsidiaries

- ***aap* Implants Inc.**

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

- **MAGIC Implants GmbH**

  MAGIC Implants GmbH is a shelf company in which all potential development and, if applicable, marketing activities in the area of resorbable magnesium implant technology are to 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.

Executive Bodies

- **Management Board**

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

  Mr. Bruke Seyoum Alemu (52) is Chairman of the Management Board / CEO and is responsible for Corporate Development, Research & Development, Production, Quality Assurance, Regulatory Affairs, as well as Sales and Marketing.

  Mr. Marek Hahn (43) is a Member of the Management Board / CFO and, in addition to Finance / Controlling, is responsible for Human Resources, IT, Legal Affairs, Administration, as well as Investor and Public Relations.

  Further information about the *aap* Management Board can be found on the company's corporate website at https://www.aap.de/company/corporate-governance/management-board.

- **Supervisory Board**

  The Supervisory Board of *aap* consists of three members.

Mr. Biense Visser (65) is Chairman of the Supervisory Board and **Ms. Jacqueline Rijsdijk** (61) is Vice Chairwoman of the Supervisory Board. **Mr. Rubino Di Girolamo** (55) also serves on the Supervisory Board.

Further information about *aap*'s Supervisory Board can be found in the notes to this report and on the company's corporate website at https://www.aap.de/investor-relations/corporate-governance/supervisory-board.

4. Segments

At *aap*, there are no business segments identified for which regular reporting to the Management Board would be performed. Instead, the goal of the corporate strategy is to unlock the inherent value of the innovative product and technology base. The monthly reporting system facilitating the management of the company consists exclusively of consolidated sales, progress with significant development projects of the Group, liquidity, and the working capital of the entire Group. The company is managed solely on the basis of this data. *aap* is therefore managed both internally and externally as a company without separate segments.

5. Principal Facilities

The company's two main locations are Berlin (Germany) and Atlanta (Georgia, USA). The parent company, *aap* Implantate AG, is based in Berlin, Germany. In Atlanta (Georgia, USA), all orders for the North American market are logistically handled via a service provider of the distribution company *aap* Implants Inc.

6. Customers and Markets

Germany and North America are currently *aap*'s largest single markets, while all other sales territories are combined in the international region.

In Germany, *aap* sells its products directly to hospitals, buying syndicates and hospital groups. In financial year 2017, the company's home market accounted for around 22% of sales (previous year: 22%).

aap relies on a hybrid distribution strategy in North America. Distribution takes place both via distribution agents and through partnerships with global orthopedic companies. The company generated around 28% of its total sales in North America in the reporting year (previous year: 23%).

The international region encompasses all markets outside of Germany and North America. For this region, *aap* uses a broad network of distributors in more than 25 countries. This region accounted for approximately 47% of sales in financial year 2017 (previous year: 39%).

Moreover, around 2% (previous year: 15%) of total sales made in 2017 correspond to other sales revenues and stem predominantly from discontinued activities (divestments of *aap* Joints GmbH and *aap* Biomaterials GmbH in 2016). These sales revenues no longer play a role in future business development and are therefore not subject to any regional analysis.

aap uses a consignment model to market its products to its German customers (hospitals, buying syndicates and hospital groups) and the majority of distribution agents in North America (stocking distributors). The company first places the systems with its customers, and only upon use or

implementation of the implants sales are made. In contrast to this, distributors in the international markets and global partners in North America purchase the products directly, which generates sales immediately.

With its three largest customers, *aap* generated sales of around EUR 2.1 million in the reporting year (2016 financial year: EUR 2.9 million). This corresponds to 19% of total sales achieved in the 2017 financial year (previous year: 28%).

II. Business and General Conditions

1. Overall economic growth

In 2017, the global economy clearly gained momentum compared to the previous year. Based on the latest estimates, the global economy grew by around 3.7% in 2017, which was more strongly than expected. In 2016, the growth rate of real, price-adjusted gross domestic product (GDP) was still around 3.2%.[2] The increase in global economic output was driven by an increase in investment activity in industrialized countries and a higher production output in Asia, especially in the last months of the reporting year. According to information from the International Monetary Fund (IMF), the group of industrialized countries recorded real GDP growth of around 2.3% in 2017, which is well above the 2016 growth rate of around 1.7%. In the emerging markets, too, the economy grew at a stronger rate in 2017 than in 2016 (approx. 4.7% compared to around 4.4%).[3] Overall, the IMF expects the positive momentum of 2017 to continue in 2018. Supported by favorable financial conditions, such as a continued expansionary monetary policy, investment demand in particular should continue to increase, which should have a noticeable effect on the growth of economies with a high export share. In addition, the recent US tax reform should have a positive impact on growth in the US and, at the same time, on the demand development of key trading partners. Against this background, the IMF is predicting global economic growth of around 3.9% in 2018[4]. At the same time, however, the global growth forecast remains marked by a high level of uncertainty. Risks arise not only from the various geopolitical crises, but also, for example, from a possible normalization of monetary policy or the future political course of the United States with regard to the termination and renegotiation of important trade agreements. A further weakening of the Chinese economy, a renewed decline in oil and commodity prices, and uncertainty over the outcome of the Brexit negotiations could also have a negative impact on the economy. *aap* maintains only minor business relationships with the United Kingdom, both in terms of customers and suppliers. Brexit is therefore expected to have only a very minor direct impact on *aap*'s further business development.

In the eurozone, there was a noticeable increase in economic output in 2017. In particular, the continued improvement of the labor markets and favorable financing conditions, which supported the willingness to consume and invest, had a positive impact. According to estimates by the IMF, real GDP

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

[3] Internet source: http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018

[4] Internet source: http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018

in the eurozone increased by around 2.4% in 2017, significantly above the growth rate of the previous year (1.8%). Growth of 2.2% is expected for 2018.[5]

The German economy was also characterized by a strong upswing in 2017. According to the German Federal Government's annual economic report for 2018, the price-adjusted GDP increased by about 2.2% in 2017.[6] In particular, the more favorable global economic environment, which positively influenced both foreign trade and investment activity, had a positive effect. For 2018, the German Federal Government anticipates that growth will accelerate further to 2.4%.

The US economy has seen dynamic growth in 2017 and has picked up significantly. According to the IMF, real GDP grew at a rate of around 2.3% in the period under review[7]. In particular, the persistently low interest rate environment and rising income levels had a positive impact, which boosted domestic demand noticeably. In view of the outlook for 2018, the recent US tax reform is likely to have an additional positive impact on economic activity. Against this background, the US economy is expected to grow by 2.7% in 2018. With *aap* Implants Inc. *aap* has a significant US subsidiary. The distribution company for the North American market plays a key role in the growth strategy and, in particular in 2018, is expected to be one of the main drivers of the planned sales development. However, 2016 and 2017 were initially characterized by market development, so the company still did not generate any profit. Financial year 2018 will also be marked by advanced market development, so only a slight profit is expected on the basis of current planning. With increasing profit realization in the coming years, the US tax reform may have a direct positive impact on the results of *aap* Implants Inc. The tax reform may also positively impact the business development of large US companies, with which *aap* maintains and further aims global partnerships. As a result, this could also have an indirect positive impact on *aap*. However, the exact interdependencies are currently still difficult to predict.

2. Industry-related developments

The medical technology industry is a growth market and its prospects remain positive. The 2018 sector report on medical technology from the Bundesverband für Medizintechnologie e.V. (The German Medical Technology Association, BVMed) identifies the progress in medical technology, demographic change and increased health consciousness with a view to securing a better quality of life as factors which should further increase the demand for health services.[8] In view of the sales performance of manufacturing medical technology companies in Germany, total sales grew by 5.8% to EUR 29.2 billion in 2016 according to the German Federal Statistical Office (2015: EUR 27.6 billion). This positive development is also confirmed by the results of the latest BVMed autumn survey, which was conducted in August and September 2017. According to the survey, 83% of the 106 companies surveyed worldwide expect a better sales result in 2017 than in the previous year. On this basis, for the companies surveyed, a global sales growth of 5.9% compared to the previous year can be determined. In 2016, the calculated growth rate was 5.9% as well. With regard to the current 2018 fiscal year, 52% of respondents expect a better performance than in 2017.

[5]Internet source: http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018

[6] The German Federal Government's annual economic report for 2018 is available from the German Federal Ministry for Economic Affairs and Energy.

[7] Internet source: http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018

[8]The BVMed 2018 sector report on medical technology is available on request from the association's Press Center.

The situation regarding the German market is not quite as positive. For the German market, 73% of surveyed companies expect 2017 to provide better sales than 2016. As such, the adjusted sales growth of the companies analyzed by BVMed in Germany compared to 2016 is around 2.8%. In 2016, a growth rate of 4.0% was determined. The background to this decline, according to the results of the survey, seems to be the strong price pressure that companies are exposed to. The outlook for the year 2018 also shows a significant change to the global business situation. Thus, 34% of the companies surveyed expect a better business situation in Germany in 2018 than in 2017, while 20% anticipate a deterioration.

According to the 2018 sector report on medical technology from BVMed, the volume of the global market for medical technologies was approximately USD 320 billion in 2015 (primary source: Spectaris Yearbook 2017). Of these, the United States accounts for the largest share, accounting for approx. 38.8%, followed by China (approx. 12.2%), and Germany (approx. 9.3%). Within the European Union, German medical technology companies account for around EUR 26.2 billion of sales, representing the largest share of the total European sales volume (approx. EUR 90 billion).

According to estimates from Orthoworld Inc., the global orthopedic industry increased sales in 2016 by approximately 3.2% y-o-y to USD 48.2 billion (2015: USD 46.6 billion).[9] Annual growth rates of between 3.4% and 3.7% are expected for global sales of orthopedic products in the years from 2017 to 2021. Within orthopedics, the volume of global sales in the trauma segment increased by about 4.1% in 2016 compared to the previous year, standing at approx. USD 6.6 billion (2015: approx. USD 6.3 billion). In this segment growth rates of 4.2% to 4.7% are expected for the years 2017 to 2021. Based on current estimates, the sales mark of USD 7 billion with trauma products should therefore already fall by 2018. For the trauma sub-segment plates and screws analysts anticipate an average annual growth rate (CAGR[10]) of around 7.0% for 2017 to 2021[11].

3. Legal framework

Official registration and approval are a precondition for marketing medical products in every market in the world. As the basic aim is to market *aap* products all over the world, the quality management system is based on the requirements of harmonized international standards and European regulations, as well as national and international laws. The company is regularly audited and certified accordingly so that its products can be CE-marked and sold. In addition, a majority of the *aap* products are also approved by the US Food and Drug Administration (FDA). In addition, large parts of the portfolio hold approvals from the Chinese and Brazilian authorities (CFDA and Anvisa, respectively).

aap is certified according to the relevant, currently valid EN ISO 13485:2012 standard for manufacturers of medical devices and are also certified in accordance with the European Medical Devices Directive 93/42/EEC. In addition, the company is voluntarily certified according to the quality management requirements of EN ISO 9001:2008. All relevant environmental protection regulations are observed within the scope of business activities. Neither the manufacturing methods nor the products manufactured by *aap* pose a direct or an indirect risk to the environment.

[9] Source: “The Orthopaedic Industry Annual Report 2017”; available on request from Orthoworld Inc.
[10] CAGR = Compound Annual Growth Rate
[11] Internet source: https://www.researchandmarkets.com/publication/msyrkjc/4403373

Notified body DEKRA carried out its annual recertification audit in fiscal year 2017. As a result, all *aap* certificates issued by the notified body DEKRA retained their validity.

In general, *aap* continues to be faced with significantly increased requirements from the new EU Medical Device Regulation (MDR). The increased requirements of the European regulation is considered the biggest obstacle to the future development of the medical technology sector according to a survey conducted by the Bundesverband für Medizintechnologie e.V. (The German Medical Technology Association, BVMed).[12] The pressure on small and medium-sized enterprises will rise in particular. *aap* is addressing this changing regulatory environment with the extensive quality management program "Quality First". The program was launched at the beginning of the fiscal year 2017 and should lead to a sustainable improvement in the overall quality management system. The program, which is implemented company-wide, will be consequently continued in 2018.

III. Economic Report

1. Earnings Position

Sales and margin development and total operating performance

aap looks back on a successful first year as a pure player in trauma. This is reflected in the positive development of trauma sales. Here, the Company achieved growth in financial year 2017 of 20% compared to the previous year. Overall, **sales** increased from EUR 10.5 million in the 2016 financial year to EUR 10.9 million in the reporting period, equating to an increase of 4%. It should be noted that, in the 2016 financial year, *aap* generated sales of EUR 1.6 million with products and services outside the core area, which almost have not been realized in the reporting period (FY/2017: EUR 0.3 million) due to the divestments carried out in 2016 (*aap* Joints GmbH and *aap* Biomaterials GmbH). These sales revenues, which mainly stem from discontinued operations, no longer play a role in future business development and are therefore not subject to any regional analysis. Overall, *aap* was able to meet the sales target set for 2017 and was within the guidance of EUR 10.0 million to EUR 13.0 million.

In view of sales performance, financial year 2017 paints a positive picture, mainly characterized by the following effects: In North America, which is one of the core markets within the scope of our growth strategy, we were able to increase sales in the 2017 financial year compared to the previous year by 26% to EUR 3.1 million (FY/2016: EUR 2.4 million). In the distribution business, we even recorded an increase of 70% to EUR 2.5 million through our US subsidiary (FY/2016: EUR 1.5 million), while business with global partners selling our products under their own label or that of *aap* in the US fell from EUR 1.0 million to EUR 0.6 million. It should be noted in particular that, in the case of newly concluded cooperation agreements with global customers, a comprehensive initial order is placed in order to equip the respective hospitals within the scope of the contract with the systems, which is then followed in subsequent years by pure consumption business. All in all, we recorded a steady increase in sales in North America over the course of 2017 and we expect this momentum to continue in the coming quarters.

[12]The BVMed 2018 sector report on medical technology is available on request from the association's Press Center.

In Germany, we extended access to customers through numerous activities and achieved a sales increase of 3% in the 2017 financial year compared to the previous year. Internationally, we expanded our business with existing customers and also gained new customers, including in Saudi Arabia and Thailand. Besides this, the sales development in BRICS and SMIT states showed a positive trend towards stabilization. As a result, sales in the region international increased from EUR 4.1 million in the 2016 financial year by 26% to EUR 5.1 million in the reporting period.

For the 2018 financial year, the Management Board expects dynamic sales growth to continue, which is significantly above the average growth rate of the global trauma market. All markets shall contribute to the planned sales growth, with both distribution business and partnerships with global orthopedic companies (distribution networks, licensing deals as well as product development and approval projects) especially in North America as their main drivers.

The **total operating performance** includes sales revenue and changes in inventories as well as capitalized own and development services. With slightly higher sales revenues, total operating performance dropped by EUR 0.8 million to EUR 11.7 million (-6%) in the 2017 financial year.

One reason for this is the reduction in inventories of finished goods and work in progress (FY/2016: inventory build-up), while another, in comparison to the previous year, is the slightly reduced level of capitalized own and development costs. The development of inventories is very pleasing, as *aap* managed to partially generate sales in the 2017 financial year from the existing inventories.

In 2017, the **cost of materials** decreased significantly from EUR 3.6 million in the 2016 financial year to EUR 1.9 million. The same is true for the **cost of materials ratio** (with regard to sales revenues and changes in inventories), which also fell sharply to 18% during the reporting period (FY/2016: 33%). The background of this development is, on the one hand, the fact that compared to the previous year no temporary employees were employed any longer and, on the other hand, there was a significant reduction in procured services from third parties. As a result, the share of external services in the cost of materials improved to 7% in the 2017 financial year (FY/2016: 16%). One of the goals of our action plan that was launched in previous years, many parts of which have already been implemented, is to sustainably reduce production costs. In this regard, a reduction in the share of external services towards a higher degree of in-house manufacturing is essential to achieving an improvement in margins.

Based on the aforementioned developments and the sales growth realized in established and higher-margin markets, as well as a disciplined management of inventories, the **gross margin** (related to sales revenues, changes in inventories and cost of materials) increased from 67% in the previous year to 82% in the 2017 financial year.

In accordance with IFRS, *aap*, as a development-intensive company, capitalizes not only internally produced capital goods but also expenses of its own projects and development projects (**capitalized own projects**) for which approval and economically successful sales are highly likely. In financial year 2017, *aap* had EUR 1.3 million (FY/2016: EUR 1.4 million) of capitalized own and development services. The largest additions in this regard relate to the development of our silver coating technology, as well as the expansion of our LOQTEQ® portfolio to include additional plating systems for specific indication

areas or functions. After market launch, these capitalized development costs are depreciated over the products' useful life.

Other income, cost structure and result

Other operating income fell from EUR 1.0 million in financial year 2016 to EUR 0.8 million in the reporting period. The decline is mainly attributable to income from centralized services for *aap* Joints GmbH and *aap* Biomaterials GmbH, which was realized to a considerable extent in the 2016 financial year and was only realized to a significantly reduced extent during the reporting period due to the completed divestments of these companies. These will be completely eliminated in the 2018 financial year. In addition, the previous year included income from the dissolution of provisions and the limitation of liabilities amounting to EUR 0.2 million, with only an insignificant amount incurred in the 2017 financial year.

The fall in **personnel expenses** reflects the personnel measures implemented in 2016, which were carried out as part of the process to adjust the cost level to the sales flows expected in the future and the reduced company size. As a result, personnel expenses fell from EUR 8.7 million in the previous year to EUR 7.4 million in the 2017 financial year. The same can be said for the annual average number of employees, which fell from 148 in the 2016 financial year to 122 in the reporting period. The personnel cost ratio (in relation to total operating performance) fell from 70% in the previous year to 63% in the 2017 financial year as a result of reduced total operating performance and strongly reduced personnel expenses.

As at the reporting date of 12/31/2017, a total of 141 employees were employed at *aap* (12/31/2016: 155 employees).

Other operating expenses increased by EUR 0.4 million in comparison with the previous year, rising to EUR 9.4 million in the reporting period. This mainly concerns legal consulting fees amounting to EUR 0.3 million. Furthermore, non-recurring special effects amounting to EUR 1.2 million are included. These consisted of increased consulting expenses related to the extensive quality improvement program initiated at the beginning of the year ("Quality First" project) of EUR 0.4 million, the evaluation of various strategic alternatives to the increase the value of our company of EUR 0.2 million, one-off charges within the framework of voluntary product recalls at the beginning of the year of EUR 0.3 million, and increased recruitment costs of EUR 0.3 million. In contrast, the remaining cost items tended to decrease. Overall, the other operating expenses ratio (relating to the total operating performance) rose from 73% in the 2016 financial year to 80% in the reporting period.

Despite the aforementioned one-time burdens, *aap* recorded an **EBITDA** of EUR -6.2 million (FY/2016: EUR -7.9 million), which was also within the forecast of EUR -6.5 million to EUR -4.5 million. The main cause of this was the increased gross margin and the strongly reduced personnel costs.

As not-insignificant one-time effects are included in both financial years, a comparison on the basis of the **recurring EBITDA** (EBITDA without one-time effects) is useful:

in EUR million	FY/2017	FY/2016
EBITDA	**-6.2**	**-7.9**
"Quality First" project	0.4	0.0
Expenses on voluntary product recalls	0.3	0.0
Personnel measures (including consulting costs)	0.4	0.4
Evaluation of strategic options	0.2	0.0
Value depreciations on raw materials (FY/2016: non-core products)	0.2	0.5
Voluntary share buyback offer	0.0*	0.0
aap Joints transaction (recertification costs)	0.0*	0.1
Pre-operating costs US sales	0.0	0.9
Termination of LOQTEQ® license agreement (including consulting costs)	0.0	0.4
Recurring EBITDA	**-4.7**	**-5.6**

* Expenses in the reporting period <EUR 50k

Based on the above mentioned developments, the for one-time effects adjusted **recurring EBITDA** amounted to EUR -4.7 million for the 2017 financial year and reflects the aimed development: Focus on established markets with higher profit margins with simultaneous disciplined cost management to improve the operational performance.

The **scheduled depreciation** fell slightly from EUR 1.9 million in financial year 2016 to EUR 1.8 million in the reporting period. In addition, the investment in *aap* Joints GmbH was devalued by non-scheduled depreciation amounting to EUR 0.4 million in 2016.

EBIT in financial year 2017 was EUR -8.0 million (FY/2016: EUR -10.2 million).
The sharp fall in the **financial result** in the 2017 financial year, amounting to EUR -1.3 million (FY/2016: EUR 0.3 million), results from the recognition of unrealized currency effects from inter-company transactions within the financial result.

Overall, *aap* achieved a **net result** in financial year 2017 of EUR -9.3 million (FY/2016: EUR -9.3 million). Having taken currency differences recorded in the comprehensive income into account, the overall result is EUR -8.9 million (FY/2016: EUR -9.3 million).

2. Asset Position

aap's balance sheet total at the end of the 2017 financial year decreased by 21% compared to 12/31/2016 (EUR 63.9 million) to EUR 50.5 million.

The decrease in **non-current assets** as at 12/31/2017 of EUR 0.4 million compared to the end of the 2016 financial year is largely due to, in comparison to the planned depreciations, lower income from investments in property, plant and equipment and released cash securities for balances with banks pledged to third parties to secure financial liabilities, which are recognized in other financial assets. Capitalized development costs increased by EUR 0.7 million compared with the reporting date as at

12/31/2016, primarily as a result of development activities in the silver coating technology area and the scheduled expansion of the LOQTEQ® portfolio. The proportion of intangible assets to total assets stands at 23%, having risen slightly compared to year-end 2016 (12/31/2016: 17%).

Current assets decreased from EUR 41.8 million as at 12/31/2016 to EUR 28.8 million as at the reporting date and were influenced predominantly by the reduction in inventories and trade receivables, the reduction in other financial assets and the decrease in cash and cash equivalents. In line with the development of **other financial assets** under non-current assets, the stock value decreased year-on-year by released cash securities for balances with banks pledged to third parties to secure financial liabilities, as well as the maturity statement between current and non-current assets. In addition to the reduction of capital tied-up in inventories, another encouraging factor is the development of **trade receivables**, which were reduced to EUR 2.5 million with increased sales in 2017, thus also reflecting our strict approach to debtor management in the financial year. The above-mentioned developments are also reflected in the two key financial performance indicators – Days Sales Outstanding (DSO) and Inventory Turnover Rate – which are important for *aap*: both indicators improved respectively in the financial year to 85 days (FY/2016: 102 days) and 1.09 (FY/2016: 1.01).

Cash and cash equivalents fell in the 2017 financial year and amounted to EUR 13.3 million as at the reporting date (12/31/2016: EUR 23.8 million). In addition to funds to finance operations (EUR 5.4 million), investment expenditure (EUR 1.5 million), and repayment of loans (EUR 1.4 million), EUR 3.4 million drained for the voluntary share buyback. In addition, the Company received a total of EUR 1.3 million from released cash securities for bank balances pledged to third parties to secure financial liabilities and equity contributions in connection with the exercise of stock options. Together with the tied-up liquidity holdings under the current and non-current other financial assets, the **cash holdings** as at 12/31/2017 amounted to EUR 17.1 million (12/31/2016: EUR 28.9 million).

Based on the net result of EUR -9.3 million and the implementation of the share buyback program of EUR 3.4 million (cumulative effect in subscribed capital, capital reserve and revenue reserves), as at 12/31/2017, **equity** fell to EUR 42.6 million (12/31/2016: EUR 54.8 million). With total assets of EUR 50.5 million as of 12/31/2017 (12/31/2016: EUR 63.9 million), the equity ratio is almost unchanged at 84% (12/31/2016: 86%).

After the payment of the regularly scheduled loan repayments (EUR 0.9 million), **financial liabilities** fell from EUR 1.3 million as at year-end 2016 to EUR 0.3 million as at 12/31/2017. Likewise, **trade payables** fell from EUR 2.5 million at the reporting date in the previous year to EUR 1.8 million as at 12/31/2017, while **provisions** increased from EUR 0.4 million to EUR 0.7 million and **other financial liabilities** from EUR 2.1 million to EUR 2.7 million.

3. Financial Position

Starting from a net result after tax of EUR -9.3 million, the **operating cash flow** of *aap* was up to EUR -5.4 million in the 2017 financial year compared to the previous year (FY/2016: EUR -7.2 million). The main changes year-on-year can be summarized as follows:

- Improved operating result (EBIT)
- Working capital: Positive effects from consistent receivables management with reduced trade receivables (EUR 0.4 million) and inventories (EUR 1.4 million), as well as a countervailing effect from the reduction in trade payables of EUR 0.8 million
- The non-cash effect of EUR 1.6 million, which is reported under changes in liabilities, results mainly from the currency effect on the measurement of intragroup transactions of EUR 1.3 million and future repayment of subsidies of EUR 0.4 million

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

The **cash flow from investment activities** declined significantly to EUR -1.5 million in the 2017 financial year (FY/2016: EUR 29.8 million). Investments in development projects (EUR 1.3 million) and property, plant and equipment (EUR 0.7 million) stood against inflows from investment allowances of EUR 0.5 million. The cash flow from the previous year was mainly influenced by the high cash inflow from the sale of *aap* Biomaterials GmbH (inflow of EUR 33.9 million) and the cash backing of EUR 2.0 million which was used as collateral for a bank guarantee granted as part of the transaction, as well as the inflow of the purchase price for the remaining 33% stake in *aap* Joints GmbH.

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

- Payment for treasury shares acquired under the voluntary share buyback program in the amount of EUR 3.4 million (including ancillary costs)
- Repayments on loan contracts in the amount of EUR 0.9 million
- Repayments on finance leasing agreements in the amount of EUR 0.5 million
- Returns from released balances under pledged time deposits in the amount of EUR 1.3 million
- Cash inflows in equity in the amount of EUR 0.1 million due to the exercise of stock options

This resulted in a cash outflow of EUR 3.5 million from financing activities for the 2017 financial year (FY/2016: EUR 4.6 million).

Cash and cash equivalents therefore decreased as at the reporting date of the 2017 financial year to EUR 13.3 million (12/31/2016: EUR 23.8 million). In addition, EUR 3.8 million (12/31/2016: EUR 5.1 million) in balances with banks was recognized under other financial assets, as it was pledged or deposited as a security to the financing bank for bank guarantees granted to third parties within the framework of securitizing financial liabilities.

The **net credit balance** (the sum of all cash and cash equivalents minus all interest-bearing liabilities and taking into account restricted cash for financial liabilities) was EUR 12.7 million as at 12/31/2017 (12/31/2016: EUR 23.0 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 17.1 million as at the reporting date (12/31/2016: EUR 28.9 million).

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

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

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

In Berlin, the company develops, manufactures and markets all products under one roof. Most products are sold under the brand name "*aap*". While products in German-speaking countries are sold directly to hospitals, buying syndicates and hospital groups, the company uses a broad network of distributors in more than 25 countries at the international level. *aap* Implantate AG serves the North American market via its subsidiary *aap* Implants Inc. based in Dover, Delaware, USA as well as through partnerships with global orthopedic companies and distributors.

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

The main financial performance indicators for *aap* Implantate AG are Sales, EBITDA, Inventory Turnover Rate and DSO (Day Sales Outstanding). The main non-financial performance indicators in financial year 2017 are taken from the 2017 Management Agenda. It can be found in the section "Other indicators" of this report.

Earnings Position

Sales development and total operating performance

Sales fell from EUR 14.9 million in the previous year to EUR 10.8 million in financial year 2017. This includes sales of EUR 1.5 million (FY/2016: EUR 4.2 million) from intragroup deliveries to the US subsidiary *aap* Implants Inc. While intragroup deliveries were significantly higher in the previous year, primarily used to build up the sales business with distributors and sales agents in the US, the reporting year was marked by the replacement of used products (consumer business) and original equipment for the LOQTEQ® systems launched in the reporting year. In connection with the sale of the remaining 33% stake in *aap* Joints GmbH in December 2016, sales with this company fell to EUR 0.1 million in financial year 2017 (FY/2016: EUR 1.0 million) and will be entirely eliminated in 2018. In addition, in

the previous year the Company provided central services for *aap* Joints GmbH and *aap* Biomaterials GmbH in the amount of EUR 1.0 million, which were no longer realized or only realized to a very limited extent in 2017 due to the completed divestments (FY/2017: EUR 0.2 million). These sales will also be completely eliminated in 2018. If all of the aforementioned effects are excluded, *aap*'s sales growth resulted primarily from the expansion of business with existing customers and the acquisition of new customers.

The **inventory adjustment** remained unchanged at EUR -0.7 million. This is still a very welcome development, as some of the sales in the 2017 financial year were realized from existing inventories and resulted in a reduction in inventories.

Based on a slight decrease in other capitalized own work, **total operating performance** decreased from EUR 14.8 million in financial year 2016 to EUR 10.6 million in the reporting period, mainly as a result of lower sales revenues and the reduction in inventories.

Cost structure and result

Other operating income of EUR 29.0 million in the previous year includes the profit from the sale of *aap* Biomaterials GmbH in the amount of EUR 28.1 million. After elimination of this effect, other operating income fell from EUR 0.9 million in financial year 2016 to EUR 0.5 million in the reporting period, mainly due to lower income from exchange rate differences.

Cost of materials fell significantly from EUR 3.9 million in the previous year to EUR 1.9 million in the 2017 financial year, mainly due to the decision not to make use of any temporary employees, reduced external services, the reduction in inventories and the focus on established markets with higher margins.

The reduction in **personnel expenses** from EUR 7.9 million in financial year 2016 to EUR 7.0 million in the reporting period results primarily from the reduction in the number of employees as part of the adjustment of the cost structure to reflect expected future sales streams and the reduced size of the company in financial year 2016. As of 12/31/2017, the Company had 139 employees (12/31/2016: 151 employees).

Other operating expenses fell from EUR 9.7 million in the previous year to EUR 8.7 million in 2017. This includes non-recurring one-time effects in the amount of EUR 1.2 million (FY/2016: EUR 2.4 million). In financial year 2017, these expenses consisted of increased consulting expenses in connection with the extensive program launched at the beginning of the year to improve the entire quality management system ("Quality First" project) of EUR 0.4 million, the evaluation of various strategic alternatives for increasing the value of our company of EUR 0.2 million, one-time expenses in connection with the voluntary product recalls at the beginning of the year of EUR 0.3 million and increased personnel recruitment costs of EUR 0.3 million. In financial year 2016, costs of EUR 1.7 million were incurred in connection with the sale of *aap* Biomaterials GmbH. In addition, the sale of the remaining stake in *aap* Joints GmbH resulted in a book loss of EUR 0.4 million, while the premature termination of a license agreement with a co-developer of LOQTEQ® technology resulted in one-time expenses of EUR 0.4 million. When these effects are eliminated, other operating expenses increased to EUR 7.5 million in financial year 2017.

The EUR 0.1 million increase in **interest income** to EUR 0.5 million in the reporting period resulted primarily from intragroup loans granted to the US subsidiary.

As a result, *aap* Implantate AG realized an **annual result** of EUR -7.5 million in the 2017 financial year (FY/2016: annual profit of EUR 21.2 million), which, taking into account profit carried forward of EUR 8.5 million and the statement of the effects from the capital decrease, resulted in a balance sheet profit of EUR 1.0 million as of 12/31/2017.

Asset Position

aap Implantate AG's balance sheet total at the end of the 2017 financial year decreased by 18% compared to 12/31/2016 (EUR 67.1 million) to EUR 55.2 million.

Fixed assets increased from EUR 18.9 million in the previous year to EUR 19.4 million in financial year 2017. This was primarily impacted by the following effects: Intangible assets increased by EUR 0.9 million to EUR 10.6 million in the course of capitalizing own work and development costs, while fixed assets decreased by EUR 0.4 million due to lower additions from investments in fixed assets in relation to scheduled depreciation.

Inventories decreased from EUR 8.5 million in the previous year to EUR 7.8 million in financial year 2017 as a result of the reduction in inventories through sales and a reduction in work in progress as of the reporting date.

Trade receivables fell from EUR 2.6 million in financial year 2016 to EUR 1.9 million in the reporting period, primarily due to consequent management of accounts receivable, but also as a result of lower sales revenues.

Other assets include bank balances of EUR 3.8 million (12/31/2016: EUR 5.1 million) pledged in 2016 as collateral for financial liabilities to lenders or deposited as cash collateral for bank guarantees granted to third parties.

Based on the annual result of EUR -7.5 million and the implementation of the share buyback in the amount of EUR 3.4 million (cumulative effect in subscribed capital, capital reserve and revenue reserves), **equity** fell from EUR 59.4 million on the balance sheet date of the previous year to EUR 48.7 million on 12/31/2017. Consequently, the equity ratio remains high at 88%.

Provisions increased from EUR 1.9 million in the previous year to EUR 2.4 million in financial year 2017, reflecting primarily the provisions recognized for legal risks in 2017 and investment grants received in the financial year leading to a repayment obligation for other investment grants.

Liabilities to banks decreased from EUR 2.8 million to EUR 1.4 million as of 12/31/2017 as a result of scheduled repayments in the 2017 financial year.

Trade payables decreased from EUR 1.8 million as of 12/31/2016 to EUR 1.1 million at the end of the reporting period, reflecting the sharp decline in total operating performance.

Other liabilities rose from EUR 0.2 million in the previous year to EUR 0.7 million in the reporting period, primarily due to payment obligations for severance agreements.

Financial Position

Cash and cash equivalents as of 12/31/2017 came to EUR 13.0 million (12/31/2016: EUR 23.6 million). The decline resulted primarily from the voluntary share buyback, the financing of development activities and investments, the expansion of *aap* Implantate AG's operating business and the scheduled repayments of loans.

Together with the liquidity holdings bound under assets, the **cash holdings** as at 12/31/2017 stand at EUR 16.8 million (FY/2016: EUR 28.7 million).

Risks and Opportunities

The development of *aap* Implantate AG's operations is subject to essentially the same risks and opportunities as those of the *aap* Group. *aap* Implantate AG participates in the risks of its investments and subsidiaries in accordance with its respective equity interest. The risks and opportunities are presented in the "Risk and Opportunities Report" of this report.

Outlook

In view of *aap* Implantate AG's interrelationships with the Group companies and their significance for the Group, we refer to our statements in the "Outlook" section, which also reflect the forecasts for the parent company in particular. This also applies to both turnover and sales. We expect a negative EBITDA for *aap* Implantate AG in 2018, which should be significantly higher than in the 2017 financial year.

V. Other indicators

1. Significant development activities

Research and development in medical technology

The medical technology sector is widely regarded as dynamic and highly innovative. According to information from the 2018 sector report on medical technology compiled by the Bundesverband für Medizintechnologie e.V. (German Medical Technology Association, BVMed)[13], medical technology companies from Germany obtain approximately a third of their sales through products which are no older than three years. Medical technology companies also invest approximately 9% of their sales into research and development. As an innovation and research location, Germany is of particular significance for these companies. Also a look at the number of patent applications demonstrates the innovation strength of the medical technology sector. In 2016, for example, 12,263 patent applications were filed with the European Patent Office in Munich by the global medical technology sector, which was more than from any other technology sector. Compared to other countries, Germany is in second place with 1,323 applications, behind the United States (4,606) and ahead of Japan (1,102). Last but

[13]The BVMed 2018 sector report on medical technology is available on request from the association's Press Center.

not least, a study conducted by the German Federal Ministry of Education and Research (Bundesministerium für Bildung und Forschung) found that the overall research and development share in the production value of the medical technology sector is more than twice that of the industrial goods sector.

Development activities at aap

As a pure player in trauma, *aap* develops innovative platform technologies and products in response to unmet needs and challenges in traumatology, which means that the development area has an overriding importance for the Company. As a result, the Company undertook significant expenses for its development activities during financial year 2017. At December 31, 2017, 18% of 141 employees at *aap* worked in Development, Clinical Affairs as well as Regulatory and Quality Management (previous year: 19% of 155 employees). Furthermore, the share of sales spent on research and development in financial year 2017 was 13% (previous year: 17%) and therefore above the industry average of 9% (see above). The ratio of capitalized costs in relation to total costs was 83% in the reporting year (previous year 67%).

According to the BVMed 2018 sector report on medical technology[14], it is very important for medical technology companies to handle the ideas of users, doctors and nurses or nursing staff for new products and processes in a structured manner. For example, for 52% of new medical products, the ideas originally come from users. Consequently, almost all medical technology companies open up their innovation processes and almost 90% employ user ideas for product development frequently or very frequently. When it comes to development, *aap* also places great emphasis on a close cooperation with various academic institutions, such as research institutes or university hospitals. This is not only the case for new and further development of products, but also as part of clinical studies. Products are also often developed following the initiative of medical users. Another promising pillar for generating sales and earnings is going to be based on early-stage cooperation with market leaders in the areas of orthopedics and trauma. At the same time, this approach is intended to proactively secure existing technologies.

[14]The BVMed 2018 sector report on medical technology is available on request from the association's Press Center.

Innovations at *aap* form the foundation for continuous and sustainable value creation. With its innovative platform technologies, *aap* focuses on unmet needs and challenges in traumatology. The strategic IP portfolio of the company is geared towards securing these platform technologies and the resulting products:

Platform technologies		Primary products	Derivative products and areas of application
Anatomical Plating System LOQTEQ®	Monoaxial angular stable fixation technology (LOQTEQ®)	Anatomical plates for the upper and lower extremities and systems to correct leg misalignments and treat periprosthetic fractures (e.g. LOQTEQ® Tibia Plates, LOQTEQ® Humerus Plates, LOQTEQ® Osteotomy System)	Monoaxial angular stable fixation technology applied to implants from other manufacturers
	Polyaxial angular stable fixation technology (LOQTEQ® VA)	Anatomical plates for the upper and lower extremities to treat with multidirectional, angular stable screws (e.g. LOQTEQ® VA Radius System, LOQTEQ® VA Tibia Plates, LOQTEQ® VA Elbow System)	Polyaxial angular stable fixation technology applied to implants from other manufacturers
Antibacterial Silver Coating Technology		Silver-coated LOQTEQ® plates	e.g. cardiology, dentistry, medical instruments, etc.
Resorbable magnesium implant technology		Hydroxyapatite-coated interference screws, small plates and pins	e.g. facial surgery, sports medicine, pediatrics, etc.

Development activities in financial year 2017

In the LOQTEQ® area, *aap* concentrated primarily on completing the portfolio during the 2017 financial year, focusing in particular on polyaxial fixation technology and the foot and ankle areas. With polyaxial implants of the LOQTEQ® VA (VA = Variable Angle) product family, angular stable screws can be inserted at different angles, thus allowing for flexible fracture treatment. As a result, *aap* was able to successfully complete the development of the LOQTEQ® VA foot and ankle system as well as additional polyaxial LOQTEQ® systems during the reporting period. While first systems have already a FDA approval for the North American market, *aap* plans approval for the European market during the financial year 2018. This is in part due to the significant increase in regulatory requirements from the new EU Medical Device Regulation (MDR), which poses major challenges for both companies as well as notified bodies. As a result, the periods between completed development and approval of new products for the European market have increased.

In the field of silver coating technology, the focus during the financial year 2017 was on the preparation of the human clinical study for the aimed CE and FDA approval. Here the coordination regarding the scope and design of the study with the authorities involved was paramount. In addition, a renowned internationally active CRO (Clinical Research Organization) with extensive experience in approval

studies of this kind was selected to support *aap* during the remaining process. Together with the CRO and a group of well-known physicians the study design has been drawn up and various documents for the involved authorities have been prepared. Furthermore, many large and well-known university hospitals in different countries have already been lined up to carry out the human clinical study. At the same time *aap* has made great progress on internal validation of processes and products. Furthermore, the team responsible for the development and approval of the silver coating technology at *aap* was reinforced by experienced specialist and management staff from leading global companies during the reporting period. Parallel to the preparations of the human clinical study, the company continuously held discussions with different global companies about potential joint development projects in the area of silver coating technology. *aap* aims to start the human clinical study for the planned CE and FDA approval of its silver coating technology in financial year 2018.

In the area of resorbable magnesium implant technology, *aap* in particular focused on further technological development of the resorbable implants during the financial year 2017. In this connection the Company succeeded in developing different new magnesium alloys leading to a significant improvement of corrosion behavior. For these alloys the corresponding patent applications have been filed as well.

2. Marketing & Sales

As part of its marketing and sales activities during the financial year 2017, *aap* was present with its products and technologies at various national and international trade fairs and congresses. In this context, especially the German Congress of Orthopedics and Trauma Surgery (DKOU) 2017 in Berlin and the AAOS (American Academy of Orthopaedic Surgeons) in San Diego, California, both representing some of the most important events for *aap*. At the DKOU, besides the newly developed LOQTEQ® products, in particular the antibacterial silver coating technology of the Company was paramount. The innovative platform technology was a central element of the booth concept and was introduced during a lunch symposium and during the "DKOU BrandNew" event. Furthermore, *aap* attended Arab Health in Dubai, the 18th EFORT Congress (European Federation of National Associations of Orthopaedics and Traumatology) in Vienna, the 36th EBJIS Conference (European Bone and Joint Infection Society) in Nantes, and the 33rd OTA annual conference (Orthopaedic Trauma Association) in Vancouver. In addition, *aap* organized various training courses and workshops for its customers and product users in financial year 2017. One event, which is fully established by now and receives much positive response from doctors and distributors, is the International Osteosynthesis Trauma Course. Consequently, the event was held twice last year in proven collaboration with the Giessen University Hospital under the auspices of university professor Dr. Christian Heiß. Furthermore, *aap* worked with its Spanish distributor to organize the tenth version of its basic course in Osteosynthesis Trauma in Berlin during the reporting period.

3. Employees

At December 31, 2017, a total staff of 141 were employed by *aap*, and thus 14 less than on the reporting date of the previous year (155 employees).

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

In March 2017, *aap* concluded a distribution agreement with the US medical technology company Integra LifeSciences for the LOQTEQ® radius system. According to the agreement, the non-exclusive distribution takes place in the entire territory of the United States.

The share purchase agreement over the sale of 100% of the shares in *aap's* subsidiary *aap* Biomaterials GmbH concluded during the previous year was supplemented with an addendum in May of 2017, which contains provisions regarding the guarantee period.

As part of the preparation of the human clinical study for its antibacterial silver coating technology, *aap* entered into an agreement for consulting services in advance of the human clinical study ("pre-study consultancy") with a provider specialized in clinical studies in September 2017.

In November 2017, *aap* concluded an agreement with a research institute which deals with the examination of the properties of a silver-coated LOQTEQ® implant compared to an uncoated LOQTEQ® plate regarding the factors fracture healing and efficiency.

aap entered into a final agreement with the acquirers of the former subsidiary *aap* Joints GmbH in December 2017, which regulates the termination of any contractual relationships and settlement of all possible mutual claims.

Two loan agreements made with a leading German financial institution on installment repayment loans, each amounting to EUR 1 million from May 14, 2014, and last amended on March 29, 2016, were settled through repayment on December 31, 2017.

5. Financial and Non-Financial Performance Indicators

Financial performance indicators

In the management of the Company, the *aap* Management Board focused primarily on the financial performance indicators **Sales, EBITDA, Inventory Turnover Rate**[15] and **DSO**[16] (Day Sales Outstanding = turnover rate of receivables).

During financial year 2017, the key figure **DSO** should be decreased. Here, due to a consequent receivables management, *aap* reached a significant improvement to 85 days (FY/2016: 102 days).

Inventory turnover rate could be increased as targeted to 1.09 (FY/2016: 1.01) thanks to the realized sales growth with a stock reduction at the same time.

In light of the key indicator **sales**, *aap* aimed at a value between EUR 10.0 million and EUR 13.0 million for 2017. In spite of the divestments made in 2016 and the consequent loss of sales revenues realized with these companies, the company registered an increase in sales of 4% to EUR 10.9 million (FY/2016: EUR 10.5 million) in the reporting period and was therefore able to achieve the set target. Overall, *aap*

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

looks back on a successful first year as a pure player in trauma which is reflected by the pleasing development of trauma sales. *aap* increased trauma sales in financial year 2017 year-on-year by 20% to EUR 10.6 million (FY/2016: EUR 8.9 million). Significant growth drivers were the distribution business in North America with a sales increase of 70% and the expansion of the existing business as well as the acquisition of new customers in international markets.

Regarding the financial performance indicator **EBITDA**, *aap* was also able to achieve the set target, and despite negative one-time effects, realized a value of EUR -6.2 million which was within the guidance of EUR -6.5 million to EUR -4.5 million. That constitutes an EBITDA improvement by EUR 1.7 million compared to the financial year 2016 (EUR -7.9 million). Adjusted by one-time effects Recurring EBITDA improved to EUR -4.7 million in financial year 2017 (FY/2016: EUR -5.6 million). For more details regarding the distinction between EBITDA and Recurring EBITDA please refer to the section III. Economic Report.

Non-financial performance indicators

The main non-financial performance indicators of the financial year 2017 are taken from the Management Agenda 2017, in which the Management Board specified its targets in strategic and operational areas of activity. The targets set in the context of the Management Agenda as well as the corresponding results are outlined below. In terms of a consistent and stringent financial reporting the financial performance indicators as well as further financial targets are listed again here as these have been a fixed component of the Management Agenda 2017.

Accelerating value-based innovations		
Targets of the Management Agenda 2017	**Results of the Management Agenda 2017**	**Target reached?**
LOQTEQ®: Completion of LOQTEQ® portfolio with a focus on polyaxial fixation technology as well as foot and ankle	Successful completion of the development of the LOQTEQ® VA foot and ankle system as well as additional polyaxial LOQTEQ® systems; while first systems have already a FDA approval, *aap* plans CE marking for 2018 inter alia due to significantly increased regulatory requirements (MDR)	Partly
Silver coating technology – Application on LOQTEQ®: Decisive steps regarding CE and FDA approval with focus on clinical study	Preparation of the human clinical study with a focus on coordination of scope and design of the study with authorities; renowned CRO selected with which study design was drawn up, various documents for the involved authorities were prepared and many large and well-known university hospitals in different countries for carrying out the clinical study were lined up; *aap* team reinforced with experienced specialist and management staff from leading global companies	Yes

Silver coating technology – Development projects with global companies: Initiation of joint product development and product approval projects	Discussions held with different global companies about potential joint development projects; no project initiated to date	No

Enhancing market access		
Targets of the Management Agenda 2017	**Results of the Management Agenda 2017**	**Target reached?**
Established countries: Focus on DACH, Western Europe, and North America as key markets	Significant y-o-y sales growth in North America (+26%) with distribution business as main driver (+70%) of the total sales development; y-o-y sales increase in Germany (+3%); in the rest of Europe sales below previous year level due to one-time effects and initial business in 2016	Yes
Emerging countries: Stabilization of sales development in BRICS and SMIT states	Overall significant sales increase in BRICS and SMIT states with sales growth in Brazil, China, Mexico, and Indonesia	Yes
Global partnerships: Distribution networks and licensing deals with global orthopedic companies	Distribution agreement for LOQTEQ® radius system concluded with US medical technology company Integra LifeSciences	Yes

Optimizing operational efficiency		
Targets of the Management Agenda 2017	**Results of the Management Agenda 2017**	**Target reached?**
Quality First: Comprehensive program to improve the entire quality management system	Company-wide quality improvement program with a focus on significantly increased regulatory requirements (MDR) initiated and substantial progress achieved	Yes
Production efficiency: Reduction of manufacturing costs and increase of ability to provide timely deliveries	Due to extensive expenditures in quality management against the background of significantly increased regulatory requirements (MDR) and lower utilization of production capacity manufacturing costs could not be further reduced; domestic delivery capacity could be held at constant high level of 90% within one day	No
Working capital: Optimization of working capital management with a higher inventory turnover and a reduction of the figure DSO (days sales outstanding)	Inventory turnover rate increased to 1.09 (FY/2016: 1.01) thanks to sales increase with stock reduction at the same time; DSO significantly reduced to 85 days (FY/2016: 102 days) due to a consequent receivables management	Yes

Realization of financial targets		
Targets of the Management Agenda 2017	**Results of the Management Agenda 2017**	**Target reached?**
Sales and EBITDA: Sales between EUR 10.0 million and EUR 13.0 million, and EBITDA between EUR -6.5 million and EUR -4.5 million	Sales at EUR 10.9 million and EBITDA at EUR -6.2 million in FY/2017	Yes
Costs: Further optimization of the cost structure with the aim of realizing additional saving effects	Personnel costs significantly reduced by approx. EUR 1.3 million from 2016 to 2017; after deduction of one-time effects decrease in other costs by approx. EUR 1.2 million	Yes
Innovations: Maintenance of a freshness index of at least 20%	As *aap* plans the CE mark for the products developed in 2017 inter alia due to significantly increased regulatory requirements (MDR) for 2018, a Freshness Index of at least 20% could not be maintained	No

VI. Risk and Opportunity Report

1. Risk Management System

aap sees itself as an internationally oriented and active company naturally confronted with a variety of risks and opportunities that may influence the business development and consequently the share price. The Company has therefore designed and implemented a comprehensive risk management system. This risk management system is primarily used to achieve the following **objectives**:

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

Explanation of the Risk Management Process:

The risk management system used by *aap* is an integral and essential part of corporate management and is therefore a **responsibility of the Management Board**. Generally, potential risks that could jeopardize the continued existence of the Company are regularly recorded, systematized and analyzed within the scope of the risk management process, whereby the respective probabilities of occurrence and possible damage potentials are particularly determined. The analysis of opportunities is not part of *aap*'s risk management system. Specific countermeasures are developed as part of the **risk management strategy**. With the help of these countermeasures, the individual identified and assessed risks are actively managed or are reduced to an acceptable level within the scope of the intended business development. The actual risk management strategy for the 2017 financial year is therefore described in Section **3. Presentation of the principal Risks and Opportunities**.

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

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

- **Certified quality management system**: Clearly structured and documented processes in quality management and quality control are a prerequisite for the approval and marketing of medical products. The aim is risk prevention. Quality management systems used by the Company are certified by DEKRA (*aap* Implantate AG, Berlin).
- **Controlling instruments**: The Controlling division of *aap* regularly informs the Management Board, Supervisory Board and other decision-makers of the Company regularly and in a timely manner using income, assets and liquidity illustrations and figures showing the economic situation of the Company and the status of potential risks.

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

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

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

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

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

- Accounting policies for particularly relevant accounting regulations, both at Group level and in the individual Group companies
- Involvement of external experts – if required
- Use of suitable, extensively uniform IT financial systems and application of detailed authorization concepts to ensure authorizations appropriate for tasks
- Segregation of tasks between the entry of procedures and their review and approval

- Clear assignment of important tasks by planning operational accounting processes – e.g. coordinating assets and liabilities using balance confirmations
- Consideration of the risks in the financial statements which are identified and assessed in the risk management system, to the extent required by existing accounting regulations
- Strict powers of disposition when authorizing contracts, credit notes and similar, in addition to a consistently implemented “four-eyes principle”
- Allocation instructions for significant accounting transactions
- Clear instructions for the stock inventory process and the capitalization of development costs
- Regular training for employees involved in the consolidated accounting process

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

3. Presentation of the principal Risks and Opportunities

A) Risks

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

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

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

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

Individual risks are assigned to the following categories:

- Market, Competition, New Products and Technologies
- Approval of Products
- Patents and Intellectual Property
- Dependence on Customers and Suppliers
- Product Liability Risks
- Capitalization of Development Costs
- Personnel Risks

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

Market, Competition, New Products and Technologies

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

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

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

Approval of Products

Strict licensing requirements apply in the medical technology and health care sectors, which vary from country to country. The requirements for bringing medical devices to the market for the first time are steadily increasing and, with them, the requirements of the *app* quality management system. In this regard, *aap* has been faced with more stringent requirements specifically as a result of the new EU Medical Device Regulation (MDR), which entered into force in May 2017. They present major challenges to both companies and notified bodies. On the one hand, the notified bodies currently do not have sufficient inspection capacities since they have not yet been granted MDR certification by the national regulatory authorities to test companies' products accordingly. On the other hand, it is likely that there will be fewer testing bodies in Europe in the future as some smaller authorities may not be able to or want to meet the increased requirements.[17] As a result, the periods between completed development and approval of new products for the European market have increased. The increased requirements of the European regulation are considered the biggest obstacle to the future development of the medical technology sector according to a survey conducted by the Bundesverband für Medizintechnologie e.V. (The German Medical Technology Association, BVMed)[18]. The pressure on small and medium-sized enterprises will rise in particular. Furthermore, so-called hybrid products with

[17] Internet source: https://www-nzz-ch.cdn.ampproject.org/c/s/www.nzz.ch/amp/wirtschaft/europaeische-medtech-branche-fuerchtet-verspaetete-zulassungen-ld.1353386

[18] The BVMed 2018 sector report on medical technology is available on request from the association's Press Center.

a pharmaceutical character such as *app*'s innovative silver coating technology require, in addition to a Notified Body, the consultation of a pharmaceutical body as part of the approval process, which additionally increases requirements. A refusal to grant licenses, licensing delays or the withdrawal of licenses affecting the Company's products could have a negative impact on future sales and profits of *aap*. The Company considers the gross risk in terms of probability to be moderate, with a moderate potential level of damage. The Company mitigates this risk by tracking developments in the field of licensing requirements with a high degree of accuracy and by monitoring regulatory changes within the scope of its implemented quality management system in great detail. One example of this is *aap*'s comprehensive quality management program "Quality First", which was initiated at the beginning of the 2017 financial year. The Company-wide program aims to address the changed regulatory environment in light of the EU Medical Device Regulation and lead to a sustainable improvement in the entire quality management system. In this regard, substantial progress was made during the reporting year. Furthermore, *aap* mitigates this risk by continuing to expand in the field of regulatory and clinical affairs and through the increasing internationalization of sales in order to cover increased costs with higher production volumes. Furthermore, the Company is already consulting the regulatory authorities in new product- cases that are real innovations, prior to the submission of the application for approval.

Patents and Intellectual Property

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

Dependence on Customers and Suppliers

In 2017, *aap* generated 19% (previous year: 28%) of its sales with the Company's three largest customers. Consequently, the short-term absence or potential insolvency of one of the three largest customers could endanger the earnings and financial position of the Company. *aap* considers the gross risk in terms of probability to be moderate, with a moderate potential level of damage. *aap* is mitigating this risk by expanding its sales organization, along with further internationalization and the acquisition of additional new clients (stability, sales strength, financial strength). In addition, the Company is increasingly ensuring its cash flows are hedged in large part or in whole by means of advance payments, bank guarantees or letters of credit and also took out credit insurance (bad debt) in financial year 2017. In this regard, *aap* was able to significantly reduce DSO[19] (Day Sales Outstanding = turnover rate of receivables) to 85 days in financial year 2017 due to a strict debtor management (FY/2016: 102 days).

[19] Definition of DSO: DSO = Accounts receivable / sales * 365.

In response to the macroeconomic developments in the BRICS and SMIT states, which recorded comparatively weak economic development in 2015 and 2016 following relatively high growth rates in the previous years, *aap* increased its focus on established markets such as North America, Germany and further European countries. In this regard, the Company successfully further increased the joint sales share from North America and Europe in financial year 2017. During the reporting period, the Company generated around 65% of its total sales in North America and Europe. Nonetheless, there is always a risk of economic downswings in *aap*'s key markets. Unfavorable macroeconomic developments in these markets, which are important to *aap*, may cause the economic conditions offered to individual customers to deteriorate, which could lead to a decrease in sales and payment behavior to deteriorate, leading to payment default. The Company assesses the gross risk in terms of probability to be moderate, with a moderate potential level of damage. *aap* mitigates this risk by increasingly ensuring its cash flows are hedged in large part or in whole by means of advance payments, bank guarantees or letters of credit and also took out credit insurance (bad debt) in financial year 2017.

In addition to the products developed and produced within the Group, *aap* also rounds off the product portfolio by trading goods (trauma complementary biomaterials). Various *aap* products are developed by third-party suppliers if in-house production expertise is not available (certain instruments such as carbon fiber based target devices). Furthermore, certain production steps are provided as services by third parties (e.g. grinding of drill blanks). Such partnerships involve increased dependence on these suppliers' quality and readiness to deliver. The Company considers the gross risk of negative influences of this dependence in terms of probability to be low, with a low potential level of damage. The Company accepts this risk by strategically cooperating with a few qualified suppliers with consistent quality reviews in order to secure product quality.

Product Liability Risks

The products of *aap* are intended for insertion into the human body and, in some cases, the products remain inside the body. As a result of different healing properties and varying experience of the doctors using the products, the malfunction of these products cannot be completely ruled out. To date, no significant claims for damages on the basis of product liability have been made against the Company. However, this cannot be ruled out for the future. *aap* considers the gross risk in terms of probability to be low, with a moderate potential level of damage. The Company mitigates this risk with strict quality controls and product liability insurance in the scope customary in the sector. There is a residual risk that the existing insurance coverage is not sufficient for protection against potential claims, particularly in the USA. Since *aap*'s sales activities are increasingly focused on established markets such as North America and it is generating a growing share of sales there, this risk will increase further.

Capitalization of Development Costs

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

impairment requirements are to be immediately recorded as extraordinary amortization in the statement of income in the year of occurrence.

Capitalized development projects must be subject to scheduled amortization over the respective duration of use upon completion of their development and initial use. The current amortization periods are between ten and 15 years. Management continually evaluates whether these amortization periods correspond to the estimated durations of use or if adjustments need to be made (e.g. shorter amortization periods). With regard to the development of the amortization of intangible assets, in particular capitalized development projects, it appears that these have increased steadily over the past few years due to the market maturity of the projects. *aap* estimates the gross risk of undesirable developments or project cancellations in terms of probability to be low, with a low potential level of damage. *aap* has implemented comprehensive measures and processes to avoid negative developments in project cancellations. These include, among other things, collaborations with reputable and leading international scientists and physicians, for example, during the development of new trauma plate systems, the silver coating of trauma products, and the development of medical devices made of resorbable magnesium. It is our clear understanding that in the future, the income effect from capitalized development projects for the period of development until the end of their economic useful life should be balanced.

Personnel Risks

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

Data Protection

Major data loss could result in serious interruptions to business operations, including production. Data abuse could also lead to a loss of important expertise and consequently the Company's competitive advantages. *aap* considers the gross risk to be low in terms of probability, with a moderate potential level of damage. The Company mitigates these risks by employing an external data protection officer and regularly instructing workers. A high level of data protection was achieved here during the reporting period. The proportion of processed personal data was reduced by optimizing processes. A majority of employees were instructed in the field of data protection. Employees made an effective commitment to maintain data confidentiality in accordance with Section 5 of the Federal Data Protection Act (BDSG). This process is maintained on a continual basis to guarantee that data protection remains at a high level. The rights of individuals, in particular with regard to the right of those affected to be kept informed, are implemented by the data protection officer in collaboration with the relevant departments. In addition, a number of extensive measures is currently being taken

with regard to the new EU General Data Protection Regulation. The aim is to satisfy the increased requirements set out in the Regulation, which comes into effect at the end of May 2018, across the Company at an early stage. Furthermore, *aap* extensively renewed the entire IT infrastructure in the 2017 financial year. This led to a significant improvement in data availability, ease of validation, contingency planning and a reduction in maintenance costs.

Legal Risks

A contractual partner has been asserting claims of approx. EUR 2.0 million out of court from a former subsidiary since the end of 2016. The assertion is that claims for damages arose due to the fact that the contractual product was temporarily not recertified. The contractual product was recertified by the notified body in the course of 2017 and has since been remarketed. Based on corresponding contractual agreements, the Company started to defend against the alleged claims. As there had been no new developments in this regard as compared with December 31, 2016, the assessment of the legal risk has not changed from that at the previous year's reporting date. For the expected future legal and consulting expenses associated with this, we recorded a corresponding risk provision as early as December 31, 2016.

With regard to the legal risk mentioned before, the purchaser of the former subsidiary filed a claim for payment of approx. EUR 2.0 million against the Company by way of arbitration in November 2017. This is justified by a corresponding payment obligation for the Company, purportedly resulting from the share purchase agreement, to indemnify the purchaser for third party claims against the former subsidiary. For the expected future legal and consulting expenses associated with this, we have recorded a corresponding risk provision.

In December 2017, a former distributor of the Company filed a claim for rescission and damages of approximately EUR 1.3 million against the Company. The claims are based on an alleged non-saleability of the contractual products due to missing and owed registration support on the part of the Company. The Company has recorded a corresponding risk provision for the expected future legal and consulting expenses associated with this.

At the end of December 2017, a claim for damages of approximately EUR 0.6 million was asserted against the Company by its Lessor with default summons. The background to this is the claim that, on the basis of the rental contract agreements, the Company would have a duty to pay compensation for costs incurred through the implementation of regulatory requirements. We have recorded a corresponding risk provision for the expected future legal and consulting expenses associated with this.

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aap faces **interest rate risks** resulting from borrowings and investments. The Company considers the gross risk in terms of probability to be high, with a low potential level of damage. The Company mitigates these risks with Group-wide cash management and the completion of primary financial transactions. Interest rate and price change risks are managed with a combination of different maturities and fixed and variable-rate positions. In the case of interest-bearing liabilities, all liabilities have a fixed rate. Consequently, as at 12/31/2017, around 100% (previous year: 100%) of the borrowed capital had a fixed interest rate. Changes to market interest rates only have an impact if these financial

instruments were to be entered onto the balance sheet at fair value. However, this is not the case. Due to the fact that as at 12/31/2017 and 12/31/2016 all liabilities had fixed interest rates no sensitivity analyzes were performed for the floating rate liabilities.

In addition, *aap* is also exposed to risks from **non-payment of accounts receivable**. The Company considers the gross risk in terms of probability to be moderate, with a low potential level of damage. The Company mitigates these risks through the active management of receivables. For this purpose, *aap* also creates sufficient risk provision in the form of specific and general allowances (FY/2017: EUR 595,000, previous year EUR 539,000). Furthermore, the Company took out credit insurance (bad debt) in financial year 2017 and, as part of its sales activities, is focusing on established markets such as North America, Germany and Western Europe.

aap faces **price risks** at the client end. The Company estimates the gross risk in terms of probability to be low, with a low potential level of damage. The Company mitigates these risks by switching sales to product innovations with higher margins that are developed and produced in-house. Moreover, the majority of customer contracts include price adjustment clauses in favor of *aap*.

The Company is also exposed to **liquidity risks**. Among other things, these result from a lack of funding sources. We face a liquidity risk with a healthy mix of short- and long-term credits. Based on the significant cash inflow in financial year 2016 the Company does not rely on external financing in the mid-term. The gross risk in terms of probability is estimated as low, with a low potential level of damage. Essentially, *aap*'s aim is to reach critical mass and turn a profit as soon as possible through sales growth and thereby to attain the corresponding self-financing capacities. However, if sales were to develop differently than anticipated or if the silver coating technology does not result in the expected marketing success, additional financing might be required in the coming years. The Company estimates the risk of having no access to an appropriate source of financing in such a case as low. Firstly, *aap* had no net debt at the end of 2017 and had a net balance (total of all cash and cash equivalents less any interest-bearing liabilities and taking into account restricted cash for financial liabilities) of EUR 12.7 million. The company's equity ratio as of 12/31/2017 was also 84%, significantly above the market average. Lastly, *aap* has sufficient collateral (e.g. inventories and receivables from deliveries and services) to implement any loans. Overall, *aap* assumes that, when maintaining the current growth momentum, it will be able to achieve the planned sales growth and therefore reach breakeven point and attain the corresponding self-financing capacities.

In the 2017 financial year, *aap* generally only arranged internal foreign currency hedging, as there was only an insignificant **currency risk**. Going forward, however, due to higher US-dollar sales, *aap* plans to arrange external hedging for these receivables.

Summary of the Risk Situation of the Company

Overall, the previously reported individual risks have no effect on the survival of *aap*. There are no further dependencies between risks to the extent that the mutually reinforcing effects may result in a threat to the existence of the Company. The risk-bearing capacity of the Company is thus given. The Management Board will continue to carefully monitor existing and new risks in the future and will, where appropriate, take countermeasures to ensure that the risks for *aap* remain within certain limits.

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

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

B) Opportunities:

In addition to risks, *aap* regularly identifies and assesses the opportunities of the Company. In principle, opportunities could arise as a result of the development of medical standards or the market launch of new products. Through close dialogue with the users of the Company's products, *app* will continue to harness opportunities quickly and, additionally, create new sales potential.

Opportunities through Positive Economic Development

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

Opportunities through Growth Strategy

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

Opportunities through Research and Development

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

Opportunities through International Presence

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

Financial Opportunities

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

Opportunities through Employees

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

VII. Remuneration Report

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

Management Board Remuneration

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

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

The contracts of Chief Executive Officer (CEO) Bruke Seyoum Alemu and Chief Financial Officer (CFO) Marek Hahn (CFO) valid in financial year 2017 ran until December 31, 2017. Both Management Board employment contracts were extended early by a Supervisory Board resolution in financial year 2017 by a further three years until December 31, 2020. The new version applies from January 1, 2018.

The following rules apply to Management Board remuneration until December 31, 2017:

The total remuneration consists of a fixed component and a performance-related variable component. The performance-related variable component corresponds to a maximum of 33% of total remuneration, excluding the newly agreed special bonus (see below). The fixed component ensures a basic remuneration that enables the individual Management Board member to perform his duties in the best interests of the Company and to fulfill his obligations with the due care and diligence of a prudent businessman without becoming dependent on attaining only short-term performance targets. The variable component, in contrast, which depends inter alia on the Company's economic result, ensures a long-term effect of the behavior incentives.

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

The quantitative targets account for 90%. The reference values for the quantitative variable salary component are the sales and EBITDA parameters determined for the calendar year 2017, with a weighting of 50% each. In the previous year the determined parameters were sales and cash flow with a weighting of 50% each.

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

50% of the quantitative bonus is paid in equal parts after the Annual General Meeting in the second and third year after the bonus year.

If the results for the year after the bonus year and / or the second year after the bonus year are more than 30% below the quantitative target, the quantitative part of the bonus that has been withheld will be forfeited. The bonus for 2017 could therefore be reduced if the targets are not met in 2018 and 2019. The bonus is only forfeited in full if both quantitative targets are not met.

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

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

Furthermore, the Company pays a fixed annual amount into a reinsured provident fund to build up a company pension scheme (contribution-based benefit without minimum performance) for every Management Board member. The members of the Management Board already receive an irrevocable subscription right to insurance benefits before reaching the statutory non-forfeiture period. In accordance with the remuneration system, the members of the Management Board are entitled to a company car for unlimited use, to accident insurance and to an allowance amounting to half the private health and nursing care insurance premiums up to the employer's maximum rate if there is a statutory health and nursing care insurance obligation. In addition, Mr. Alemu receives half of the relevant maximum contribution rate for statutory pension insurance each month.

As part of the extension of the term of office of the Chief Executive Officer (CEO) Bruke Seyoum Alemu and the Chief Financial Officer (CFO) Marek Hahn by resolution of the Supervisory Board in financial year 2017 and the simultaneous rewording of the employment contracts, with effect from January 1, 2018, a special bonus for specific, extraordinary predefined transactions has been agreed, which was also valid for current employment contracts until December 31, 2017 by way of a supplementary agreement. Depending on the transaction, the special bonus is calculated based on a fixed percentage of a certain calculation basis. No such bonus transaction occurred during the reporting year. Under certain conditions, a follow-up protection was agreed for individual bonus-relevant transactions, which regulates the claim to the special bonus if the transaction is concluded within 18 months after the Management Board has departed. This special bonus consists of variable compensation components, which, contrary to the recommendations of Section 4.2.3 para. 2, sentence 3 and sentence 6 of the German Corporate Governance Code in its version dated February 7, 2017, neither have a capped maximum amount nor a multi-year calculation basis. The Supervisory Board is of the opinion that the relevant remuneration elements, which include the payment of a special allowance only in the case of certain extraordinary events, provide an incentive for the Management Board in the best interests of the Company. The hereby intended alignment of the interests of shareholders and Management Board members would be undermined by imposing a ceiling on the amount. A multi-year calculation basis is precluded in the case of compensation to be granted only when particular special events occur. In connection with this special bonus, a special right of termination was agreed for certain cases, which also applies if the conditions had already been met by December 31, 2017. Accordingly, the Management Board members are first entitled to terminate the employment contract after a period of twelve months after completion of the respective transaction with a period of fourteen days to the end of the month.

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

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

Management Board remuneration in the financial year 2017 was as follows:

	Remuneration components				
	Performance-unrelated	Performance-related	With long-term incentivizing effect	Total 2017	Total 2016
	KEUR	KEUR	KEUR	KEUR	KEUR
Bruke Seyoum Alemu, CEO	321	116	22	459	470
Marek Hahn, CFO	230	82	28	340	331
	551	198	50	799	801

Furthermore, both Management Board members were granted stock options under various stock option programs. Specifically, on December 31, 2017, both Management Board members had stock options from the following stock option programs with the corresponding conditions:

2010 Stock Option Program

On December 31, 2017, Bruke Seyoum Alemu had 150,000 stock options and Marek Hahn 121,000 stock options from the 2010 stock option program. The main conditions of the 2010 stock option program are as follows:

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

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

2015 Stock Option Program

On December 31, 2017, Bruke Seyoum Alemu had 89,000 stock options and Marek Hahn 61,000 stock options from the 2015 stock option program. The main conditions of the 2015 stock option program are as follows:

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

2017 Stock Option Program

On December 31, 2017, Bruke Seyoum Alemu had 120,000 stock options and Marek Hahn 80,000 stock options from the 2017 stock option program. The main conditions of the 2017 stock option program are as follows:

Under the 2017 stock option program, subscription rights were granted to employees and Management Board members of the Company, as well as to employees of Company-affiliated enterprises as per Article 15 et seq. AktG. The subscription right was granted by the conclusion of an option contract between the Company and the relevant beneficiary. Each subscription right grants the holder the right to purchase one Company bearer share in return for payment of the exercise price. The exercise price of issued subscription rights is the average closing price (arithmetic mean) of the

aap share in electronic trading (XETRA or a successor system) on the Frankfurt Stock Exchange over the five trading days that precede the first day of the acquisition period. The minimum exercise price is always the lowest issue price within the meaning of Article 9 para. 1 AktG. The pecuniary advantage that beneficiaries achieve by exercising subscription rights (the difference between the closing price of the *aap* share in XETRA trading or a comparable successor system on the day subscription rights are exercised and the exercise price) must not be more than four times higher than the exercise price set upon issue. The subscription rights from stock options may only be exercised after a waiting period (four years from date of issue) and then up to the end of the option term (eight years from the date of issue). Subscription rights may only be exercised within a four-week period beginning on the second trading day on the Frankfurt Stock Exchange after the Company's Annual General Meeting and after the day on which the management publishes at the stock exchange for the general public the Company's annual financial report, the half-yearly financial report or the interim reports for the first or third quarter of the financial year. Subscription rights may only be exercised from the stock options if the closing price of the Company shares in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day before the exercise date is at least 15% above the exercise price. As part of fulfilling their subscription rights, the Company may grant beneficiaries the choice of treasury shares or a cash settlement instead of new shares using conditional capital.

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

Total "granted benefits to the Management Board according to GCGC" for financial year 2017 are calculated based on

- the basic remuneration for 2017,
- taxable pecuniary benefits and other ancillary benefits in 2017,
- the qualitative bonus due for payment in 2018 and the 50% share of the quantitative annual bonus for 2017,
- the 25% share of the quantitative annual bonus for 2017 due for payment in 2019,
- the 25% share of the quantitative annual bonus for 2017 due for payment in 2020 and
- the fair value of accrued claims arising from granted stock options (SOP).

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

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

Benefits granted to the Management Board as per the GCGC (in KEUR)	Bruke Seyoum Alemu				Marek Hahn			
	CEO				CFO			
for financial year	**2016**	**2017**	**2017 (Min)**	**2017 (Max)**	**2016**	**2017**	**2017 (Min)**	**2017 (Max)**
Fixed remuneration	270	270	270	270	190	190	190	190
Ancillary services	51	51	51	51	37	40	40	40
Total	**321**	**321**	**321**	**321**	**227**	**230**	**230**	**230**
One-year variable remuneration (due in the following year)	14	9	0	14	10	6	0	10
Multi-annual variable remuneration								
Deferred bonus (due in 2017)	30	-	-	-	21	-	-	-
Deferred bonus (due in 2018)	14	54	0	61	10	38	0	43
Deferred bonus (due in 2019)	14	27	0	30	10	19	0	21
Deferred bonus (due in 2020)	-	26	0	30	-	19	0	21
SOP 2015 and SOP 2017	14	22	22	22	9	28	28	28
Special payment for share acquisition with holding period	63	-	-	-	44	-	-	-
Total	470	459	343	478	331	340	258	353
Pension-related expenses	-	-	-	-	-	-	-	-
Total remuneration	470	459	343	478	331	340	258	353

Total “inflows to the Management Board according to GCGC” for financial year 2017 are calculated based on

- the basic remuneration for 2017,
- taxable pecuniary benefits and other ancillary benefits in 2017 and
- the qualitative bonus and the 50% share of the quantitative annual bonus for 2016 paid in 2017 based on the Supervisory Board decision of March 28, 2017

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

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

Inflows to the Management Board (in KEUR)	Bruke Seyoum Alemu		Marek Hahn	
	CEO		CFO	
in financial year	**2017**	**2016**	**2017**	**2016**
Fixed remuneration	270	270	190	190
Ancillary services	51	71	40	37
Total	**321**	**341**	**230**	**227**
One-year variable remuneration	14	14	10	10
Multi-annual variable remuneration				
Deferred bonus 2015 (due in 2016)	-	10	-	7
Deferred bonus 2015 (due in 2017/2018)	-	10	-	7
Deferred bonus 2016 (due in 2017)	30	-	21	-
Special payment for share acquisition with holding period	63	-	44	-
Total	**428**	**375**	**305**	**251**
Pension-related expenses	-	-	-	-
Total remuneration	**428**	**375**	**305**	**251**

Supervisory Board Remuneration

To this point, Supervisory Board members received, in addition to reimbursement of their expenses, a fixed remuneration of EUR 5,000 per Supervisory Board meeting, with no remuneration paid for meetings held by conference call. With the resolution of the Annual General Meeting on June 16, 2017, the remuneration of the Supervisory Board was reassessed in accordance with Section 16 of the Articles of Association. The new remuneration regulations replaced the previous remuneration of the Supervisory Board with effect from the financial year 2017. Accordingly, Supervisory Board members received a fixed annual fee of EUR 30,000.00 in the financial year 2017 (and will receive said fee in the future) in addition to the reimbursement of expenses. The Company reimburses any Supervisory Board member for expenses as well as for the due value-added tax for its remuneration and the expenses as well as for any possible social contributions. Moreover, each Supervisory Board member will receive the share of the insurance premiums mathematically applicable to that Supervisory Board member for a financial loss liability insurance policy taken out by the Company for the benefit of the members of the Management Board and Supervisory Board.

VIII. Outlook

Forward-Looking Statements

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

Macroeconomic Environment

The outlook for the development of the global economy continues to be positive overall. The International Monetary Fund (IMF) expects the positive momentum of 2017 to continue in 2018.[20] Supported by favorable financial conditions, such as a continued expansionary monetary policy, investment demand in particular should continue to increase, which should have a noticeable effect on the growth of economies with a high export share. In addition, it is expected that the latest US tax reform will have a positive impact on growth in the United States and at the same time favor growth in demand from major trade partners. Against this background, the IMF is predicting global economic growth of around 3.9% in 2018, equating to another slight increase compared to 3.7% in 2017. At the same time, the development forecast for the global economy is subject to the influence of various uncertainties. Risks arise not only from the various geopolitical crises, but also, for example, from a possible normalization of monetary policy or the future political course of the United States with regard to the termination and renegotiation of important trade agreements. A further weakening of the Chinese economy, a renewed decline in oil and commodity prices, and uncertainty over the outcome of the Brexit negotiations could also have a negative impact on the economy.[21] After the eurozone economy picked up speed in 2017 with growth of 2.4%, the IMF anticipates slightly weaker economic growth in 2018, forecasting 2.2%. In contrast, the German Federal Government anticipates further growth acceleration for Germany to 2.4% in its annual economic report 2018 (2017: 2.2%).[22] The US economy is likely to gain significant momentum once more in 2018 in light of the recently adopted US tax reform. In this context, economic growth of 2.7% is expected for the United States in 2018, which represents another significant increase on the 2.3% recorded in 2017.[23]

The MedTech Environment

The medical technology sector continues to be a growth market with a positive outlook. The 2018 sector report on medical technology from the Bundesverband für Medizintechnologie e.V. (The German Medical Technology Association, BVMed) identifies the progress in medical technology, demographic change and increased health consciousness with a view to securing a better quality of life as factors which should further increase the demand for health services.[24] The BVMed autumn survey, carried out again in 2017, provides particularly good insight into the sector's growth prospects. For example, 52% of the respondents expect better sales results on a global level in 2018 than in 2017. The situation regarding the German market is not quite as positive. Here, 34% of the surveyed

[20] Internet source: http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018
[21] Internet source: http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018
[22] The German Federal Government's annual economic report for 2018 is available from the German Federal Ministry for Economic Affairs and Energy.
[23] Internet source: http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018
[24] The BVMed 2018 sector report on medical technology is available on request from the association's Press Center.

companies expect an improved business situation in 2018 than in 2017, while 20% expect the situation to get worse.

For the global orthopedic industry in the years 2017 to 2021, Orthoworld Inc. anticipates annual growth rates between 3.4 and 3.7%.[25] Within orthopedics, the company expects growth rates of 4.2 to 4.7% for the years 2017 to 2021 in the trauma sector. Based on current estimates, the sales from trauma products should exceed USD 7 billion as early as 2018. For the plates and screws subsegment of the trauma sector, analysts anticipate an average annual growth rate (CAGR[26]) of around 7.0%[27] for the years 2017 to 2021.

Strategy and Long-Term Outlook

Within orthopedics *aap* has focused on trauma. The Management Board believes that this fast-growing segment presents good opportunities to gain market share through product and technology innovation.

As a pure player in trauma, *aap* develops innovative platform technologies and products in response to unmet needs and challenges. The company has identified three key market needs: simplifying operation techniques for im- and explantation of the implant, reducing surgical site infections (SSI), and avoiding the need for a second operation to remove the implant by using resorbable metal implants. The three innovative platform technologies LOQTEQ® (successfully marketed since 2011), antibacterial silver coating (in the approval process), and resorbable magnesium implants (under development) address precisely these needs and thus offer considerable growth potential. With its LOQTEQ® products *aap* is active in the fastest growing trauma segments. Furthermore, silver coating and magnesium implants technologies can lower health care system costs significantly by reducing infection risks respectively avoiding a second operation. With this innovative IP-protected product and technology portfolio and its focused business model, *aap* is in an excellent position to exploit the opportunities in the dynamically growing trauma market.
A further major objective of the company's strategy is to unlock the inherent value of this innovative product and technology base. Since all *aap* platform technologies are predestined to develop their full value potential in cooperation with global partners, the company is regularly evaluating strategic alternatives to value generation and enhancement in this context. These include, among other things, co-development partnerships, distribution and license agreements as well as joint venture agreements to corporate transactions (e.g. merger, share or asset deals as well as carve outs).

In sales terms, as part of its growth strategy, *aap* focuses on established markets such as North America, Germany, and Western Europe. At the same time, sales development in the BRICS and SMIT countries is to be further stabilized.

[25] Source: "The Orthopaedic Industry Annual Report 2017"; available on request from Orthoworld Inc.
[26] CAGR = Compound Annual Growth Rate
[27] Internet source: https://www.researchandmarkets.com/publication/msyrkjc/4403373
[28] Source: "The Orthopaedic Industry Annual Report 2017" by Orthoworld Inc.

Outlook for 2018

For financial year 2018 the Management Board anticipates the continuation of the dynamic sales growth and expects sales of EUR 13.0 million to EUR 15.0 million. The company thus aims for growth between about 20% and about 40%, which is significantly higher than the average growth rate of the global trauma market of 4 - 5%[29]. Regarding EBITDA the company plans an improvement in the current financial year as well and anticipates a value of EUR -5.0 million to EUR -3.4 million.

All markets shall contribute to the planned sales growth and earnings improvement, with both distribution business and partnerships with global orthopaedic companies (distribution networks, licensing deals as well as product development and approval projects) especially in North America as their main drivers.

With respect to the cost development the Management Board anticipates increased sales costs in financial year 2018 as part of the planned sales growth. Besides, the company expects increasing personnel and other costs against the background of significantly higher regulatory requirements and the extensive work in view of the planned approval of the silver coating technology. The expected cost increases in connection with the human clinical study will also lead to an increase in capitalised own work in 2018. Furthermore, *aap* was affected by various one-time effects on the cost level in the last year that shall reduce in the current financial year.

Overall, the Management Board expects a more moderate development over the first six months and a more dynamic growth in particular in the second half of the year.

For the first quarter of 2018 the Management Board anticipates sales of EUR 1.8 million to EUR 3.0 million and EBITDA to be in a range of EUR -1.9 million to EUR -1.4 million.

The execution of a human clinical study is a major milestone on the path to the planned CE and FDA approval for *aap*'s innovative antibacterial silver coating technology. The company aims to start this study during the financial year 2018. At present, *aap* is still in intensive coordination with the involved authorities regarding scope and design of the clinical study. Based on the information currently available, the company plans the implementation of a multicentric two arm single blind study with about 200 patients in several countries. *aap* expects a duration of about two years for patient acquisition, implantation and subsequent patient follow-up. In a next step the collected data will be prepared and evaluated. All information is currently still subject to approval by the involved authorities. In this connection the company notes in particular the hardly predictable response times of the European notified body involved, the regulatory authorities BfArM (= Federal Institute for Drugs and Medical Devices) and FDA (= Food and Drug Administration) as well as the ethics commissions of the different German federal states where the hospitals in which the human clinical study is to be undertaken are located.

[29] Source: "The Orthopaedic Industry Annual Report 2017" from Orthoworld Inc.

The launch of the human clinical study for the silver coating technology and the further completion of the LOQTEQ® portfolio are expected to bring further opportunities for transactions with global orthopedic companies.

Based on an indication coverage of more than 90% already achieved in major bone fractures, *aap* plans to further complete the LOQTEQ® portfolio during the financial year 2018. Product development activities will particularly focus on polyaxial fixation technology, plate systems for the foot and ankle areas, as well as sterile packed implants.

The Management Board of *aap* has specified its targets for the 2018 financial year as a Management Agenda in four strategic and operational action areas: "Accelerating value-based innovations", "Enhancing market access", "Optimizing operational efficiency", and "Realization of financial targets". Thereby the capital market and the general public shall obtain a better understanding of the operative and strategic framework in which targets are set and their implementations are measured.

Management Agenda Targets for 2018

Accelerating Value-Based Innovations
Silver coating technology – Application on LOQTEQ®: Start of the human clinical study aimed
Silver coating technology – Development projects with global companies: Initiation of joint product development and approval projects
LOQTEQ®: Completion of LOQTEQ® portfolio with a focus on polyaxial fixation technology, plate systems for the foot and ankle areas as well as implants in sterile packaging

Enhancing Market Access
Established countries: Focus on North America, Germany and Western Europe as key markets; North America as the main growth driver
Emerging countries: Further stabilisation of sales development in the BRICS and SMIT countries
Global partnerships: Distribution networks and licensing deals with global orthopaedic companies

Optimizing Operational Efficiency
Quality first: Consequent continuation of the company-wide quality improvement program
Production efficiency: Reduction of manufacturing costs and increase of ability to provide timely deliveries
Working capital: Optimisation of working capital management with a higher inventory turnover and further reduction of the figure DSO (days sales outstanding); strict consignment management

Realization of Financial Targets
Sales: Sales of EUR 13.0 million and EUR 15.0 million
EBITDA: EBITDA of EUR -5.0 million to EUR -3.4 million

General Outlook on the Company's Expected Development

Based on the assumptions explained with regard to the development of the global economy in general and the med tech sector in particular, we are expecting *aap*'s business development to be positive. We expect increasing sales for the financial year 2018 and beyond, and aim to improve the EBITDA. The target is to reach critical mass and turn a profit as soon as possible through sales growth and thereby to attain the corresponding self-financing capacities. However, if sales were to develop

differently than planned or if the silver coating technology does not result in the expected marketing success, additional financing might be required in the coming years. Currently, *aap* has sufficient liquidity holdings to finance the planned sales growth and the aimed development and approval activities.

Our clear focus on sustainable innovations and the continual improvement of our products and processes make it possible for us to be able to participate in the growing med tech industry. The three IP-protected platform technologies LOQTEQ®, antibacterial silver coating and resorbable magnesium implants offer considerable growth potential. Unlocking the inherent value of these technologies is an essential goal of the company's further strategic alignment. However, this objective entails a number of risks: it may cause delays in entering established markets and expanding existing markets. In addition, in particular against the background of the significantly increased regulatory requirements from the new EU Medical Device Regulation (MDR), product approvals could be delayed or completely refused, particularly with regard to future technologies silver coating and resorbable magnesium implants. Also approvals for products which are already marketed could be revoked.

The Management Board is confident to continue *aap*'s dynamic sales growth by consistently implementing the above strategy, and to unlock the inherent value of the innovative product and technology base.

IX. Disclosures pursuant to Art. 289a (1) and Art. 315a (1) of the German Commercial Code (HGB)

1. Composition of Subscribed Capital

As of December 31, 2017, the share capital of *aap* amounted to EUR 28,644,410.00 divided into 28,644,410 fully paid-in bearer shares. Each share entitles the holder to one vote at the Company's Annual General Meeting. There are no differences in voting rights.

Changes compared with December 31, 2016:

As of December 31, 2016, the share capital of *aap* amounted to EUR 30,832,156.00 divided into 30,832,156 fully paid-in bearer shares. The Company implemented a voluntary public share buyback offer in the 2017 financial year, acquiring 2,249,746 *aap* bearer shares. The 2,249,746 acquired bearer shares were withdrawn and the Company's share capital was reduced by the corresponding amount of EUR 2,249,746.00. After the implementation of the capital reduction, the share capital of *aap* amounted to EUR 28,582,410.00 and was divided into 28,582,410 fully paid-in bearer shares. This share capital ratio was entered into the commercial registry on August 14, 2017. In addition, the Company issued 62,000 bearer shares to satisfy subscription rights from stock options exercised in the 2017 financial year. This brought the share capital of *aap* to EUR 28,644,410.00, divided into 28,644,410 fully paid-in bearer shares. The new and now current share capital ratio was entered into the commercial registry on January 25, 2018.

2. Constraints concerning voting rights or transfer of shares

aap is not aware of any constraints concerning voting rights. The legal provisions apply to the exercise of voting rights by shareholder associations, banks and other persons acting in a commercial capacity.

Article 135 of the German Stock Corporation Act (AktG) applies in particular in this regard. *aap* is not aware of any constraints concerning the transfer of shares.

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

As far as *aap* is aware, the following direct or indirect shareholdings in the share capital of EUR 28,644,410.00 exceeding 10% of voting rights existed as at December 31, 2017:

Name	Voting rights in %
1. Ratio Capital Management B.V.	15.85
2. Noes Beheer B.V.	11.70
3. Jürgen W. Krebs	11.58

4. Owners of shares with special entitlements granting control rights

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

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

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

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

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

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

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

The Annual General Meeting held on June 13, 2014 authorized the Company, in accordance with Article 71 para. 1 no. 8 of the German Stock Corporation Act (AktG), to buy treasury shares up to a total notional amount of 10% of the share capital of the Company existing at the time of the adoption of the resolution in question until June 12, 2019. The shares acquired together with the other treasury shares held by or attributed to the Company in accordance with Article 71a et seqq. AktG may at no time exceed 10% of the share capital. The authorization must not be used for the purpose of trading in treasury shares. The authorization can be exercised by the Company or by third parties, in full or partial amounts, on one or more occasions, on behalf of the Company for one or more purposes. The acquisition takes place at the discretion of the Management Board, either on the stock exchange, through a public offer, or as a public invitation to make such an offer. The Management Board is authorized to use Company shares acquired on the basis of this authorization for all legally permissible purposes, also in particular for the purposes stated in the authorization. The right of shareholders to subscribe to these treasury shares is excluded insofar as these shares are used for the purposes detailed in the authorization or if compensation for fractional amounts is required in a sale to all shareholders. In the 2017 financial year, *aap* made use of the authorization issued at the resolution of the Annual General Meeting held on June 13, 2014 to purchase treasury shares in accordance with Article 71 para. 1 no. 8 AktG, and implemented a voluntary public share buyback offer. The share buyback was implemented to partially distribute proceeds from the 2016 sale of the subsidiary *aap* Biomaterials GmbH to shareholders. In this context, 2,249,746 of the Company's bearer shares were acquired for a share price of EUR 1.52. In accordance with a purpose stated in the authorization, the 2,249,746 acquired bearer shares were withdrawn, and the share capital of *aap* was reduced by the corresponding amount of EUR 2,249,746.00. An amount as high as the notional share in the share capital of EUR 2,249,746.00 was transferred to the capital reserve and other revenue reserves were dissolved in an amount as high as the acquisition costs including incidental acquisition costs of EUR 3,442,399.92. The 2,249,746 acquired bearer shares corresponded to a calculated share of around 7.3% of the Company's share capital existing at the time of the adoption of the resolution.

With the consent of the Supervisory Board, the Management Board was authorized to increase the share capital of the Company once or several times up to a total of EUR 4,182,279.00 until July 5, 2017 in an exchange for cash or investments in kind (Authorized Capital 2012/I) and to also establish the conditions of the share issue with the consent of the Supervisory Board. The subscription right of shareholders was excluded with the consent of the Supervisory Board for the purposes detailed in the authorization.

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

The Annual General Meeting held on July 16, 2010 approved a conditional increase in the share capital by up to EUR 1,486,000.00 by the issue of up to 1,486,000 new bearer shares in the Company with

dividend entitlement from the beginning of the financial year in which they are issued (Conditional Capital 2010/I). The Conditional Capital 2010/I serves the purpose of fulfilling the exercise of subscription rights granted by December 19, 2011 on the basis of the authorization approved by the Annual General Meeting held on July 16, 2010. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights. The Annual General Meeting held on July 6, 2012 partially waived the Conditional Capital 2010/I in the amount of EUR 139,400.00, and the Annual General Meeting held on June 16, 2017 partially waived the Conditional Capital 2010/I in the amount of EUR 854,100.00. In addition, 29,000 subscription rights were exercised in the 2017 financial year, which were granted by December 19, 2011 on the basis of the authorization approved by the Annual General Meeting held on July 16, 2010. The Company's share capital is therefore increased conditionally by up to EUR 463,500.00 by the issue of up to 463,500 new bearer shares in the Company.

The Annual General Meeting held on July 6, 2012 approved a conditional increase in the share capital by up to EUR 300,000.00 by the issue of up to 300,000 new bearer shares in the Company with dividend entitlement from the beginning of the financial year in which they are issued (Conditional Capital 2012/I). The Conditional Capital 2012/I serves the purpose of fulfilling the exercise of subscription rights granted by December 19, 2014 on the basis of the authorization approved by the Annual General Meeting held on July 6, 2012. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights. The Annual General Meeting held on June 16, 2017 partially waived the Conditional Capital 2012/I in the amount of EUR 182,000.00. In addition, 33,000 subscription rights granted by December 19, 2014 on the basis of the authorization approved by the Annual General Meeting held on July 6, 2012 were exercised in the 2017 financial year. The Company's share capital is therefore increased conditionally by up to EUR 85,000.00 by the issue of up to 85,000 new bearer shares in the Company.

The Annual General Meeting held on June 14, 2013 approved a conditional increase in the share capital by up to EUR 300,000.00 by the issue of up to 300,000 new bearer shares in the Company with dividend entitlement from the beginning of the financial year in which they are issued (Conditional Capital 2013/I). The Conditional Capital 2013/I serves the purpose of fulfilling the exercise of subscription rights granted by December 19, 2015 on the basis of the authorization approved by the Annual General Meeting held on June 14, 2013. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights. The Annual General Meeting held on June 16, 2017 partially waived the Conditional Capital 2013/I in the amount of EUR 182,000.00. The Company's share capital is therefore increased conditionally by up to EUR 118,000.00 by the issue of up to 118,000 new bearer shares in the Company.

The Annual General Meeting held on June 13, 2014 approved a conditional increase in the share capital by up to EUR 300,000.00 by the issue of up to 300,000 new bearer shares in the Company with dividend entitlement from the beginning of the financial year in which they are issued (Conditional Capital 2014/I). The Conditional Capital 2014/I serves the purpose of fulfilling the exercise of subscription rights granted by December 18, 2016 on the basis of the authorization approved by the Annual General Meeting held on June 13, 2014. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company

does not grant treasury shares or a cash settlement to fulfil the subscription rights. The Annual General Meeting held on June 16, 2017 partially waived the Conditional Capital 2014/I in the amount of EUR 105,000.00. The Company's share capital is therefore increased conditionally by up to EUR 195,000.00 by the issue of up to 195,000 new bearer shares in the Company.

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

The Annual General Meeting held on June 16, 2017 approved a conditional increase in the share capital by up to EUR 500,000.00 by the issue of up to 500,000 new bearer shares in the Company with dividend entitlement from the beginning of the financial year in which they are issued (Conditional Capital 2017). The Conditional Capital 2017 serves the purpose of fulfilling the exercise of subscription rights granted by December 3, 2019 on the basis of the authorization approved by the Annual General Meeting held on June 16, 2017. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights.

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

In order to prematurely terminate a long-term license agreement, *aap* concluded a termination agreement in 2016 which grants the contractual partner payments over a period of three years, the amount of which depends on the achievement of certain sales in the future. This termination agreement stipulates that, in the event that *aap*'s shareholder structure changes in such a way that a previous or new shareholder directly or indirectly holds more than 50% of the shares, the contractual partner shall be entitled to immediate payment of the outstanding compensation payments.

In *aap*'s client agreements with sales volumes of at least EUR 100,000 in financial year 2017, 12 agreements provide for termination rights in favor of the respective contractual partner in the event that *aap*'s shareholder structure changes in such a way that at least 50% of the shares are acquired directly or indirectly and this is likely to adversely affect the interests of the other party. This right is otherwise also available to *aap*.

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

In the event of a "change of control", the directors have a special right of termination and will receive a payment amounting to 90% of their capitalized total annual payments (annual basic salary, target bonus on the assumption that all objectives will be fulfilled by the end of the contract, and fringe benefits) for the remaining term of their employment contracts, totaling a maximum of three years' total remuneration.

X. Corporate Governance Statement pursuant to Art. 289f and 315d of the German Commercial Code (HGB)

The Management Board of *aap* Implantate AG made a corporate governance statement pursuant to Art. 289f and 315d of the German Commercial Code (HGB) with date of March 29, 2018 and made this publicly accessible on the website under

https://www.aap.de/investor-relations/corporate-governance/corporate-governance-declaration.

Berlin, March 29, 2018

The Management Board

Bruke Seyoum Alemu
Chairman of the Management Board / CEO

Marek Hahn
Member of the Management Board member / CFO

C. Consolidated Financial Statements

I. Consolidated Statement of Financial Position

	Notes	12/31/2017	12/31/2016
Assets		**KEUR**	**KEUR**
Non-current assets		**21,704**	**22,069**
Intangible assets	F.1.	11,847	11,145
Capitalized Services		11,740	11,013
Other intangible assets		107	132
Tangible assets	F.2.	7,196	7,616
Financial assets	F.3.	192	192
Other finanacial assets		1,065	1,802
Deferred taxes	F.4.	1,405	1,314
Current assets		**28,766**	**41,782**
Inventories	F.5.	9,617	11,055
Accounts receivable (trade debtors)	F.6.	2,543	2,936
Other financial assets	F.7.	3,001	3,665
Other assets	F.8.	326	351
Cash and cash equivalents	F.9.	13,279	23,774
Total assets		**50,469**	**63,851**

	Notes	12/31/2017	12/31/2016
Liabilities and shareholders' equity		**KEUR**	**KEUR**
Shareholders´equity	F.11.	**42,559**	**54,776**
Subscribed Capital		28,644	30,832
Capital reserve	F.11.	19,865	17,511
Revenue reserve		11,286	14,728
Other reserve		490	490
Consolidated Balance Sheet profit / loss		-18,007	-8,736
Currency conversion differences		280	-50
Non-current liabilities (above 1 year)		**2,790**	**3,432**
Financial liabilities	F.14.	5	261
Other financial liabilities	F.15.	744	1,049
Deferred taxes	F.4.	1,326	1,266
Provisions	F.13.	37	37
Other liabilities	F.16.	679	819
Current liabilities (up to 1 year)		**5,121**	**5,643**
Financial liabilities	F.14.	333	999
Trade accounts payable	F.14.	1,752	2,541
Other financial liabilities	F.15.	1,922	1,082
Provisions	F.13.	713	375
Other liabilities	F.16.	401	646
Total liabilities and shareholders' equity		**50,469**	**63,851**

II. Consolidated Statement of Comprehensive Income

	Notes	2017	2016
		KEUR	KEUR
Sales	E.1.	10,902	10,486
Changes in inventories of finished goods and work in progress		-541	582
Other own work capitalized	E.2.	1,307	1,370
Total operating performance		**11,668**	**12,438**
Other operating income	E.3. and E.9.	756	1,046
Cost of purchased materials and services	E.4.	-1,872	-3,646
Personnel expenses	E.5.	-7,386	-8,695
Other operating expenses	E.7. and E.9.	-9,373	-9,023
Other taxes		-4	-8
EBITDA		**-6,211**	**-7,888**
Depreciation of tangible assets and intangible assets	E.6.	-1,783	-2,294
EBIT		**-7,994**	**-10,182**
Financial result	E.8.	-1,307	310
EBT		**-9,301**	**-9,871**
Income tax	E.10.	29	603
Net result/ Total comprehensive income		**-9,271**	**-9,269**
Other comprehensive Income		**330**	**-56**
Other net result		**-8,941**	**-9,325**
Earnings per share (undiluted) in EUR		-0.31	0.30
Earnings per share (diluted) in EUR		-0.31	0.30
Weighted average shares outstanding (undiluted) in thousand pieces		28,644	30,832
Weighted average shares outstanding (diluted) in thousand pieces		28,758	30,948

III. Consolidated Statement of Cash Flows

See Notes F.8.	01/01 – 12/31/2017	01/01 – 31/12/2016
	KEUR	KEUR
Net income after tax	**-9,271**	**14,629**
Changes in working capital	**102**	**149**
Share-based compensation	95	-104
Depreciation and appreciation on fixed assets	1,783	2,294
Loss / Profit from the disposal of fixed assets	35	0
Change in provisions	338	380
Result from deconsolidation	0	-23,198
Changes in other assets and receivables	-117	-781
Changen in other liabilities	1,559	-657
interests allowance and income	45	86
corporate tax allowance / income	1	0
Income tax payments	2	0
Cash flow from operating activities	**-5,428**	**-7,203**
Outgoing payments from investing activities	-701	-2,525
Outflow for invest of intangible assets	-1,357	0
Payment for the granting of securities	0	-2,000
Incoming payments from disposal of investments and assets	0	400
Payments from initial / deconsolidation	0	33,933
Other in- and outflows from investment grants	542	0
Interests received	3	19
Cash flow from investment activity	**-1,513**	**29,827**
Inflows from equity injections	72	0
Payment for share buyback to shareholders of parent company	-3,420	0
Payment for costs of share buyback	-23	0
Outflows for redumption of loans	-922	-1,997
Outflows for redumption of finance lease	-475	-383
Inflows from regranting of loan securities	1,283	-2,087
Interests paid	-48	-107
Cash flow from financial activities	**-3,533**	**-4,574**
Change of liquidity from exchange rate changes	-21	3
Increase / Decrease in cash & cash equivalents	-10,495	18,053
Cash & cash equivalents at beginning of period	23,774	5,721
Cash & cash equivalents at end of period	**13,279**	**23,774**

IV. Consolidated Statement of Changes in Equity

See Notes F.10.				Revenue reserves		Non-cash changes in equity				
All figures in KEUR	**Subscribed capital**	**Initial capital payments made for completion of agreed capital increase**	**Capital reserve**	**Legal reserves**	**Other revenue reserves**	**Revaluation reserve**	**Difference from currency translation**	**Total**	**Balance sheet result***	**Total**
Stand 01/01/2017	**30,832**	**0**	**17,511**	**42**	**14,687**	**490**	**-50**	**440**	**-8,736**	**54,776**
Increase in shares	62		10					0		72
Share buyback program	-2,250		2,250		-3,442			0		-3,442
Stock options			95					0		95
Income of the group as of 12/31/2017								0	-9,271	-9,271
Currency conversion differences							330	330		330
Other comprehensive income								0		0
Total comprehensive income	-2,188	0	2,354	0	-3,442	0	330	330	-9,271	-14,467
Stand 12/31/2017	**28,644**	**0**	**19,865**	**42**	**11,244**	**490**	**280**	**770**	**-18,007**	**42,559**
Stand 01/01/2016	**30,670**	**162**	**17,615**	**42**	**186**	**490**	**6**	**496**	**-8,865**	**40,307**
Increase in shares	162	-162						0		0
Share buyback program								0		0
Stock options			-104					0		0
Income of the group as of 12/31/2017					14,500			14,500	129	14,629
Currency conversion differences							-56	-56		0
Other comprehensive income								0		0
Total comprehensive income	162	-162	-104	0	14,500	0	-56	14,340	129	14,469
Stand 12/31/2016	**30,832**	**0**	**17,511**	**42**	**14,687**	**490**	**-50**	**440**	**-8,736**	**54,776**

V. Notes

A. Information About the Company

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

The consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017 comprise *aap* Implantate AG and its subsidiaries. The Group is a company in the medical technology sector. The Group's business activities consist of the development, production and marketing of trauma products for orthopedics. The Group's production facility is located in Germany. Its principal sales areas are North America, Germany, and Western Europe.

B. Accounting Methods

Basic Principles for the Preparation of the Consolidated Financial Statements

The consolidated financial statements of *aap* Implantate AG as of December 31, 2017 were drawn up in accordance with the International Financial Reporting Standards (IFRS) as applied in the European Union and the additional provisions required under German commercial law as specified in Section 315e para. 1 of the German Commercial Code (Handelsgesetzbuch / HGB). In principle, all International Financial Reporting Standards (IFRS) that are mandatory as of the reporting date and all interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC) are applied in the consolidated financial statements.

The consolidated financial statements consist of the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of financial position, the consolidated statement of changes in equity and the notes to the consolidated financial statements.

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

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

The consolidated statement of cash flows was prepared in accordance with IAS 7 using the indirect method. It is structured according to the payment flows from operating, investing and financing

activities. There are no fixed-term disposal restrictions. The effects of exchange rate fluctuations are shown separately.

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

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

The consolidated financial statements contain comparative information relating to the preceding reporting period.

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

Consolidation Principles

Consolidation Entity

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

Consolidated subsidiaries:

	2017	2016
	Shareholding	Shareholding
MAGIC Implants GmbH, Berlin	100%	100%
aap Implants Inc., Dover, Delaware, USA	100%	100%

Accounting and Valuation Methods

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

All intra-Group business transactions, balances and interim results are eliminated in full during consolidation insofar as they are not of minor importance. Possible balancing differences are stated with effect on results.

Significant Accounting Methods

Business Segments

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

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

Currency Conversion

The functional and reporting currency of the Group is EUR. The financial statements of the foreign subsidiaries included in the consolidated financial statements are not prepared in EUR, but in the respective national currency. On the reporting date, the financial statements are converted from the national currency into the Group currency EUR on the basis of the functional currency concept. The financial statements are converted using the modified closing rate method, according to which items on the balance sheet, with the exception of equity, are converted based on the price on the reporting date and items on the income statement are converted based on the average price over the reporting period. Equity is converted with historical prices. Conversion differences resulting from foreign currency conversion are included in equity without affecting profit or loss.

In the individual financial statements, business transactions are valued in foreign currencies using the average exchange rate in force at the time of the initial booking. Financial assets and liabilities in foreign currencies are valued at the reporting date, thereby affecting the result. The resulting conversion differences are generally taken into account in other operating income and expenses. Unrealized currency differences that arose from the intra-Group financing of the US subsidiary were reported in the financial result.

Revenue Recognition

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

If rights of use are transferred, income recognition is evaluated according to the economic substance of the agreement. If licensing that is limited in time or purpose is involved, the license fees are earned in the reporting period. If, on the other hand, exclusive rights of use to a technology or a worldwide, unlimited license is granted so that no future economic benefit is expected from the underlying asset, the revenue is recognized immediately as other operating income with effect on the result. If and when earnings are subject to further uncertain future conditions, such as exceeding specific delivery targets or granting holding rights of rescission to the purchaser, for which the likelihood of them being exercised cannot be assessed by the *aap* Group, these earnings are only realized when the condition is fulfilled.

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

Taxes

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

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

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

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

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

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

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

Deferred tax receivables and liabilities are netted out against each other if a legal entitlement to netting out is enforceable and the deferred tax receivables and liabilities relate to income taxes raised

by the same tax authority, from the same tax entity or from different tax entities that intended to net out the differences.

Public Sector Grants

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

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

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

Non-current Assets Held for Sale and Discontinued Operations Segments

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

Fair Value

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

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

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

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

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

Intangible Assets

Intangible assets are stated at amortized cost of acquisition or manufacture. All intangible assets except goodwill have a limited useful life and are depreciated using the straight-line method. Industrial property rights and similar rights and assets disclosed under other intangible assets are depreciated over a useful life of between two and 20 years.

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

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

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

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

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

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

Tangible Assets

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

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

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

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

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

Financial Instruments

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

a) Financial Assets

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

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

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

financial assets, the directly attributable transaction costs reduce the fair value of those financial assets. The subsequent valuation of financial assets depends on their categorization.

Loans and receivables are non-derivative financial assets with fixed or definable payments that are not listed in an active market. Loans and receivables are subsequently valued at amortized cost using the effective interest model less any write-downs. Write-downs are in line with the actual risk of default. Write-downs of trade receivables are shown in separate value adjustment accounts.

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

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

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

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

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

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

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

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

In the consolidated financial statements of *aap* as of December 31, 2017, financial assets are disclosed as “loans and receivables” or as “available for sale”. The investment included in financial assets, which

was classified as “available for sale” under IAS 39, may be reported at amortized cost due to the lack of an active market and the fact that the fair value cannot reliably be determined.

b) Financial Liabilities

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

- Financial liabilities, which are to be valued at fair value (financial liabilities held for trading (FLHfT)), or as
- Other financial liabilities (Financial Liabilities Measured at Amortized Costs (FLAC))

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

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

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

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

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

The *aap* Group holds only primary financial instruments.

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

Inventories

Inventories are stated at the lower of cost of acquisition or production or net sale value. The costs of production are the production-related full costs as established on the basis of normal employment. In detail, the costs of production include, along with directly attributable costs, an appropriate proportion of the production overheads. These include material and production overheads, production-related administrative costs and straight-line depreciation of production facilities. Borrowing costs are not capitalized as part of the costs of acquisition or production. Valuation is based on the FIFO assumed sequence of consumption. Inventory risks that arise from reduced usability are taken into account by means of appropriate valuation discounts. Lower values on the reporting date due to lower net losses on disposal are recognized. The net selling price is the estimated achievable selling price in the normal course of business less estimated costs up to and until completion and less sales costs. If the net selling price of inventories that were written down in previous periods has risen again, the impairment loss is reversed and stated as an inventory change.

Borrowing Costs

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

Cash and Cash Equivalents

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

Share-based Payments

The Group-internal stock option program is shown as share-based payments by means of compensation with equity capital instruments. Stock options granted to employees and executives are stated as personnel expenses on the one hand and at fair value as a contribution toward capital reserves on the other. The transfer to capital reserves takes place over a period that corresponds to the contractually agreed two- to five-year blocking period. The fair value of stock options granted is calculated on their grant date by means of an option price model. See F. 12 Share-based payments for details.

Provisions

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

Other Assets and Liabilities

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

Leasing Transactions

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

Contingent Liabilities; Contingent Assets

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

Contingent assets which need to be indicated do not exist as of the date of the financial statements.

New and revised standards and interpretations without significant effect on the Group

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

Amended IAS / IFRS standard	*Brief explanation*	*Mandatory application*
IAS 7 Statement of Cash Flows	The changes to the standard are in line with the objective that a company must provide information which enables its addressees of financial statements to better assess changes in the financial liabilities.	From 1/1/2017
IAS 12 Income Taxes	Clarifies that devaluations on debt instruments valued at fair value (due to increased market rates) lead to the application of deferred tax assets for unrealized losses if the taxable value corresponds to its acquisition costs	From 1/1/2017
AIP 2014-2016 Amendments made by way of the Annual Improvements Project 2014–2016 Cycle	The change resulting from IFRS 12 clarifies that the disclosures also apply to investments that fall under the scope of IFRS 5 (with the exception of IFRS 12.B10-B16).	From 1/1/2017

Published standards which are not yet mandatory

The following overview covers new and revised standards which could be relevant for the Group and are to be applied only in the financial years beginning after 1/1/2018. *aap* Implantate AG does not yet apply them. The effects of the following standards and interpretations on *aap's* consolidated financial statements are currently under review.

Amended IAS / IFRS standard	***Brief explanation***	***Mandatory adoption date for financial years beginning on or after***
AIP 2014-2016 Amendments made by way of the Annual Improvements Project 2014–2016 Cycle	The change to IAS 28 clarifies that the option to recognize an investment in an associate or joint venture with effect on results at fair value can be exercised differently for each investment on initial recognition.	1/1/2018
IAS 28 Investments in Associates and Joint Ventures	Clarification that companies are obliged to apply IFRS 9 to long-term investments in associates or joint ventures (as part of the net investment in the associate; not valuated in accordance with the equity method)	1/1/2019
IFRS 2 Share-based Payment	Clarification on the consideration of exercise conditions in the accounting of share-based payments made in cash, the classification of share-based payments made in the net amount without withholding taxes and the accounting of a switch from share-based payments made in cash to share-based payments made in equity securities.	1/1/2018
IFRS 9 Financial Instruments	The change brings about the equal treatment of positive and negative prepayment penalties. Compensation payments from the lender to the terminating debtor (negative remuneration) will fulfil the cash flow criterion of IFRS 9 in the future.	1/1/2019

IFRIC 22 Foreign Currency Transactions and Considerations Paid in Advance	IFRIC 22 clarifies the accounting of transactions involving the receipt of considerations paid in foreign currencies	1/1/2018
IFRIC 23 Uncertainty over Income Tax Treatments	Application instructions for recognizing current and deferred tax liabilities and assets according to IAS 12 where there is uncertainty in relation to the income tax treatment.	1/1/2019
AIP 2015-2017 Amendments made by way of the Annual Improvements Project 2015–2017 Cycle	- IFRS 3 / IFRS 11: Clarification of the recognition of a change in status from at-equity investments to investments in a joint operation (IFRS 11) and of a change in status from investments in a joint operation to sole control (IFRS 3).	1/1/2018

The Group intends to apply these standards and interpretations from the time of their entry into force.

With the exception of the effects of applying IFRS 9, IFRS 15 and IFRS 16 described below, *aap* is currently reviewing how the initial application of the standards will affect the asset, financial and income position of the Group. The exact extent to which the Group will be affected are still yet to be reliably determined. It is likely that the future application of other standards and interpretations will have no significant effects on the asset, financial and income position of the Group.

Effect of IFRS 9:

According to internal analysis, no significant effects on *aap's* consolidated financial statements are expected from the application of IFRS 9.

Effect of IFRS 15:

The Group does not expect any significant effects from the application of IFRS 15 on existing deliveries and service relationships, except for supplementary disclosures in the notes. The effects on potential license agreements are dependent on the respective contractual structure and may, in individual cases, lead to a different assessment of the realization of revenue.

Effect of IFRS 16:

The Group has begun an assessment of the possible effects of the application of IFRS 16 on its consolidated financial statements. To date, it has been identified as significant effects that the Group will record new assets and liabilities for its operating leases. In addition, the type of expenses which are associated with these leases will change. In accordance with IFRS 16, expenses on a straight-line basis for operating leases shall be replaced by a depreciation expense for rights of use and interest expenses for liabilities from leases.

According to previous analysis, this mainly concerns the following expenses:

- Lease payments for buildings and office space in the amount of KEUR 2,500 million for 2018-2022
- Vehicle leasing in the amount of KEUR 142 for 2018-2021
- Other contracts for IT equipment in the amount of KEUR 140 for 2018-2021

A definitive assessment of the effects and their quantification is not possible at this stage. A decision regarding the applicable transition method has not yet been made.

C. Material Discretionary Decisions, Estimates and Assumptions

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

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

First-time capitalization of development costs is based on the management's estimate that technical and economic feasibility is a proven fact. In determining the amounts to be capitalized and for the annual impairment test, assumptions must be made about the future cash flow to be expected from the project, the discount rates to be applied and the period when future benefits are to be expected from it. As of December 31, 2017, the book value of capitalized development costs was KEUR 11,741 (previous year: KEUR 11,013). Project progress made in the reporting year along with customer response to date has confirmed the estimates of future earnings. However, uncertainties as to future market shares and profit margins remain – partly against the background of increasingly exacting approval requirements – and could lead to a need for adjustment over the next financial years. For further details, see the risk and opportunity report in the combined management report for the annual financial statements and the consolidated financial statements. Neither in the financial year 2017 nor in the previous year write-downs of development costs were necessary.

Capitalized development costs are subjected to annual impairment tests. To calculate the value in use, future cash flows of the cash flow generating unit (CGU) and suitable discount factors for cash value determination must be established. This is bound to involve estimates and assumptions. They mainly include market developments, including changes in legislative framework conditions, future medical developments, growth rates, selling prices, weighted average capital costs and tax rates. Cash flow forecasts taking past experience into account are based on management assessments of future developments. These premises and the underlying methodology can exercise considerable influence on the values and amounts of possible impairments. The value adjustment of doubtful receivables is calculated based on the age structure and via assessments and appraisals of individual receivables on the customer-specific credit and default risk. Value adjustments were reported on the reporting date in the amount of EUR 595,000 (previous year: EUR 539,000). In addition, no customer credits were recorded for revenues of earlier years.

The quantification of provisions is subject to uncertainty as to future increases in costs and the probability of the occurrence of the events for which the provisions were established. The book value of the provisions as of December 31, 2017 was KEUR 749 (previous year: KEUR 412).

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

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

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

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

According to the information available at the time of the preparation of the consolidated financial statements, no significant changes in the underlying assumptions and estimates are likely to occur; nor is an adjustment of the book values of the reported assets and liabilities likely to prove necessary in the 2018 financial year.

D. Business Combinations, Acquisition and Sale of Shares

There were no changes to the consolidation entity in the financial year 2017. There were no changes in the investment situation of the existing company structure in 2017. The measures taken in the previous year were all completed in due time.

E. Explanatory notes to the Group statement of comprehensive income

All disclosures on items in the income statement in the previous year apply exclusively to the continued operation.

1. Sales revenues

By region	2017	2016
	KEUR	KEUR
Germany	2,428	2,350
North America	3,071	2,436
International	5,149	4,089
Other	254	1,611
	10,902	**10,486**

By category	2017	2016
	KEUR	KEUR
Sale of products	10,902	10,486
	10,902	**10,486**

By product group	2017	2016
	KEUR	KEUR
Trauma	10,648	8,875
Other	254	1,611
	10,902	**10,486**

The sales revenues include sales of KEUR 254 (previous year: KEUR 1,611) with *aap* Joints GmbH and *aap* Biomaterials GmbH, which were much lower during the 2017 financial year because of the sale of both companies in 2016. These sales revenues stem predominantly from discontinued activities and do no longer play a role in future business development. They are therefore allocated to the product group other and are not subject to any regional analysis.

During the 2017 financial year, revenues from the sale of products in the amount of KEUR 2,112 (previous year: KEUR 2,887) were distributed across the Company's three main customers.

2. Capitalized own and development costs

The capitalized own and development costs amounting to KEUR 1,307 (previous year: KEUR 1,370) are primarily capitalizations in connection with development projects.

3. Other operating income

	2017 KEUR	2016 KEUR
Income from services	210	324
Income from investment grants	94	95
Income from non-cash benefit (vehicle use)	91	97
Out-of-period income	90	8
Recharging of costs	63	57
Grants	56	61
Income from leasing activities	33	33
Income from the release of provisions and the expiration of liabilities	21	154
Income from the reduction of value adjustments	8	26
Currency differences	5	63
Income from the services of associated companies	0	59
Other	85	69
Total	**756**	**1,046**

4. Cost of materials

	2017 KEUR	2016 KEUR
Raw materials, consumables, supplies and purchased goods	1,741	3,076
Costs of purchased services	131	570
Total	**1,872**	**3,646**

5. Personnel expenses

	2017 KEUR	2016 KEUR
Wages and salaries	6,211	7,506
Social security contributions	615	673
Contribution-oriented pension provisions	470	523
Stock options granted to employees	90	-8
Total	**7,368**	**8,694**

aap provides contribution-oriented pension provision expenditures due to legal obligations to state-administered pension funds and contribution payments to provident funds. Over and above these payments the Group has no further commitments.

Average annual employee numbers	2017	2016
Production	58	69
Research & development	13	13
Quality management	13	17
Sales	27	38
Administration	11	11
Total	**122**	**148**
Industrial employees (incl. technical employees)	76	79
Employees	68	69
Total	**143**	**148**

6. Depreciation

Planned depreciations on tangible fixed assets amount to KEUR 1,153 (previous year: KEUR 1,255) and and on intangible assets amount to KEUR 630 (previous year: KEUR 639).

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

7. Other operating expenses

	2017 KEUR	2016 KEUR
Consulting expenses	2,783	2,155
Outbound freight, packaging material, delivery costs	1,438	1,404
Premises costs	961	925
Advertising and travel expenses	826	1163
Research, analysis, experiments and sterilization	533	836
Repairs and maintenance	485	388
Insurance companies, premiums, levies	311	325
Patent and other fees	298	267
Personnel services	266	133
Severance agreements	200	0
Office supplies, phone, fax, postage	191	262
Vehicle costs	173	215
Valued adjustment on receivables	104	263
Supervisory Board	90	85
Out-of-period expenses	76	61
Certification costs	50	0
Other	588	541
Total	**9,373**	**9,023**

8. Financial result

	2017 KEUR	2016 KEUR
Unrealized expenses/income from Intercompany loans at the balance sheet date	-1,261	396
Unrealized foreign exchange rate result	**-1,261**	**396**

Other interest and similar income	3	19
Other interest and similar expenses:		
- Interest on long-term loans	-48	-66
- Interest on short-term loans	0	-39
Interest result	**-45**	**-86**
Financial result	**-1,307**	**310**

9. Exchange Rate Differences

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

	2017 KEUR	2016 KEUR
Income exchange rate differences in other operating income	5	63
Expenses exchange rate differences in other operating expenses	-31	-59
Unrealized expenses/income from Intercompany loans at the balance sheet date	-1,261	396
Total	**-1,287**	**400**

10. Income taxes

The income statement includes the following income taxes:

Income tax expense by origin	2017 KEUR	2016 KEUR
Paid or owed taxes on income		
- Germany	0	0
- Other countries	0	0
	0	0
Deferred taxes		
- from time differences	-3	400
- from tax loss carryforwards, affecting net income	33	203
	30	603
Total	**30**	**603**

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

The income tax expenses recorded in the consolidated income statement can be carried over to the theoretical tax expenses as follows.

	2017 KEUR	2016 KEUR
Earnings before taxes	-9,301	-9,871
Theoretical tax expenses (earnings) 30.2% (previous year: 30.2%)	2,809	2,981
Tax effects on		
Non-utilizable losses carried forward or utilization of off-balance sheet losses carried forward and depreciation of losses carried forward	-2,683	-2,388
Permanent differences	0	0
Non-tax-deductible expenses and added amounts trade tax	-23	-30
Tax-exempt income	7	40
Total of the tax effects	-2,667	-2,378
Income tax expenses recorded in the income statement	30	603
Effective tax rate in %	0.00	6.11

The tax rate applied for the above reconciliation corresponds to the tax rate to be paid by the company on taxable gains in Germany in accordance with the German tax law.

11. Earnings per share as per IAS 33

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

		Jan – Dec. 2017	Jan – Dec. 2016
Number of shares undiluted (in thousands)		28,644	30,832
Earnings	KEUR	-8,941	-9,325
Undiluted earnings per share	EUR	-0.31	-0.30
Diluted number of shares (in thousands)		28,758	30,948
Earnings	KEUR	-8,941	-9,325
Diluted earnings per share	EUR	-0.31	-0.30

F. Explanatory notes to the consolidated balance sheet

1. Intangible assets

2017

	Development costs	Concessions, industrial property rights, licenses and similar rights	Prepayments made	Total
Acquisition and production costs	**KEUR**	**KEUR**	**KEUR**	**KEUR**
As at 01/01/2017	14,660	1,661	25	16,346
Additions	1,307	50	0	1,357
Disposals	0	-18	-25	-43
Transfers	0	0	0	0
As at 31/12/2017	**15,967**	**1,693**	**0**	**17,660**
Accumulated depreciation				
As at 01/01/2017	-3,646	-1,554	0	-5,200
Depreciation	-580	-50	0	-630
Disposals	0	18	0	0
Transfer	0	0	0	0
As at 31/12/2017	**-4,226**	**-1,586**	**0**	**-5,812**
Book values				
As at 31/12/2017	**11,741**	**107**	**0**	**11,848**

2016

	Development costs	Concessions, industrial property rights, licenses and similar rights	Prepayments made	Total
Acquisition and production costs	**KEUR**	**KEUR**	**KEUR**	**KEUR**
As at 01/01/2016	13,360	1,826	25	15,210
Additions	1,370	53	0	1,423
Disposals	-70	-218	0	-288
Transfers	0	0	0	0
As at 31/12/2016	**14,660**	**1,661**	**25**	**16,346**
Accumulated depreciation				
As at 01/01/2016	-3,066	-1,703	0	-4,769
Depreciation	-580	-59	0	-639
Disposals	0	208	0	208
Transfer	0	0	0	0
As at 31/12/2016	**-3,646**	**-1,554**	**0**	**-5,200**
Book values				
As at 31/12/2016	**11,013**	**107**	**25**	**11,146**

The long-term intangible assets are located exclusively in Germany. There are no restrictions on availability or usage.

Development costs

In the financial year, no capitalized borrowing costs are included in the additions. The additions for the development costs impact the following projects:

	Useful life in years	Book value 12/31/2017 KEUR	Book value 12/31/2016 KEUR	Addition 2017 KEUR
Development LOQTEQ® without polyaxial systems and foot/ankle	7	1,715	2,025	32
Development LOQTEQ® for foot/ankle	-*	799	675	125
Development of polyaxial systems	10	989	1,048	13
Development of nano silver-coated osteosynthesis products	-*	4,955	3,903	1,052
Development of resorbable metal implants based on magnesium alloys	-*	2,870	2,786	85
		11,328	**10,437**	**1,307**

- * development projects in development

In addition, further research and development costs have accrued from either external providers or through the use of own staffing capacities in the amount of KEUR 297 thousand (previous year: KEUR 590).

Moreover, the *aap* Group conducted an annual impairment test as at 12/31/2017 for development projects by determining their useful value. The useful value of a development project is the cash value of the cash flows that the project is likely to generate in the future. It is determined internally. The determination of useful value is based on cash flow plans until the end of their expected useful life of ten years. Anticipated sales are based on a planning horizon of four years approved by the Management Board. Gross profit margins are derived as far as possible from historical data for comparable products or based on the assumptions of the Management Board.

The discount rates used were derived from market data and the project-specific risk run by the underlying development project and amount to 13.3% and 15.5% p.a. (previous year: between 8.50% and 11.69%) and between 7.3% and 9.0% after taxes (previous year: between 5.95% and 6.3%).

2. Property, plant and equipment

2017

	Land, land rights and buildings, incl. buildings on third-party land	Technical equipment and machinery	Other investments, factory and office equipment	Prepayments made	Total
Acquisition and production costs	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**
As at 01/01/2017	864	12,644	2,197	0	15,706
Additions	0	351	177	216	744
Disposals	0	-279	-108	0	-388
Transfers	0	0	0	0	0
As at 31/12/2017	**864**	**12,716**	**2,266**	**216**	**16,062**
Accumulated depreciation					
As at 01/01/2017	-452	-6,457	-1,180	0	-8,089
Depreciation	-8	-965	-180	0	-1,153
Disposals	0	279	97	0	376
Transfer	0	0	0	0	0
As at 31/12/2017	-460	-7,142	-1,263	0	-8,866
Book values					
As at 31/12/2017	**404**	**5,574**	**1,002**	**0**	**7,196**

2016

	Land, land rights and buildings, incl. buildings on third-party land	Technical equipment and machinery	Other investments, factory and office equipment	Prepayments made	Total
Acquisition and production costs	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**
As at 01/01/2016	864	10,878	2,025	1,090	14,858
Additions	0	994	234	0	1,228
Disposals	0	-318	-62	0	-380
Transfers	0	1,090	0	-1,090	0
As at 31/12/2016	**864**	**12,644**	**2,197**	**0**	**15,706**
Accumulated depreciation					
As at 01/01/2016	-444	-5,686	-1,053	0	-7,183
Depreciation	-8	-1,082	-165	0	-1,255
Disposals	0	311	38	0	349
Transfer	0	0	0	0	0
As at 31/12/2016	-452	-6,457	-1,180	0	-8,089
Book values					
As at 31/12/2016	**412**	**6,187**	**1,017**	**0**	**7,616**

The book value of the tangible fixed assets leased as part of financing leasing at December 31, 2017 amounts to KEUR 1,924 (previous year: KEUR 2,088). The leasing contracts are financings for production assets. The rates amount to KEUR 1 – KEUR 46 and are paid monthly or quarterly. The term ranges from 36 to 60 months.

The Group's liabilities from these financing leasing relations amounting to KEUR 1,095 (previous year: KEUR 1,570) are secured through rights of the lessor to the leased assets.

The book value of tangible assets assigned as collateral for liabilities is KEUR 1,711 (previous year: KEUR 1,874).

In the financial year, the tangible assets are located exclusively in Germany.

3. Financial assets

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

	12/31/2017		12/31/2016	
	Book value in KEUR	Share in %	Book value in KEUR	Share in %
AEQUOS Endoprothetik GmbH, Munich	192	4.57%	192	4.57

4. Deferred Tax Assets and Liabilities

2017

	Initial holdings	Registered as affecting net income in the income statement	Registered as not affecting net income in equity capital	Liabilities in connection with assets classified as held for sale	Closing level
	KEUR	KEUR	KEUR	KEUR	KEUR
Intangible assets	0	0	0	0	0
Development costs	-2,981	-243	0	0	-3,224
Property, plant and equipment	0	0	0	0	0
Financial assets	-22	54	0	0	32
Inventories	1,262	70	0	0	1,332
Trade receivables	-116	116	0	0	0
Liabilities	0	0	0	0	0
Total	-1,857	-3	0	0	-1,860
Tax losses	1,905	33	0	0	1,938
Total*	**48**	**30**	**0**	**0**	**78**

*When offsetting active and passive latencies

2016

	Initial holdings	Registered as affecting net income in the income statement	Registered as not affecting net income in equity capital	Liabilities in connection with assets classified as held for sale	Closing level
	KEUR	KEUR	KEUR	KEUR	KEUR
Intangible assets	70	-70	0	0	0
Development costs	-2,767	-214	0	0	-2,981
Property, plant and equipment	-33	33	0	0	0
Financial assets	9	-31	0	0	-22
Inventories	449	813	0	0	1,262
Trade receivables	-1	-115	0	0	-116
Liabilities	16	-16	0	0	0
Total	-2,257	400	0	0	-1,857
Tax losses	1,702	203	0	0	1,905
Total*	**-555**	**603**	**0**	**0**	**48**

*When offsetting active and passive latencies

The tax deferrals result from the following balance sheet items:

	12/31/2017		12/31/2016	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	KEUR	KEUR	KEUR	KEUR
Intangible assets	0	0	0	0
Development costs	0	-3,224	0	-2,981
Property, plant and equipment	0	0	0	0
Financial assets	32	0	0	-22
Inventories	1,372	-40	1,314	-52
Trade receivables	0	0	0	-116
Liabilities	0	0	0	0
Loss carryforwards	1,938	0	1,905	0
Total	3,342	-3,264	3,219	-3,171
Adjustments	-1,938	1,938	-1,905	1,905
Total	**1.404**	**-1.326**	**1,314**	**-1,266**

The total amount of the balanced deferred taxes is broken down as follows:

	12/31/2017		12/31/2016	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	KEUR	KEUR	KEUR	KEUR
From the use of existing loss carryforwards	1,938	0	1,905	0
From consolidation	1,404	0	1,314	0
From temporary differences	0	-3,264	0	-3,171
Total	3,342	-3,264	3,219	-3,171
Adjustments	-1,938	1,938	-1,905	1,905
Total	**1,404**	**-1,326**	**1,314**	**-1,266**

The amount of the corporate tax or trade tax loss carryforwards in the German tax group, for which no deferred tax claims were activated, amounts to about EUR 23.0 million or EUR 23.5 million to the end of the reporting year (previous year: EUR 21.6 million or EUR 22.3 million). These tax loss carryforwards do not lapse and can, taking account of the rules relating to minimum taxation, be netted out indefinitely against future taxable results of the companies in which the losses were incurred.

Unused tax loss carryforwards of subsidiaries in other jurisdictions, for which no deferred tax assets were activated, amount to KEUR 3,289 (previous year: KEUR 2,236).

The tax loss carryforwards exist for Group companies with a history of losses. The Group companies do not have sufficient taxable temporary differences or tax planning opportunities which could lead to a comprehensive estimate of deferred tax claims.

The active deferred taxes occurring in the context of the consolidation were determined to be 30.2% on the basis of an average Group tax rate (previous year: 30.2%).

5. Inventories

	12/31/2017	12/31/2016
	KEUR	KEUR
Raw materials, consumables and supplies	1,063	1,164
Work and services in progress	797	1,291
Finished products and trade goods	7,714	8,546
Prepayments made	43	54
Total	**9,617**	**11,055**

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

	2017 KEUR	2016 KEUR
Accumulated value adjustments as of 01.01.	2,791	3,193
Of which		
- Marketability discounts	2,483	2,891
- Estimate net selling value	308	302
Expense for marketability discounts	178	0
Expense for net selling price	0	6
Utilization through the disposal of inventories	26	-408
Utilization net selling price	-8	0
Accumulated value adjustments on 12.31.	2,987	2,791
Of which		
- Marketability discounts	2,687	2,483
- Estimate net selling value	300	308

The book value of the inventories applied to the net selling value is KEUR 328 (previous year: KEUR 760). To secure liabilities, no inventories were transferred (previous year: KEUR 0). During the reporting year 2017, as during the previous year, no reversals of impairment losses took place.

6. Trade receivables

Trade receivables reduced by write-downs amounted to a total of KEUR 2,543 as at the reporting date (previous year: KEUR 2,936). Of that, KEUR 2,543 were due within the reporting year (previous year: KEUR 2,936). In case of expected payment difficulties of the customers, individual value adjustments will be made. In addition, specific write-downs are formed, due to general interest rate, processing and credit risks.

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

	2017 KEUR	2016 KEUR
Accumulated impairment losses on 01.01.	**539**	**302**
Expenses during the reporting period	104	237
Utilization of value adjustment	-40	0
Payments received and impairment reversal of receivables originally written off	-8	0
Accumulated value adjustments on 12.31.	**595**	**539**

At December 31, 2017, the age structure of the trade receivables was as follows:

Book value **12/31/2017**	Neither overdue nor value-adjusted	Of that: not value-adjusted as of the date of the financial statements and due in the following periods				
		up to 3 months	up to 6 months	up to 9 months	up to 12 months	over 1 year
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
2,543	1,603	344	132	6	33	425

Book value **12/31/2016**	Neither overdue nor value-adjusted	Of that: not value-adjusted as of the date of the financial statements and due in the following periods				
		up to 3 months	up to 6 months	up to 9 months	up to 12 months	over 1 year
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
2,936	52	309	2	920	870	783

The trade receivables are not interest-bearing and generally have a maturity of 30 days for domestic customers. Receivables with customers located abroad generally have a maturity of 45 to 150 (previous year: 45 to 200) days.

For the non-value adjusted but overdue receivables, there were no indications as of the reporting date that the debtors would not fulfill their payment obligations.

7. Other financial assets

	12/31/2017 KEUR	31/12/2016 KEUR
Safety deposit at banks	3,802	5,086
Governmental grants and assistance	0	162
Other	264	220
	4,066	5,468

aap pledged time deposits amounting to KEUR 803 (previous year: KEUR 2,087) as collateral for financial liabilities to the financing bank in the financial year. In addition, balances at credit institutions in the amount of KEUR 2,999 (previous year: KEUR 2,999) have been deposited as collateral for bank guarantees granted to third parties.

Of the financial assets, KEUR 3,001 was due within a year (previous year: KEUR 3,666). The long-term financial assets of KEUR 1,065 are due within the next four years (previous year: KEUR 1,802.

Value adjustments on other financial assets were not required during the financial year 2017 and during the previous year.

There were no other overdue financial assets in the 2017 financial year or in the previous year.

8. Other assets

	12/31/2017	12/31/2016
	KEUR	KEUR
Tax refund entitlements	166	188
Accruals	160	163
	326	**351**

The tax refund entitlements relate to VAT credits. The other assets are neither overdue nor value adjusted.

Income tax receivables as of December 31, 2017 totaled KEUR 0 (previous year: KEUR 7).

9. Cash and cash equivalents

Cash and cash equivalents include exclusively bank balances and cash in hand and amount to KEUR 13,279 (previous year: KEUR 23,774).

10. Assets held for sale and discontinued operations

There are no assets held for sale or discontinued operations in the 2017 financial year.

11. Capital

The company's subscribed capital as of December 31, 2017 amounted to EUR 28,644,410.00 (previous year: EUR 30,832,156.00) and was divided into 28,644,410 (previous year: 30,832,156) bearer shares which were fully paid-up. The bearer shares account for a notional share in the share capital of EUR 1.00 each (previous year: EUR 1.00). The change compared to the previous year results primarily from a voluntary public share buyback offer that was carried out by *aap* Implantate AG in the financial year 2017. In this context, 2,249,746 of the Company's bearer shares were acquired (treasury shares). The acquired 2,249,746 bearer shares (treasury shares) were withdrawn and the share capital and thus also the subscribed capital of *aap* Implantate AG was reduced by the corresponding amount of EUR 2,249,746.00. In addition, the Company issued 62,000 bearer shares to satisfy subscription rights from stock options exercised in the 2017 financial year., which increased the subscribed capital by the corresponding amount of EUR 62,000.00,

The capital reserve contains premiums from share issues, voluntary additional payments by shareholders and shareholders' contributions arising from the issue of stock options. In the financial year EUR 2,249,746.00 due to the withdrawal of treasury shares according to § 237 (5) AktG and additional EUR 122,127.18 were allocated to capital reserve (previous year: EUR 0.00) and EUR 17,632.17 was withdrawn from the capital reserve (previous year: EUR 104,171.85).

The other revenue reserves were dissolved in the amount of EUR 3,442,399.92 for the acquisition of treasury shares. In deviation to this a dissolution of the capital reserve in the amount of EUR 1,169,867.92 instead of an addition to the capital reserve in the amount of the capital decrease (EUR 2,249,746.00) was shown in the statement of changes in equity in the interim reporting.

Conditional capital

At December 31, 2017, *aap* Implantate AG had conditional capital of up to a nominal total of EUR 1,511,500.00 (previous year: EUR 2,234,500.00) or up to 1,511,500 shares (previous year: 2,234,500) to fulfil exercised stock options issued as part of various stock options programs. Specifically:

The Annual General Meeting held on Friday, July 16, 2010 approved a conditional increase in the share capital by up to EUR 1,486,000.00 through the issue of up to 1,486,000 new bearer shares in the Company with dividend entitlement from the beginning of the financial year in which they are issued (Conditional Capital 2010/I). The Conditional Capital 2010/I serves the purpose of fulfilling the exercise of subscription rights granted by December 19, 2011 on the basis of the authorization approved by the Annual General Meeting held on July 16, 2010. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights. The Annual General Meeting held on July 6, 2012 partially waived the Conditional Capital 2010/I by EUR 139,400.00 and the Annual General Meeting held on June 16, 2017 partially waived the conditional capital 2010/I by EUR 854,100.00. In addition, 29,000 subscription rights granted by December 19, 2011 on the basis of the authorization approved by the Annual General Meeting held on July 16, 2010 were exercised in the 2017 financial year. The Company's share capital is therefore increased conditionally by up to EUR 463,500.00 by the issue of up to 463,500 new bearer shares in the Company.

The Annual General Meeting held on Friday, July 6, 2012 approved a conditional increase in the share capital by up to EUR 300,000.00 through the issue of up to 300,000 new bearer shares in the Company with dividend entitlement from the beginning of the financial year in which they are issued (Conditional Capital 2012/I). The Conditional Capital 2012/I serves the purpose of fulfilling the exercise of subscription rights granted by December 19, 2014 on the basis of the authorization approved by the Annual General Meeting held on July 6, 2012. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights. The Annual General Meeting held on June 16, 2017 partially waived the Conditional Capital 2012/I by EUR 182,000.00. In addition, 33,000 subscription rights granted by December 19, 2014 on the basis of the authorization approved by the Annual General Meeting held on July 6, 2012 were exercised in the 2017 financial year. The Company's share capital is therefore increased conditionally by up to EUR 85,000.00 through the issue of up to 85,000 new bearer shares in the Company.

The Annual General Meeting held on Friday, June 14, 2013 approved a conditional increase in the share capital by up to EUR 300,000.00 through the issue of up to 300,000 new bearer shares in the Company with dividend entitlement from the beginning of the financial year in which they are issued (Conditional Capital 2013/I). The Conditional Capital 2013/I serves the purpose of fulfilling the exercise of subscription rights granted by December 19, 2015 on the basis of the authorization approved by the Annual General Meeting held on June 14, 2013. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights. The Annual General Meeting held on June 16, 2017 partially waived the Conditional Capital 2013/I by EUR 182,000.00. The Company's share capital is therefore increased conditionally by up to EUR 118,000.00 through the issue of up to 118,000 new bearer shares in the Company.

The Annual General Meeting held on Friday, June 13, 2014 approved a conditional increase in the share capital by up to EUR 300,000.00 through the issue of up to 300,000 new bearer shares in the Company with dividend entitlement from the beginning of the financial year in which they are issued (Conditional Capital 2014/I). The Conditional Capital 2014/I serves the purpose of fulfilling the exercise of subscription rights granted by December 18, 2016 on the basis of the authorization approved by the Annual General Meeting held on June 13, 2014. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights. The Annual General Meeting held on June 16, 2017 partially waived the Conditional Capital 2014/I by EUR 105,000.00. The Company's share capital is therefore increased conditionally by up to EUR 195,000.00 through the issue of up to 195,000 new bearer shares in the Company.

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

The Annual General Meeting held on June 16, 2017 approved a conditional increase in the share capital by up to EUR 500,000.00 through the issue of up to 500,000 new bearer shares in the Company with dividend entitlement from the beginning of the financial year in which they are issued (Conditional Capital 2017). The Conditional Capital 2017 serves the purpose of fulfilling the exercise of subscription rights granted by December 3, 2019 on the basis of the authorization approved by the Annual General Meeting held on June 16, 2017. The conditional capital increase shall only be carried out insofar as holders of stock options exercise their right to subscribe to shares of the Company and the Company does not grant treasury shares or a cash settlement to fulfil the subscription rights.

Authorizations

By resolution of the Annual General Meeting of July 16, 2010, July 6, 2012, June 14, 2013, June 13, 2014, June 12, 2015, and June 16, 2017 (previous year: July 16, 2010, July 6, 2012, June 14, 2013, June 13, 2014, and June 12, 2015), the Management Board or the Supervisory Board was authorized to establish stock option programs and issue them to enttiled persons within the defined issuing periods. There is currently one authorization in force pursuant to the resolution of the Annual General Meeting held on June 16, 2017 (previous year: Authorization pursuant to the Annual General Meeting resolution dated June 12, 2015). The conditions for the exercise thereof are described under (12) Share-based compensations.

Treasury shares

The Annual General Meeting held on June 13, 2014 authorized the Company, in accordance with Article 71 para. 1 no. 8 of the German Stock Corporation Act (AktG), to buy treasury shares up to a total notional amount of 10% of the share capital of the Company existing at the time of the adoption of the resolution in question until June 12, 2019. The shares acquired together with the other treasury

shares held by or attributed to the Company in accordance with Article 71a et seq. AktG may at no time exceed 10% of the share capital. The authorization must not be used for the purpose of trading in treasury shares. The authorization can be exercised by the Company or by third parties, in full or partial amounts, on one or more occasions, on behalf of the Company for one or more purposes. Shares may be purchased at the Management Board's discretion either on the stock market, through a public offer or as a public invitation to make such an offer. The Management Board is authorized to use Company shares acquired on the basis of this authorization for all legally permissible purposes, also in particular for the purposes stated in the authorization. The right of shareholders to subscribe to these treasury shares is excluded insofar as these shares are used for the purposes detailed in the authorization or if compensation for fractional amounts is required in a sale to all shareholders. In the 2017 financial year, *aap* Implantate AG made use of the authorization issued at the resolution of the Annual General Meeting held on June 13, 2014 to purchase treasury shares in accordance with Section 71 para. 1 no. 8 German Stock Corporation Act (AktG), and implemented a voluntary public share buyback offer. The share buyback was implemented to partially distribute proceeds from the 2016 sale of the subsidiary *aap* Biomaterials GmbH to shareholders. In this context, 2,249,746 of the Company's bearer shares were acquired for a price of EUR 1.52. In accordance with a purpose stated in the authorization, the 2,249,746 acquired bearer shares were withdrawn, and *aap* Implantate AG's share capital was reduced by the corresponding amount of EUR 2,249,746.00. An amount as high as the notional share in the share capital of EUR 2,249,746.00 was transferred to the capital reserve and other revenue reserves were dissolved in an amount as high as the acquisition costs including incidental acquisition costs of EUR 3,442,399.92. The 2,249,746 acquired bearer shares corresponded to a calculated share of around 7.3% of the Company's share capital existing at the time of the adoption of the resolution.

Authorized capital

As of December 31, 2017, *aap* Implantate AG held authorized capital with a nominal total value of EUR 6,959,963.00 (previous year: EUR 11,142,242.00) that can be issued in tranches with different time limitations totaling up to 6,959,963 bearer shares (previous year: 11,142,242). For the authorized recognized capital 2012/I in the previous year in the amount of EUR 4,182,279.00, the term of the authorization ended on July 5, 2017.

	Authorization of the Management Board by the Shareholders' Meeting resolution of	**Term of the authorization**	**Approved capital in EUR**	**Utilization in EUR**	**Remaining approved capital in EUR**
Authorized capital 2014/I	06/13/2014	06/12/2019	6,959,963.00	0	6,959,963.00
			6,959,963.00	**0**	**6,959,963.00**

The capital stock of the company can be increased on one or more occasions against cash contributions or contributions in kind.

Authorized capital 2014/I:

The new shares are generally to be offered to the shareholders for subscription. They can also be offered by one or more financial institutions or by one or more equivalent institutions as long as they are offered to the shareholders for subscription (indirect subscription right).

The subscription rights of the shareholders may be excluded with the approval of the Supervisory Board

a) up to an amount not exceeding 10% of the curent capital stock in order to enable the new shares to be issued against cash contributions in an amount which is not significantly below the market price of the company's existing exchange-listed shares of the same class. This 10% limit includes the shares which were sold during the terms of this authorization due to an authorization of the Annual General Meeting pursuant to Section 71 para. 1 No. 8 German Stock Corporation Act (AktG) and under exclusion of subscription rights pursuant to Section 186 para. 3 Clause 4 German Stock Corporation Act (AktG). Furthermore, shares are also to be included which were issued during the term of this authorization for serving convertible bonds and/or bonds with warrants, provided that the bonds were issued in the corresponding application of Section 186 para. 3 Clause 4 German Stock Corporation Act (AktG) under exclusion of subscription rights;

b) for the purpose of the acquisition of assets in kind, in particular through the acquisition of companies or of shareholdings in companies or through the acquisition of other assets, if the acquisition or shareholding is in the well-intended interests of the company and should be performed against the issue of shares;

c) insofar as necessary, to grant holders of convertible bonds and/or warrant bonds issued by the company or its subsidiaries, a subscription right on new shares in the extent, as it would be granted to them after exercising their conversion or option right;

d) in order to offset fractional amounts.

For the authorized recognized capital 2012/I in the previous year in the amount of EUR 4,182,279.00, the term of the authorization ended on July 05, 2017 and therefore during the reporting year of this annual financial report 2017. For this reason, the key requirements of the approved capital 2012/I will be briefly listed in the following within ideally transparent reporting:

Approved capital 2012/I:

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

a) in order to offset fractional amounts,

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

c) in order to enable the issuance of shares in return for contributions in kind as part of the acquisition of companies, parts of companies or shareholdings in companies (including conversions by the terms of the Conversion Act),

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

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

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

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

12. Share-based Payments

The essential conditions of the programs in effect in the financial year (SOP) 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 purchase one no-par value bearer share of *aap* Implantate AG in return for payment of the exercise price.	
	The pecuniary advantage is restricted to four times the exercise price.	
Authorized Individuals	• 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	• 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: Mamanegent 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 • 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-yearly financial report or the interim reports for the first or third quarter of the financial year
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 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 *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 must exceed the exercise price by at least 10%
	2015 Option program: 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 rights are exercised must be at least EUR 3.50
	2017 Option programs: The (average) closing auction price of the *aap* 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 settlements.

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 Chair 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 future compensation obligations and recorded as a provision.

At the Annual General Meeting on June 16, 2017, the Management Board or the Supervisory Board was authorized to set-up a stock option plan of up to 500,000 stock options for an entitled group of people by December 3, 2019 (2017 stock option program). During the reporting year, 60,000 options from the stock option program 2015 were issued to members of the Management Board of *aap* Implantate AG. In addition, 449,500 stock options were issued from the 2017 stock option program.

Of this amount, 200,000 stock options were issued to members of the Company's Management Board and 249,500 stock options to employees of *aap* Implantate AG. During the previous year, 96,500 options from the 2014 stock option program were issued to employees of the Company. The fair values were determined using a binomial model. The following paramaters were considered in this determiniation:

	Tranche
2017 Stock Option Program	1
2015 Stock Option Program	2
Grant date	07/05/2017
Performance Target	EUR 1.66
Risk-free interest rate	0.00%
Expected volatility	40.13%
Expected dividend payment	EUR 0
Share price on the measurement date	EUR 1.46
Expected option term	5 years

	Tranche
2017 Stock Option Program	2
Grant date	12/01/2017
Performance Target	EUR 1.89
Risk-free interest rate	0.00%
Expected volatility	38.72%
Expected dividend payment	EUR 0
Share price on the measurement date	EUR 1.66
Expected option term	5 years

	Tranche
2014 Stock Option Program	3
Grant date	07/04/2016
Performance Target	EUR 1.49
Risk-free interest rate	0.00%
Expected volatility	43.48%
Expected dividend payment	EUR 0
Share price on the measurement date	EUR 1.27
Expected option term	5 years

	Tranche
2014 Stock Option Program	4
Grant date	12/01/2016
Performance Target	EUR 1.44
Risk-free interest rate	-0.21%
Expected volatility	41.30%
Expected dividend payment	EUR 0
Share price on the measurement date	EUR 1.18
Expected option term	5 years

The best estimate by the Management Board regarding the following influencing factors were included in the calculation of the expected option term: Non-transferability, exercise restrictions, including the probability that the market conditions ties to the option are met, and assumptions on exercise behavior. Volatility was based on weekly yields. The expected volatility of the share is based on the assumption that historical volatilities foreshadow future trends, whereby the share's actual volatility may deviate from the assumptions. For consideration purposes of early exercise effects, it was assumed that the employees will exercise their exercisable options when the share price corresponds to 1.4 to 2.0 times the exercise price.

Option program	Grant date 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
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

With the fulfilment of the exercise requirements, 29,000 options from the 2010 stock option program (Tranche 3) and 33,000 options from the 2012 stock option program (Tranche 3) were exercised during the reporting year through the acquisition of shares. The average share price on the day of the derecognition of the shares at the bank managing *aap* ranged from EUR 1.47 to EUR 1.48. During the previous year, no stock options were exercised.

The range of exercise prices for the stock options outstanding as of December 31, 2017 was EUR 1.00 to EUR 2.51 (previous year: EUR 1.00 to EUR 2.51).

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

	2017		2016	
	Quantity	WAEP in EUR	Quantity	WAEP in EUR
Pending as of 1/1	1,046,000	1.42	1,453,50 0	1.32
granted	532,000	1.50	96,500	1.33
expired / waived / forfeited	-80,000	1.73	-504,000	1.59
exercised	-62,000	1.16	0	--
Outstanding as at 12/31	**1,436,000**	**1.44**	**1,046,00**	1.42
of which exercisable	**631,000**	**1.15**	552,500	**1.08**

The stock options pending at the end of the financial year have a weighted average remaining term of 3.9 years (previous year: 4.4 years).

The expenses for ongoing option programs during the reporting period totaled KEUR 95 (previous year: income KEUR 107), of which KEUR 95 was for programs offset through equity instruments (previous year: income KEUR 107).

13. Provisions

2017

	Balance at 01/01/2017	Consump-tion	Release	Addition	Reclassifi cation	Balance at 12/31/2017	Of which RT * >1 year
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Employee commitments	41	-41	0	19	0	19	0
Storage costs	27	0	0	0	0	27	22
Other uncertain liabilities	0	0	0	0	0	0	0
Litigation costs and risks	0	0	0	248	50	298	0
Other provisions	343	0	0	113	-50	406	15
Total	412	-41	0	380	0	750	37

* RT = Residual term

2016

	Balance at 01/01/2016	Consump-tion	Release	Addition	Reclassification	Balance at 12/31/2016	Of which RT * >1 year
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Employee commitments	86	0	0	0	-45	41	0
Storage costs	27	0	0	0	0	27	22
Other uncertain liabilities	184	-184	0	0	0	0	0
Other provisions	0	0	-17	315	45	343	15
Total	298	-184	-17	315	0	412	37

* RT = Residual term

14. Liabilities

The residual terms of the liabilities are as follows:

2017

		Residual term (RT)			
	12/31/2017 total	Up to 1 year	1–5 years	More than 5 years	Previous year
	KEUR	KEUR	KEUR	KEUR	KEUR
Financial liabilities	338	333	5	0	1,260
Trade receivables	1,752	1,752	0	0	2,541
Other financial liabilities	2,666	1,922	744	0	2,131
Other liabilities	1,080	402	679	0	1,465
	5,836	4,409	1,423	0	7,397

2016

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

Of the non-current liabilities (RT > 1 year) of KEUR 1,423 (previous year: KEUR 2,129), KEUR 633 (previous year: KEUR 1,310) was interest-bearing. Of the total current liabilities (RT < 1 year) of

KEUR 4,409 (previous year: KEUR 5,268), KEUR 799 (previous year: KEUR 1,520) was interest-bearing. The average interest burden was about 2.4% (previous year: 2.4%).

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

The following foreign currency liabilities existed:

	12/31/2017 total KEUR	of which KEUR	Currency	KEUR	Currency
Trade receivables	244	177	USD	70	CHF

	12/31/2016 total KEUR	of which KEUR	Currency	KEUR	Currency
Trade receivables	41	30	USD	11	CHF

15. Other financial liabilities

2017

		Residual term (RT)		
	12/31/2017	**Up to 1 year**	**1–5 years**	**More than 5 years**	**Previous year**
	KEUR	**KEUR**	**KEUR**	**KEUR**	**KEUR**
Capital lease obligations	1,095	466	629	0	1,570
Other financial liabilities	1,571	1,456	115	0	561
	2,666	**1,922**	**744**	**0**	**2,131**

2016

		Residual term (RT)		
	12/31/2016	**Up to 1 year**	**1–5 years**	**More than 5 years**	**Previous year**
	KEUR	**KEUR**	**KEUR**	**KEUR**	**KEUR**
Capital lease obligations	1,570	521	1,049	0	1,666
Other financial liabilities	561	561	0	0	614
	2,131	**1,082**	**1,049**	**0**	**2,280**

The remaining financial liabilities primarily affect obligations from cancellation agreements totaling KEUR 533 (previous year: KEUR 0), employee bonuses and other bonuses totaling KEUR 433 (previous

year: KEUR 315), repayment obligations from state sector grants amounting to KEUR 395 (previous year: KEUR 0) and travel expenses in the amount of KEUR 13 (previous year: KEUR 98).

Liabilities from finance leases relate to machines and are secured by the leased assets. The agreed term of the respective agreements averages 36-60 months. Contract extension options or options for premature purchase are not provided for contractually. The interest rate was agreed for the entire term of the leasing relationship and averages about 2.5% (previous year: 2.5%).

16. Other liabilities

2017

		Residual term (RT)			
	12/31/2017	Up to 1 year	1–5 years	More than 5 years	Previous year
	KEUR	KEUR	KEUR	KEUR	KEUR
Special items for investment grants	771	93	336	342	865
Personnel liabilities	202	202	0	0	477
Tax liabilities	105	105	0	0	122
Other liabilities	2	2	0	0	1
	1,080	401	336	342	1,465

2016

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

The personnel liabilities mainly relate to paid annual leave, liabilities from taxes and payable wage taxes.

17. Other financial liabilities

Other financial liabilities break down as follows:

2017

		Principal payments		
	12/31/2017 KEUR	2018 KEUR	2019 until 2022 KEUR	2023 KEUR
Future payments from rent	2,090	549	1,541	0
Future payments from other operating lease contracts	300	124	176	0
Future payments from financing lease contracts	1,125	485	640	0
Future payments for non-current assets	80	80	0	0
Future payments from framework contracts	1,000	333	667	0
	4,565	**1,552**	**3,013**	**0**

2016

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

The future rent payments for production and business premises include annual contractual rent increase clauses of 1.5%. Expenses recorded from current rental contracts and other operating lease contracts in the reporting period totaled KEUR 782 (previous year: KEUR 837).

The future payments from finance leasing contracts amount to KEUR 1,125 (previous year: KEUR 1,628) and include future interest payments in the amount of KEUR 30 (previous year: KEUR 58). The recognized book value is KEUR 1,095 (previous year: KEUR 1,570).

18. Contingent liabilities

Contingent liabilities in the amount of KEUR 921 (previous year: KEUR 780) exist due to received investment grants and supplements from the government. Accordingly the financed assets must remain in the Berlin premises for at least five years after completion of the investment project. Due to the operating conditions, the Management Board is anticipating that the assets remain in the Berlin site and the remaining requirements will be met, making a claim unlikely.

G. Reporting on financial instruments

1. Financial instruments by valuation category

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

The values of individual financial instruments by valuation category are shown in the following tables:

2017	Valuation categories in accordance with IAS 39	Book value 12/31/2017	Amortized costs	Fair value without impacting income	Valuation acc. to IAS 17	Fair value 12/31/2017
		KEUR	KEUR	KEUR	KEUR	KEUR
Assets						
Financial assets	AfS	192	192			192
Trade receivables	LaR	2,543	2,543			2,543
Other financial assets	LaR	4,066	4,066			4,066
Cash and cash equivalents	LaR	13,279	13,279			13,279
Liabilities						
Financial liabilities	FLAC	338	338			338
Trade receivables	FLAC	1,752	1,752			1,752
Capital lease obligations	-	1,095	-	-	1,095	-
Other financial liabilities	FLAC	1,080	1,080			1,080

Of which aggregated by IAS 39 valuation categories:

	Valuation categories in accordance with IAS 39	Book value 12/31/2017	Amortized costs	Fair value without impacting on income	Fair value 12/31/2017
		KEUR	KEUR	KEUR	KEUR
Financial assets available for sale	AfS	192		0	192
Loans and receivables (including cash and cash equivalents)	LaR	19,888		19,888	19,888
Total financial assets		**20,080**	**0**	**19,888**	**20,080**
Liabilities held at amortized costs	FLAC	3,170		3,170	3,170
Total financial liabilities		**3,170**		**3,170**	**3,170**

2016	Valuation categories in accordance with IAS 39	Book value 12/31/2016	Amortized costs	Fair value without impacting on income	Valuation acc. to IAS 17	Fair value 12/31/2016
		KEUR	KEUR	KEUR	KEUR	KEUR
Assets						
Financial assets	AfS	192	192			192
Trade receivables	LaR	2,936	2,936			2,936
Other financial assets	LaR	5,467	5,467			5,467
Cash and cash equivalents	LaR	23,774	23,774			23,774
Liabilities						
Financial liabilities	FLAC	1,260	1,260			1,260
Trade receivables	FLAC	2,541	2,541			2,540
Capital lease obligations	-	1,570	-	-	1,570	-
Other financial liabilities	FLAC	1,465	1,465			1,465

Of which aggregated by IAS 39 valuation categories:

	Valuation categories in accordance with IAS 39	Book value 12/31/2016	Amortized costs	Fair value without impacting on income	Fair value 12/31/2016
		KEUR	KEUR	KEUR	KEUR
Financial assets available for sale	AfS	192	192		192
Loans and receivables (including cash and cash equivalents)	LaR	32,177	32,177		32,177
Total financial assets		**32,369**	**32,369**		**32,369**
Liabilities held at amortized costs	FLAC	5,266	5,266		5,266
Total financial liabilities		**5,266**	**5,266**		**5,266**

The financial assets available for sale relate to shares in AEQUOS Endoprothetik GmbH.

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

	Loans and receivables (including cash and cash equivalents)		Liabilities held at amortized costs	
	2017	2016	2017	2016
	KEUR	KEUR	KEUR	KEUR
Income from Intercompany loans at the balance sheet date	0	396	0	0
Expenses from Intercompany loans at the balance sheet date	-1,261	0	0	0
Realized exchange rate differences	-26	4	0	0
Interest income	3	19	0	0
Interest paid	0	0	-48	-105
Expenses from write-downs	-104	-263	0	0
Income from write-ups	8	73	0	0
Net income	**-1,284**	**229**	**-48**	**-105**

3. Management of Financial Risks

Due to its operational activity, the *aap* Group is subject to the following financial risks:

- Market risks
- Liquidity risks
- Credit risks

The risk management of the Group is performed by the central finance department pursuant to the guidelines approved by the Management Board, with the objective of minimizing potentially negative effects on the financial position of the Group. For this purpose, financial risks are identified, evaluated and secured in close cooperation with the operating units of the Group.

Internal guidelines bindingly provide the scope, responsibilities and controls for this. The risks of the *aap* Group as well as goals and processes of risk management are explained in detail in the management report in the Section "Risk and Opportunity report" (comp. Section VI.).

Market risks

A market risk is defined as the risk that the fair value or future cash flows of a financial instrument fluctuate due to changes in the market prices. The market risk includes interest rate risk, currency risk and other price risks, such as the commodity risk or the share price risk.

Interest rate risks

Interest rate risks arise for financial liabilities and cash investments. The Company considers the gross risk in terms of probability to be high, with a low potential level of damages. *aap* mitigates these risks with Group-wide cash management and the completion of primary financial transactions. Interest rate and price change risks are controlled through the mixture of terms as well as fixed and variable interest positions. All interest-bearing liabilities of the Group are at a fixed interest rate. At 12/31/2017, approx. 100% (previous year: 100%) of the borrowed capital of the Group had a fixed interest. Changes in market interest rates will only have an effect here, insofar as these financial instruments would be accounted for at fair value. However, this is not the case. Since all liabilities were of fixed interest at 12/31/2017, no sensitivity analyses for the variable interest-bearing financial liabilities were made.

Foreign currency risks

As part of sensitivity analyses, foreign currency risks were calculated for businesses in US Dollars. The effects for other foreign currencies of the Group are of secondary significance. As of 12/31/2017, foreign currency receivables made up around 27.9% (previous year: 15%) of the receivables and was exclusively allotted to receivables in US Dollars. Foreign currency liabilities amounted to around 10.0% of the Group's borrowings (previous year: approx. 7.9%). The share of US dollar liabilities was about 7.2% (previous year: 7.4%). If the exchange rate of the euro relative to the respective foreign currencies had changed by 10% and if all other variables were to have remained constant, earnings before taxes for the reporting period would have been KEUR 106 higher or KEUR 85 lower (previous year: KEUR 18 higher or KEUR 22 lower). For this, the foreign currency losses from the liabilities and receivables based on US Dollars from trade receivables and services would have been the cause. In light of this and a cost-benefit assessment, the Group has decided to do without the conclusion of hedging transactions.

Liquidity risks

Liquidity risks result from a lack of availability of financing sources, among other reasons. We combat a liquidity risk with a healthy mix on short and long-term granted loans. Based on the significant cash inflow in 2016, the company is not reliant on external financing in the medium term. The liquidity risk is currently assessed as low. As of 12/31/2017, *aap* had usable liquidity (total of cash and cash equivalents and freely available credit lines) of EUR 13.3 million (previous year: EUR 23.8 million).

During the 2017 financial year, loans from banks in the amount of KEUR 1,283 (previous year: KEUR 1,998) were repaid as scheduled.

The contractually fixed payments, such as repayments and interest, from recognized, financial liabilities, are described below:

12/31/2017		Principal payments			Interest payments		
		2018	2019 until 2022	2023	2018	2019 until 2022	2023
		KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Financial liabilities	338	333	5	0	6	0	0
Capital lease obligations	1,095	466	629	0	19	12	0
Other financial liabilities	1,572	1,456	116	0	0	0	0
Total	3,005	2,255	750	0	25	12	0

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

Credit risks

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

Credit risks are primarily the result of trade receivables. Credit risks to contractual partners are reviewed before the agreement is concluded and are continuously monitored. Credit risks remain, as

customers may not meet their payment obligations. The *aap* Group limits this risk through a regular credit rating of the customer as well as through efficient receivables management. In addition, the claims are secured through retention of title, so that the products can be demanded to be returned in case of non-payment and can also be sold to other *aap* customers after review and calculation. The defaults of financial claims during the reporting year amounted to KEUR 40 (previous year: KEUR 0).

There were no indications of payment defaults for trade receivables which were not value adjusted as of December 31, 2017.

4. Capital management

aap controls its capital with the objective of ensuring the long-term development of the company, its short-term solvency, and a sufficiently high degree of self-financing. In doing so, it is ensuring that all group companies can operate under the going-concern assumption. In addition, the goal of capital management of *aap* includes ensuring that a credit rating and a good equity ratio corresponding to the load contracts are retained to support its business activities. The group controls its capital structure and makes adjustments by taking into account the change of economic conditions. *aap* monitors its capital using the degree of debt and interest coverage ratio as well as the net debt ratio. In the process, the Management Board of *aap* assesses a debt coverage ratio that is higher than 0 but less than 2.0 and an interest coverage ratio higher than ten as strategic target figures to be reached. *aap* is not subject to any further articles or contractual obligations to capital retention beyond the rules governing stock corporations.

Debt/interest coverage ratio

	12/31/2017	12/31/2016
Interest-bearing liabilities	1,432	2,830
Balances below credit lines	803	1,803
Interest-bearing liabilities (net)	629	1.027
EBITDA	-6,211	-7,888
Debt coverage ratio (DCR)	**-0.10**	**-0.13**
Interest paid	48	105
EBITDA	-6,211	-7,888
Interest coverage ratio (ICR)	**-129.4**	**-75.1**

Net debt

The net leverage ratio of *aap* at the end of the year is comprised as follows:

	12/31/2017	12/31/2016
Interest-bearing liabilities	1,432	2,830
Cash and cash equivalents	13,279	23,774
Net debt	0	0
Shareholders' equity	42,559	54,776
Net debts for equity capital (allocation)	**0%**	**0%**

H. Other disclosures

1. Relationships with related companies and individuals

Relationships with related companies relate only to associated companies.

Relationships with individuals relate only to the Supervisory Board and the Management Board and are presented separated under section 2.

The proceeds from sales of goods and services to associated companies during the 2017 financial year were KEUR 0 (previous year: KEUR 1,170).

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

2. Management Board, Supervisory Board

Members of the company's Management Board during the reporting year were

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

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

The total remuneration of the Management Board amounted to KEUR 799 (previous year: KEUR 801). The main features of the remuneration system of the Management Board and Supervisory Board are presented in the remuneration report. It is part of the management report.

	Remuneration components				
	Fixed	Performance-related	With long-term incentivizing effect	Total 2017	Total 2016
	KEUR	KEUR	KEUR	KEUR	KEUR
Bruke Seyoum Alemu, CEO	321	116	22	459	470
Marek Hahn, CFO	230	82	28	340	331
	551	198	50	799	801

The fixed remuneration component contains payments in a reinsured provident fund to build a company pension in the amount of KEUR 43 (previous year: KEUR 43), of which KEUR 25 for Mr. Alemu and KEUR 18 for Mr. Hahn.

The company concluded a D&O insurance for the Management Board, the Supervisory Board and executives. The fees in 2017 totaled KEUR 20 (previous year: KEUR 29).

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

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

Ms. Jacqueline Rijsdijk (Deputy Chairwoman), member of several Supervisory Boards, Leiderdorp, Netherlands

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

The term of office of the Supervisory Board members mentioned before ended with the conclusion of the Annual General Meeting on June 16, 2017, so that new elections had to take place. All Supervisory Board members were reelected to the body from the Annaul General Meeting on June 16, 2017. The Supervisory Board members were elected in accordance with the articles of association for the full

term until the end of the Annual General Meeting which decides on their discharge for the 2021 financial year.

The remuneration of the Supervisory Board totaled KEUR 90 in the financial year (previous year: KEUR 85). It is comprised as follows:

	2017 KEUR	2016 KEUR
Mr. Rubino Di Girolamo	30	30
Mr. Biense Visser	30	25
Jacqueline Rijsdijk (entry 10/06/2016)	30	10
Mr. Ronald Meersschaert (exit 10/05/2016)	0	20
Total	90	85

Payments of KEUR 90 occurred in the reporting year (previous year: KEUR 170) to:

	2017 KEUR	2016 KEUR
Mr. Biense Visser	30	40
Ms. Jacqueline Rijsdijk (since 10/06/2016)	30	10
Mr. Rubino Di Girolamo	30	65
Mr. Ronald Meersschaert (until 10/05/2016)	0	55
Total	90	170

Of that amount, there were no payments to former Supervisory Board members (previous year: KEUR 0).

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

Mr. Biense Visser	Gerlin N.V. Fund of Teslin Capital Management B.V., Maarsbergen (Netherlands), member of the Supervisory Board
Ms. Jacqueline Rijsdijk	Groenfonds of Triodos Bank N.V., Zeist (Netherlands), Chairwoman of the Supervisory Board
	Deloitte Netherlands, Amsterdam (Netherlands), member of the Supervisory Board
	Royal Cosun U.A., Breda (Netherlands), member of the Supervisory Board
	Airbus Defense and Space Netherlands B.V., Leiden (Netherlands), member of the Advisory Board
	Medical Center the Free University of Amsterdam, Amsterdam (Netherlands), member of the Supervisory Board

	Fair Share Fund of Triodos Bank N.V., Zeist (Netherlands), Chairwoman of the Supervisory Board
Mr. Rubino Di Girolamo	Metalor Dental Holding AG, Zug (Switzerland) and its subsidiaries (Z-Systems AG, Oensingen (Switzerland), New Dent AG, Oensingen (Switzerland), Metanova AG, Zug (Switzerland)), each member and President of the Administrative Board

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

	Shares		Options	
	2017	**2016**	**2017**	**2016**
Supervisory Board				
Biense Visser	300,373	275,196	150,000	150,000
Jacqueline Rijsdijk (since 10/06/2016)		0		0
Rubino Di Girolamo	1,559,258	1,626,157		0
Ronald Meersschaert (until 10/05/2016)		0		0
Management Board				
Bruke Seyoum Alemu	250,000	160,000	359,000	204,000
Marek Hahn	85,000	56,000	262,000	186,000

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

As part of the share buyback program 66,899 bearer shares were acquired for a share price of EUR 1.52 from related individuals.

3. Disclosures in Accordance with Section 160, para. 1 no. 8 German Stock Corporation Act (AktG)

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

2017:

In accordance with Section 21, para. 1 Securities Trading Act (WpHG), Mr. Marcel Martinus Jacobus Johannes Boekhoorn notified us that his voting rights share in *aap* Implantate AG, Berlin, Germany, exceeded the threshold of 5% of the voting rights on July 20, 2017 due to the change of the number of total voting rights, and that on this day it amounted to 5.16% (which corresponds to 1,474,075 voting rights). 5.16% of these voting rights (equivalent to 1,474,075 voting rights) are to be allocated to Mr. Marcel Martinus Jacobus Johannes Boekhoorn in accordance with Section 22 Securities Trading Act (WpHG). Mr. Marcel Martinus Jacobus Johannes Boekhoorn is to be allocated voting rights from the following shareholders, each of which has a voting rights share in *aap* Implantate AG, Berlin, Germany,

that amounts to 5% or more: Full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity: Marcel Martinus Jacobus Johannes Boekhoorn (0.00%); Semper Fortuna N.V. (0.00%); Ramphastos Participaties Coöperatief U.A. (0.00%); Elocin B.V. (5.16%).

In accordance with Section 21, para. 1 Securities Trading Act (WpHG), Ratio Capital Management B.V., Amsterdam, Netherlands, notified us that its voting rights share in *aap* Implantate AG, Berlin, Germany, exceeded the threshold of 15% of the voting rights on July 20, 2017 due to the change of the number of total voting rights, and that on this day it amounted to 15.88% (which corresponds to 4,539,200 voting rights). 15.88% of these voting rights (equivalent to 4,539,200 voting rights) are to be allocated to Ratio Capital Management B.V in accordance with Section 22 Securities Trading Act (WpHG). Ratio Capital Management B.V. is to be allocated voting rights from the following shareholders, each of which has a voting rights share in *aap* Implantate AG, Berlin, Germany, that amounts to 15% or more: Stichting Bewaarder Ratio Capital Partners. Other explanatory remarks: Collective investment undertaking. The shares with voting rights attached to them are owned by Stichting Bewaarder Ratio Capital Partners on behalf of the participants in the fund. Ratio Capital Management B.V. is the manager of the fund. Ratio Capital Management B.V. can exercise the voting rights of the issuer.

In accordance with Section 21, para. 1 Securities Trading Act (WpHG), Stichting Bewaarder Ratio Capital Partners, Amersfoort, Netherlands, notified us that its voting rights share in *aap* Implantate AG, Berlin, Germany, exceeded the threshold of 15% of the voting rights on July 20, 2017 due to the change of the number of total voting rights, and that on this day it amounted to 15.88% (which corresponds to 4,539,200 voting rights). 15.88% of these voting rights (equivalent to 4,539,200 voting rights) are directly held by Stichting Bewaarder Ratio Capital Partners in accordance with Section 21 Securities Trading Act (WpHG). Other explanatory remarks: Collective investment undertaking. The shares with voting rights attached to them are owned by Stichting Bewaarder Ratio Capital Partners on behalf of the participants in the fund. Ratio Capital Management B.V. is the manager of the fund. Ratio Capital Management B.V. can exercise the voting rights of the issuer.

In accordance with Section 21, para. 1 Securities Trading Act (WpHG), Mr. Jürgen Krebs notified us that his voting rights in *aap* Implantate AG, Berlin, Germany, amounted to 12.49% (equivalent to 3,852,009 voting rights) on March 08, 2017 due to the acquisition/disposal of shares with voting rights. 9.54% of these voting rights (equivalent to 2,941,200 voting rights) are held directly by Mr. Jürgen Krebs in accordance with Section 21 Securities Trading Act (WpHG). 2.95% of these voting rights (equivalent to 910,809 voting rights) are to be allocated to Mr. Jürgen Krebs in accordance with Section 22 Securities Trading Act (WpHG). Mr. Jürgen Krebs is to be allocated voting rights from the following shareholders, each of which has a voting rights share in *aap* Implantate AG, Berlin, Germany, that amounts to less than 3%: Full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity: Jürgen Krebs (9.54%); Merval AG (2.95%).

2014:

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

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

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

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

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

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

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

2009:

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

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

2008:

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

4. Auditing fees

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

a) for the financial statements (annual and consolidated financial statements as well as other audit services) KEUR 88 (previous year: KEUR 120)

b) other services KEUR 3 (previous year: KEUR 31)

5. Events after the balance sheet date

None known to date.

6. Declaration on the German Corporate Governance Code

aap Implantate AG has submitted the declaration of conformity to the German Corporate Governance Code as required by Section 161 of the German Stock Corporation Act (AktG) and has made it available to shareholders on our website (https://www.aap.de/investor-relations/corporate-governance/declaration-of-conformity).

7. Publication

These consolidated financial statements as of December 31, 2017 were released for publication by the Management Board of the company on March 29, 2018.

Berlin, March 29, 2018

The Management Board

Bruke Seyoum Alemu
Chairman of the Management Board / CEO

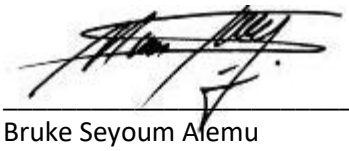
Marek Hahn
Member of the Management Board / CFO

D. Responsibility Statement by the Legal Representatives

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

Berlin, March 29, 2018

The Management Board



Bruke Seyoum Alemu
Chairman of the Management Board / CEO

Marek Hahn
Member of the Management Board / CFO

E. Independent Auditor's Report

To *aap* Implantate AG, Berlin

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Opinions

We have audited the consolidated financial statements of *aap* Implantate AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of *aap* Implantate AG for the financial year from January 1, 2017 to December 31, 2017. In accordance with German legal requirements, we have not audited the content of the group corporate governance declaration included in section X. of the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1, 2017 to December 31, 2017, and

- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of the group statement on corporate governance included in section X. of the combined management.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Measurement of development costs

Related information in the financial statements and the combined management report

The notes to the consolidated financial statements, Section B. "Accounting policies" under "Significant accounting policies" in the sub-section "Intangible assets" outline the requirements for capitalizing development costs, the initial measurement and subsequent measurement. Section C. is entered into "Key judgments, estimates and assumptions" in connection with the initial capitalization and the impairment tests carried out each year. The additions to the development costs capitalized and other information on impairment testing are presented in Section F. 1. "Development costs". The "Risk and opportunities report" of the combined management report, "Presentation of significant risks" in the Section "Capitalization of development costs" provides further explanations and a risk assessment made by the legal representatives with respect to the probability of undesirable developments or project cancellations occurring.

Circumstances and risk for the audit

The carrying amounts of development costs capitalized amounted to € 11,741 thousand in the consolidated financial statements as at the reporting date, i.e. 23 % of the balance sheet total or 28 % of equity capital. Of the development projects, the two largest projects were in the approval and development stage as of December 31, 2017. The expenses for research and development in the financial year 2017 amounted to € 1,505 thousand, of which € 1,307 thousand have been capitalized.

Risks may arise for the company if the recoverable amount from the projects is significantly lower than their carrying amounts. This may be due to unscheduled higher development costs, lower than expected returns or other undesirable developments such as project cancellations.

The development costs capitalized are subject to an annual impairment test by the company in order to determine any potential need for write-offs. The result of these measurements largely depends on how the legal representatives assess future cash inflows and derive the discount rates used at the time.

In view of the underlying complexity of the measurement, as well as the discretionary judgment used in the measurement, the measurement of the development costs capitalized in the context of our audit is a key audit matter.

Audit approach and findings

Within the scope of our audit, we analyzed the process implemented and the accounting and measurement requirements for determining the fair values of development costs with regard to a potential risk of error. We acknowledged the approach of the company when to capitalizing interest rates and in deriving future returns for their compliance with commercial professional law. We have analyzed the underlying planning. We have retraced the significant assumptions regarding the exercising of different options and the expected cash inflows from development projects by discussing these in detail with the legal representatives of *aap* and, if available, by comparing with existing market valuations. On this basis, we have evaluated their appropriateness.

The appropriateness of the other key measurement assumptions, such as the discount interest rate, was based on an analysis of market indicators. We have analyzed the parameters used to determine the discount interest rates used with regard to their appropriate derivation and retraced their calculation, in accordance with the current requirements of commercial law.

By using sensitivity studies, we assessed impairment risks in the event of changes in key measurement assumptions. Furthermore, we have retraced the mathematical accuracy of the measurement models.

Our audit procedures did not result in any significant objections regarding the measurement of the development costs capitalized.

Revenue recognition and deferred revenue

Related information in the financial statements and the combined management report

The notes to the consolidated financial statements, Section B. “Accounting policies” under “Significant accounting policies” in the sub-section “Revenue recognition” provide information on revenue recognition and deferred revenue in the consolidated financial statements. The structure of the customers, the sales markets and the sales strategy are described in the combined management report in Section I. 6. “Customers and sales markets”.

Circumstances and risk for the audit

In the financial year 2017, *aap* generated revenue of € 10,902 thousand. Of this amount, € 8,220 thousand originated from abroad, which corresponds to a 75 % portion of the revenue. The legal representatives of *aap* issued accounting instructions for revenue recognition and implemented processes for revenue recognition. As a result of different contractual agreements, potential restrictions due to the required approvals and uncertainties regarding the actual payment and delivery in connection with "bill and hold" contracts, we judged revenue recognition and deferred revenue as being complex as at the reporting date, therefore there is an increased risk here that the accounting may not be correct.

Audit approach and findings

As part of our audit, we acknowledged the accounting and measurement requirements for revenue recognition in the consolidated financial statements. In addition to analytical audit procedures, we assessed the control environment and the controls set up for recognizing revenue on an accrual basis. In random samples, we checked the existence of trade receivables and incoming payments. In addition, we also retraced revenue recognition on the basis of contractual agreements on a sample basis. We checked sales transactions shortly before and after the reporting date with regard to random checks for the accuracy of the accruals. In addition, we obtained balance confirmations for a selection of customers.

Our audit procedures did not indicate any significant objections with respect to the recognition of accrued and deferred revenue.

Inventory measurement

Related information in the financial statements and the combined management report

The notes to the consolidated financial statements as at December 31, 2017, Section B. "Accounting policies" under "Significant accounting policies" in the sub-section "Inventories" describe the accounting and measurement methods used for inventories. For the rate of stock turnover as a performance indicator, see Section V. 5. "Financial and non-financial performance indicators" and the Management Agenda 2017 and 2018 in the combined management report.

Circumstances and risk for the audit

As at the reporting date, the company reported inventories amounting to € 9,617 thousand. This corresponds to 19 % of the balance sheet total. Owing to the high complexity of the inventory measurement process, there is an increased risk of error. In addition, due to the high level of inventories, there are risks with regard to the future usability of inventories and the appropriateness of the value adjustments made.

Audit approach and findings

As part of our audit, we addressed the inventory measurement processes established by the company, reviewed internal controls for assessing inventory levels, and assessed controls with regard to their effectiveness. In sample tests, we retraced the calculation for individual products and the derivation of the production cost rates. We assessed the appropriateness of the range and service deductions made.

Our audit procedures have not resulted in any significant objections to the valuation of inventories.

Other Information

The executive directors are responsible for the other information. The other information comprises:

- the group statement on corporate governance included in section X. of the combined management report pursuant to Sections 289f and 315d HGB,
- the confirmation pursuant to Section 297 (2) sentence 4 HGB regarding the consolidated financial statements and the confirmation pursuant to Section 315 (1) sentence 5 HGB regarding the combined management report.
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code, and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report.

The Supervisory Board is responsible for the other information below:

- the report of the Supervisory Board in the Section "Company information" of the annual report 2017

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on

the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on June 16, 2017. We were engaged by the supervisory board on December 19, 2017. We have been the group auditor of the *aap* Implantate AG without interruption since the financial year 1999.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the supervisory board pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Matthias Rattay.

Berlin, March 29, 2018

Mazars GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Udo Heckeler	Matthias Rattay
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]