Consolidated Financial Statements 2013
Conference Call

aap Implantate AG

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Financial Figures 2013 (in € million)

	2012		2013
Sales	36.4	10%	40.0
EBITDA (norm.)	6.1	15%	7.0
EBIT (norm.)	3.0	27%	3.8
Cash-EBT	2.1	67%	3.5
Economic Profit	-1.6	>100%	0.4

Highlights 2013

- Sales revenue increase of 10% to €40 million
- Normalized EBITDA growth of 15% from €6.1 million to €7.0 million
- First time realization of an economic profit of €0.4 million
- Trauma sales (incl. LOQTEQ®) increased from € 6.3 million to € 9.6 million
- Further market penetration with our LOQTEQ®-system and sales boost from €2.0 million to €5.0 million (+150 %)
- Net debt reduced from € 4.3 million to €3.0 million (incl. discontinued operations)
- Development and supply agreement for a PMMA bone cement and mixing device with a global orthopaedic company
- License agreement for the anti adhesive product Adcon® for € 1.6 million
- Spin off of recon business into a joint venture (*aap* Joints GmbH) ; divesture of 67% of the shares to a Chinese partner for €3 million

Evaluation Management Agenda 2013

Customers		
Goals of the 2013 Management Agenda	**Results of the 2013 Management Agenda**	**Goal achieved**
Grow Trauma sales to >€10 million (+60%), including LOQTEQ® sales >€5 million (+140%)	Trauma total sales: €9.6 million LOQTEQ® sales: €5.0 million	Yes
Appoint distributors in seven of the nine BRICS- and MIST-countries (2012: four)	Russia was added, contracts signed now with five out of nine countries	Partly, distributors in 5 out of 9 countries
Expand LOQTEQ® portfolio to twelve plates (2012: six)	CE for 9 plating systems in 2013	Partly, 9 out of 12
Supply allograft scCO_2 products to bone banks in at least four EU countries, preferably including Germany	Signed contracts for Belgium, Netherlands, Austria and Turkey; Germany in application	Yes, even though permission for Germany is pending

Evaluation Management Agenda 2013

Innovation		
Goals of the 2013 Management Agenda	**Results of the 2013 Management Agenda**	**Goal achieved**
Freshness index of at least 20% (industry benchmark)	Freshness index of 21.5% as proportion of product sales was achieved	Yes
Develop new instrument sets for LOQTEQ®	Improvements made for various instruments	Yes
Initiation of new Trauma portfolio “Polyaxial”	Initiation of development of in-house polyaxial locking system	Yes
Preparation of application file for first silver coated trauma product	Good progress made, including a related technology patent granted in the USA	Yes

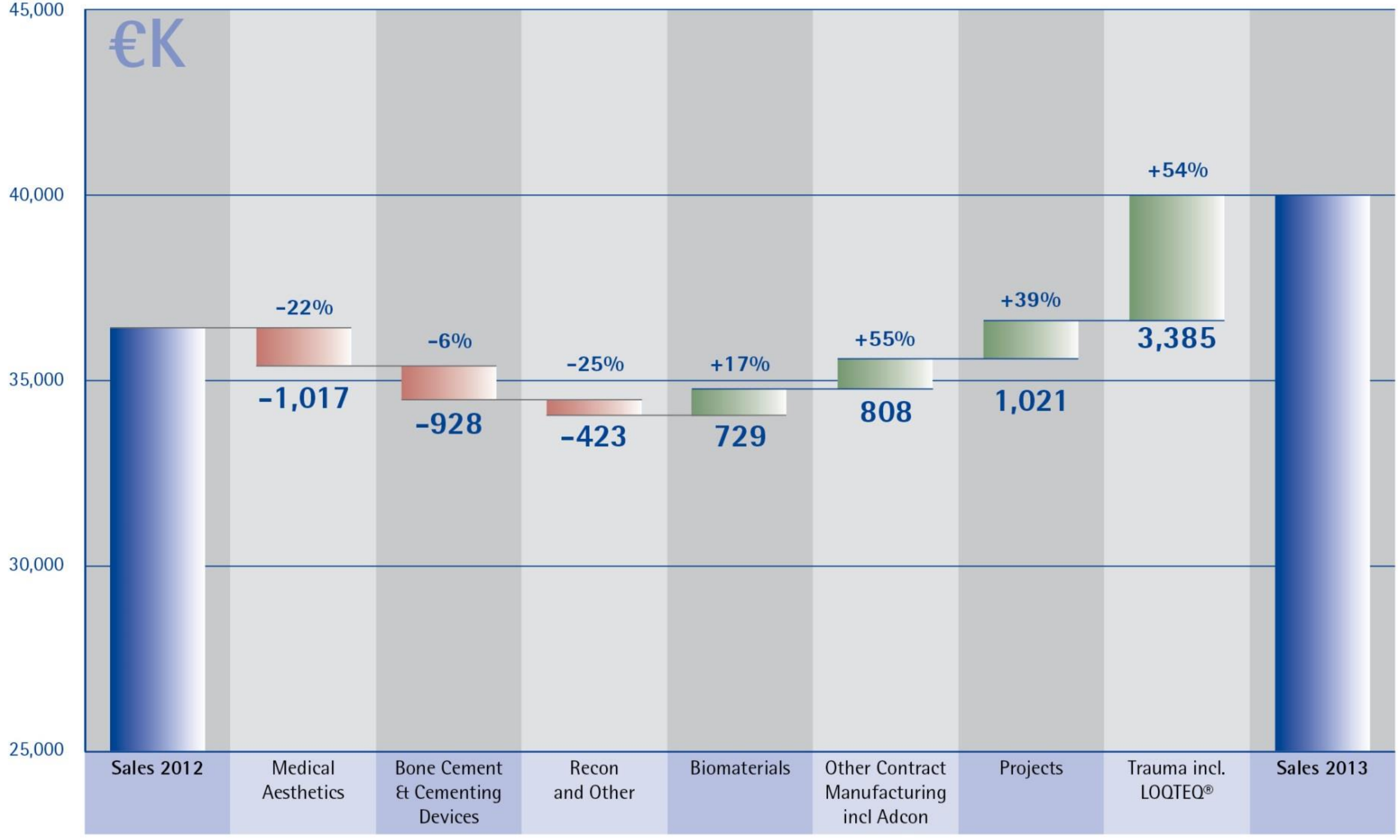
Evaluation Management Agenda 2013

Finance		
Goals of the 2013 Management Agenda	**Results of the 2013 Management Agenda**	**Goal achieved**
Profitable growth: sales +10% and EBITDA +15%	Sales +10% and EBITDA +15%	Yes
Working capital ratio to sales > 2.2	Working capital ratio 2013: 2.4	Yes
Positive Economic Profit (ROCE > WACC)	For the first time achieved a positive economic profit of 0.4 million €	Yes
DCR < 2 and ICR > 10 (Basis: operative EBITDA)	DCR 0.5 and ICR 32.9	Yes

Evaluation Management Agenda 2013

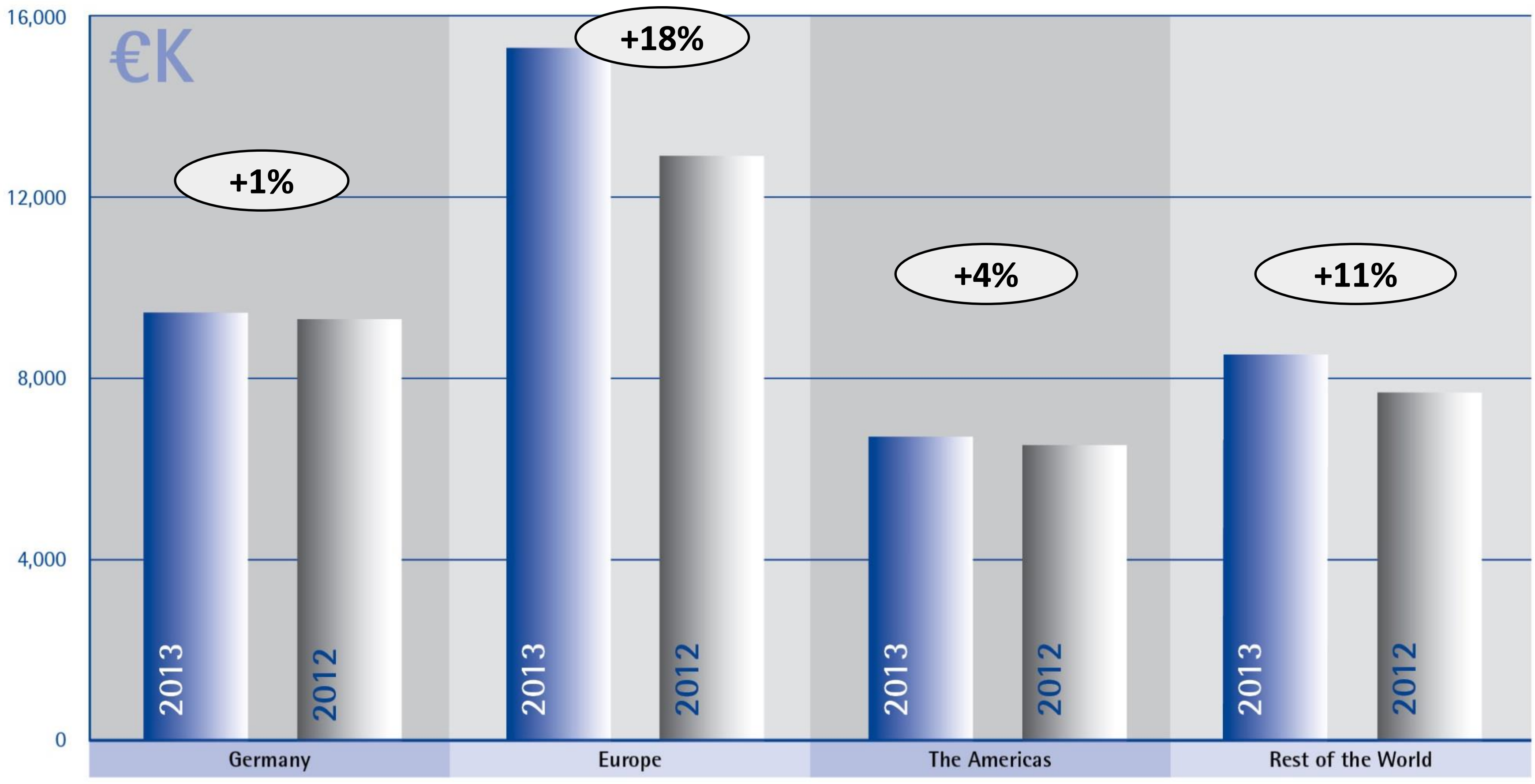
Organization/IT		
Goals of the 2013 Management Agenda	**Results of the 2013 Management Agenda**	**Goal achieved**
Further optimization of supply chain by implementing more ERP functionality	Evaluation of the ERP systems and of the functionalities with consultants; concrete actions planed for 2015	Partly
Study feasibility of outsourcing predefined products	Completed and on going	Yes
Divestment/ out licensing non-core products and IP	Sold the Recon business and outlicensing of the non-core product Adcon®; License agreement for BonOs Inject® (cement used in the spinal region)	Yes

Sales-Bridge 2013 vs. 2012 (in €k)



Sales 2012 versus 2013

Sales Distribution 2013 vs. 2012



Total Sales 2013 versus 2012 by Region

Products & Markets

- International activities LOQTEQ®:
  - Distribution agreements signed and first supply of LOQTEQ® products to distributors in China, Russia and Bulgaria
  - Beta-launch of LOQTEQ® in USA shows good acceptance
  - LOQTEQ® post marketing study - Initial reports demonstrate very promising fracture repair qualities and ease of use, including no reported cases of cold welding
- Status CE- and FDA-approval LOQTEQ®:
  - Product development and regulatory processes remain on track.
  - CE-approval for 9 of the 12 LOQTEQ® plating systems (Phase 1+2), nine of them already received FDA-approval
- Other approval / registration activities
  - Registration received for Standard Trauma/LOQTEQ® in China, Iran, Lebanon, Saudi Arabia and Turkey
  - FDA-market approval for BonOs®R and BonOs® R Genta

Research and development

- LOQTEQ®:
  - Portfolio extension LOQTEQ®-plating systems remains on track
  - Coverage of approx. 80 % of the LOQTEQ®-indications after successful CE-approval
  - FDA-approval documents received for 3 out of 4 Phase 2 systems – approval for the last system expected for Q2/2014
- Patents LOQTEQ®:
  - International (USA/EU) patent under examination procedure
- Silver-coating :
  - Silver-coating patent received in Feb 2014 notice of allowance by USPTO
  - Initial approval-relevant animal experiments are promising, results report expected in Q2/2014
- Biomaterials/Trauma:
  - Magnesium alloys: collaboration with our Chinese partner is established and progressing according to plan

LOQTEQ® Benefits

Health benefits

- Surgeon: With 1 screw in 1 hole, 1 step-locking and compression
- Patient: Affordable price, no cold welding, less infection risk, only 1 operation
- Hospital: Economic benefits (cost efficient)

LOQTEQ®

Innovation

- 2014: New patented technology to treat periprothetic fractures
- 2015: Silver-coated implants
- 2016: Magnesium-based resorbable implants

Growth

- Shipments: Into 20 countries in 2013 (2012: 15)
- Drivers in 2014 and beyond: more countries, more systems
- 2012: 6 systems approved
- 2013: 9 systems approved
- 2014: Extending existing systems and launching new system

LOQTEQ® Value Capture

- of the $6.1 billion market, growing 6-8% per annum -

Innovative Technology

- LOQTEQ®-technology (1 hole, 1 step-locking and compression)
- Based on propriety *aap* intellectual property

Customer Benefits

- Cost advantages
- Broad portfolio will cover 80% of Trauma plating indications

LOQTEQ®

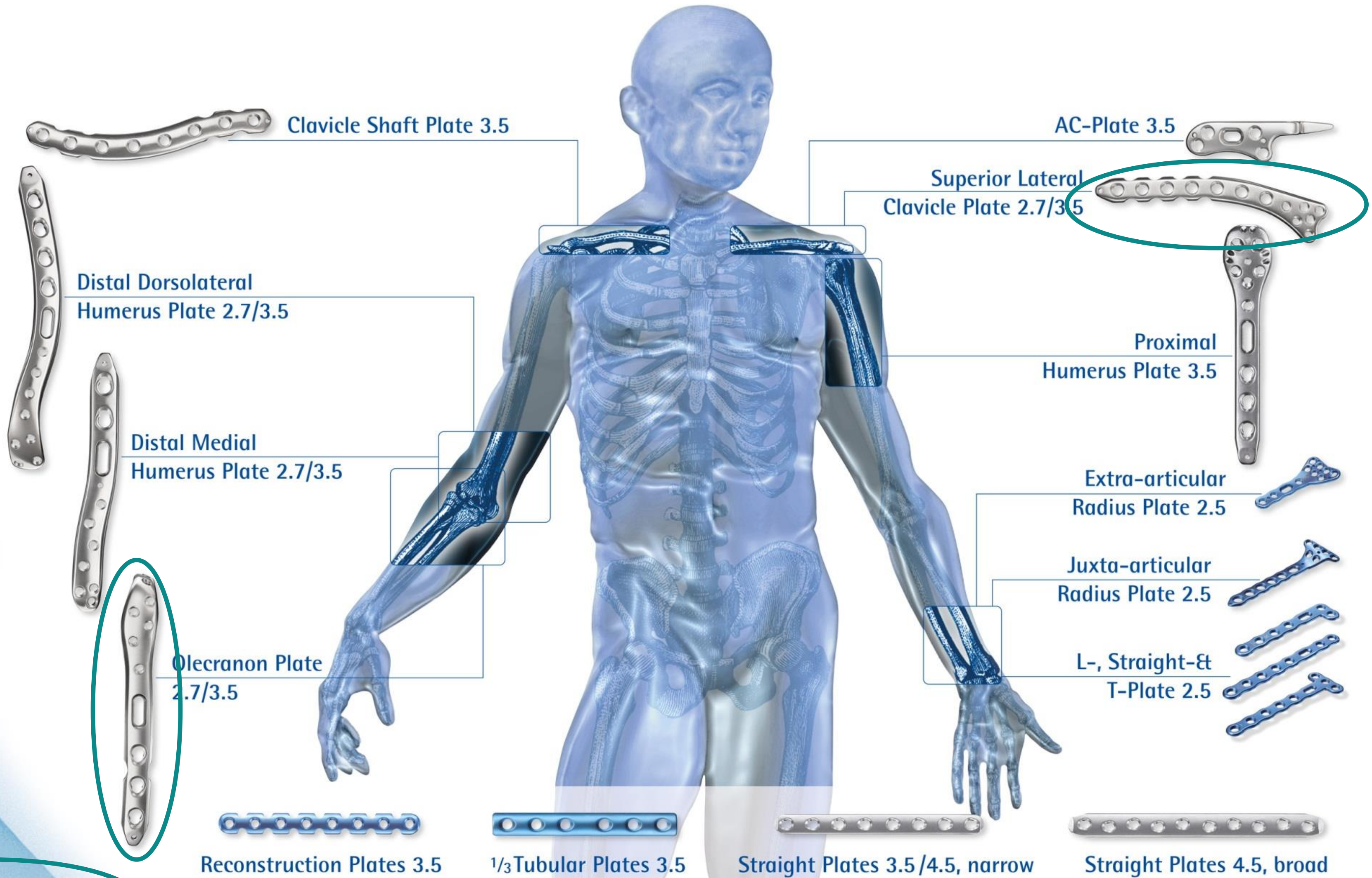
Product Enhancements

- Silver-coated implants → infection prevention
- Magnesium-based implants → resorbable implants

Operational Excellence

- Internal programs to improve gross margin and supply chain management
- Building strong customer relationships

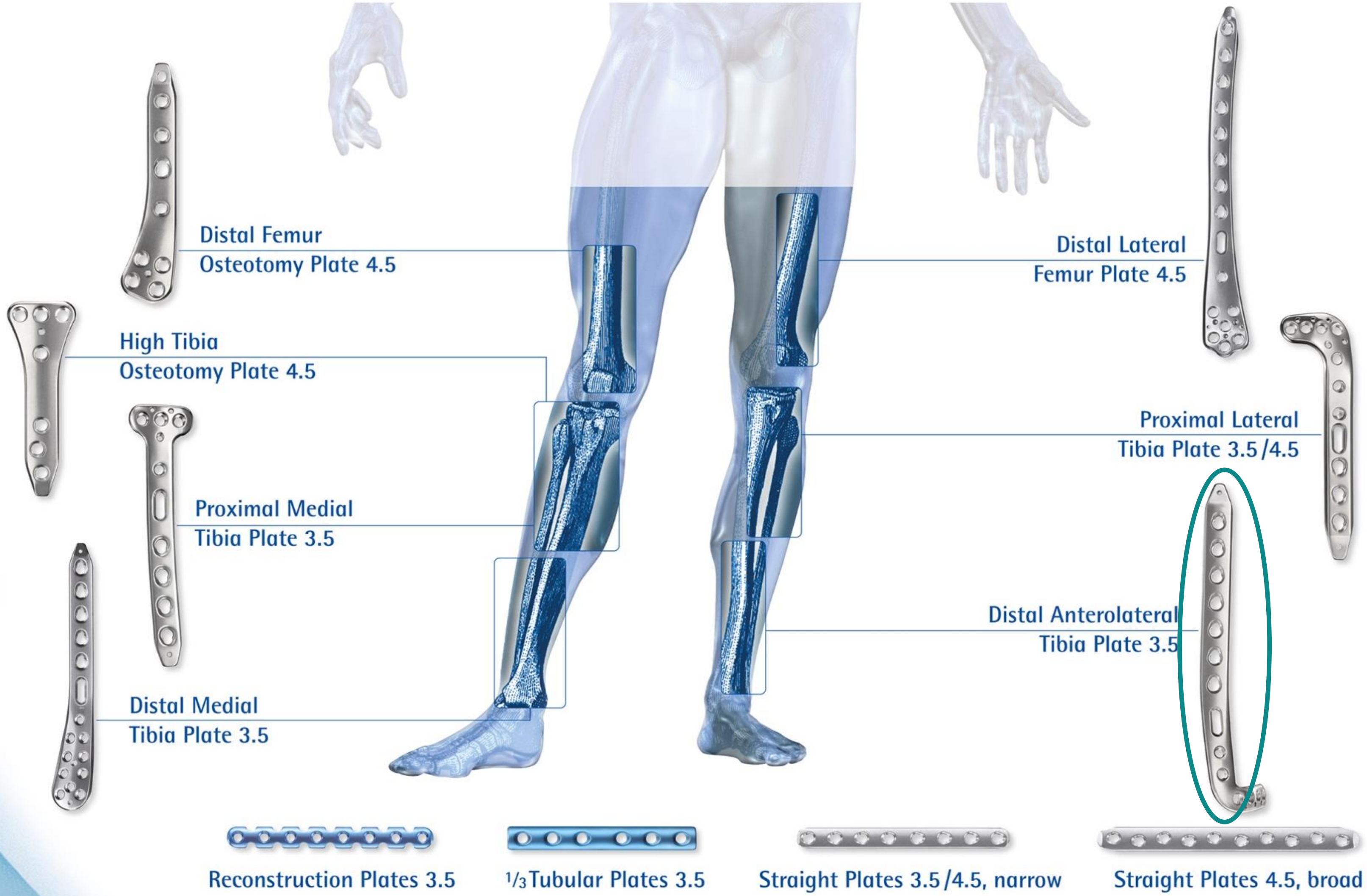
Upper Extremities Plates – Status 2013



2013

→ **Coverage of approx. 80% of the most common indications**

Lower Extremities Plates – Status 2013



2013

→ **Coverage of approx. 80% of the most common indications**

Highlights Financials 2013 – EBITDA bridge

EBITDA 2012 versus 2013

Highlights Financials 2013 – Discontinued operations

	2013 kEUR	2012 kEUR
Intangible assets	15.127	21.028
Tangible assets	1.915	1.728
Inventories	1.759	1.859
Trade receivables and other assets	3.208	1.359
Cash and bank balances	925	456
Assets qualified as held for sales	**22.934**	**26.430**
Deferred taxes	-1.993	-2.123
Trade payables	-1.356	-1.959
Financial liablities	-1.407	-841
Other liabilities	-771	-653
Liabilities disclosed as assets as held for sales	**-5.527**	**-5.576**

Highlights 2013 (P&L)

- Sales analysis –> refer to previous slides
- Gross Margin temporarily burdened (Sales/ Changes Inventory/ Material Expenses)
  - Adjusted cost of materials ratio (w/o effects from project business/sale of shares) higher in 2013 with 29% (PY: 27%)
  - Change in product mix and sales structure with a material input → i.e. bone cement vs. trauma products
  - Non-recurring effect of €0.25 million in Q1/2013
  - Slight delays in building up capacity for our trauma products → to ensure full delivery capacity parts of production assigned to 3rd parties
- Significant increase in Other Operating Income
  - Significant change in 2013 from €3.3 million to €4.3 million
  - Recognition of up-front payment under development and supply contract signed in Q1/2013 (€2.2 million)
  - Effects from sales of 67% of share in *aap* Joints GmbH and resulting deconsolidation as of June 30, 2013 (€0.8 million)

Highlights 2013 (P&L)

- Increased Personnel expenses
  - 2013 with €14.5 million (PY: €13.5 million)
  - Employee numbers had risen to 290 heads (31.12.2012: 264 heads)
  - Increase employees (heads) primarily in production and allied areas in order to ensure higher production output
- Other Operating Expenses 2013 with €11.4 million (PY: €11.2 million) slightly higher; normalized level even decreased
- Improved Financial result with high impact on 2013
  - 2013 with €-0.2 million significantly lower (PY: €-0.5 million)
  - Lower interest cost due to earlier repayment shareholder loans, lower usage credit facilities, better conditions negotiated based on 2012 numbers
- Changes in result figures
  - EBITDA disclosed in 2013 +4% up to €7.4 million (PY: €7.1 million)
  - Normalized EBITDA (w/o one-time effects) met guidance for 2013 with €7.0 million (PY: €6.1 million)
  - Cash-EBT shows financial improvements with €3.5 million in 2013 (PY: €2.1 million)
  - First time realization of an economic profit of €0.4 million (ROCE > WACC)

Highlights 2013 (Balance Sheet)

- Change in overall structure due to presentation of assets/liabilities as held for sale (discontinued operations) → refer to slide 18
- Total assets 2013: €65.2 million (2012: €68.6 million) → -5%
  - Intangible assets → €-24.9 to €14.5 million
    - Major effects: Allocation discontinued operation €15.1 million (incl. goodwill impairment of 4.0 million); Divest Adcon® €-1.4 million; divest Recon €-2.2 million; impairment Cap Dev Cost Biomaterials €-2.3 million
  - Tangible assets → €+0.8 million
    - €1.9 million allocated to discontinued operations
    - Increase in tangible assets → mainly investments in capacity expansion trauma business (net addition: 2.5 m)
  - Financial assets
    - Presentation of 67% stake in *aap* Joints GmbH (1.5m) and 50% stake in *aap* BM production GmbH (0.1m) → "at equity" values
  - Current assets → €+19.1 million
    - Assets held for sales (discontinued operation) €22.9 million
    - Inventories €-4.5 million → major effect divestment Recon (€-2.2 million)
    - Trade receivables €+3.1 million → Very strong 4th quarter of €9.6 million (continued ops.) with €5.4 million in Dec 2014
    - Cash €2.1 million to €1.6 million

Highlights 2013 (Balance Sheet)

- Change in overall structure due to presentation of assets/liabilities as held for sale (discontinued operations) → refer to slide 17
- Total assets 2013: €65.2 million (2012: €68.6 million) → -5%
  - Equity → €-2.4 million
    - Negative result in 2013
  - Debts → €-0.9 million
    - Liabilities directly associated with assets classified as held for sale €5.5 million
    - “Repayment” credit facilities: €-3.7 million; Financing capacity expansion Berlin: €+2.2 million
    - Repayment shareholder loans €-1.0 million
- Working Capital: €13.9 million (2012: €14.8 million); WC-turn improved to 2.9
- Net Debt 2013 (incl. discontinued ops): €3.0 million (2012: €4.3 million) → -30%
- DCR TTM (incl. discontinued ops) 2013: 0.5 (PY: 0.8)
- ICR TTM (incl. discontinued ops) 2013: 32.9 (PY: 11.8)

Highlights 2013 (Cash Flow)

- Operating CF 2013: €3.5 million (PY: €7.1 million) → -51%
  - Profitable growth, but change in inventories/trade receivables of €-4.3 million
  - Significant higher trade receivables → very strong 4th quarter and project business related receivables
  - Inventory reduction from Recon deal presented under Gains from retirement fixed assets
  - Significantly lower advance payments customer (€-0.8 million)
- Investing CF 2013: €-2.2 million (PY: €-3.9 million) → +44%
  - Investments 2013: €-5.7 million; Intangibles €-2.0 million; machinery and other equipment €-3.7 million
  - Cash-Inflow SPA *aap* Joints GmbH (Recon)/*aap* BM production GmbH: €+2.5 million and €+1.0 million
- Financing CF 2013: €-2.5 million (PY: €-1.6 million) → -56%
  - “Redemption” credit facility: €-3.7 million → lower usage
  - Redemption shareholder loans 2013: €-0.8 million
  - New financing loans machinery: €+2.3 million
  - Ordinary redemption financing machinery: €-0.3 million
- Cash 2013: €2.5 million (2012: €3.7 million) → -32%
- Liquidity reserves (Cash and free Credit facilities): €7.9 million (2012: €4.9 million) → +61%

Outlook 2014

- **Divestment Contract Manufacturing Activities (EMCM B.V.) in Feb 2014**
  - Purchase price €18.0 in cash to be paid until end of April
  - Anticipated deconsolidation loss of €4.0 million already in financial statements 2013 (goodwill impairment)
- **Outlook 2014:**
  - Strong sales growth with focus on Trauma business
  - Sales revenue +22% to €35 million (PY: €28.6 million) for continued operations
  - EBITDA between €5 to €6 million (0% to +20%)
  - Trauma sales >€15 million (>50%)
- **Outlook Q1/2014:**
  - Sales revenue of €6.8 to €7.0 million
  - EBITDA between €0 to €0.5 million
- **Evaluation of strategic options for *aap* Biomaterials GmbH (PMMA bone cement and mixing device business)**

Management Agenda 2014

Customer
Growing Trauma sales to EUR >15 million (>50%); driven by LOQTEQ®
Expanding the LOQTEQ® portfolio; striving for >90% indication coverage
Appointing a distributor in the USA and further expansion of distribution network beyond BRICS- and SMIT-countries
Appointing a new global Partner for a bone cement

Innovation
Sustain Freshness index of at >20%
Accelerate the development of silver-coated Trauma products; aiming for market introduction in 2015
Extend co-development network for resorbable magnesium products; aiming for market introduction in 2-3 years
Interim analysis of the LOQTEQ® study for phase 1 products in the second quarter of 2014

Management Agenda 2014

Financials
Profitable growth: sales of € 35 million (+22%) and EBITDA between € 5 million and € 6 million
Working capital ratio > 2.4 (in relation to sales)
Strengthening the balance sheet by ongoing reduction of the percentage of intangible assets as of the balance sheet total
DCR < 3 and ICR > 8

Organisation/IT
Further improvements of the ERP functionality
Optimization of supply chain management with a focus on Trauma products
Divestment/out licensing of non-core products and IP

Publication full financial statements 2013

- Publication of full consolidated financial statements delayed until latest end of April 2014
- Basis for conclusion:
  - Divestment of contract manufacturing business (EMCM) in Feb 2014
  - Extensive accounting and reporting requirements according to IFRS
  - Growing number of non-German speaking investors and other stakeholders
  - German stock exchange regulations require corporate publication both in German and English
- Supervisory Board approved consolidated and individual financial statement as of December 31, 2013
- Both financial statements received unqualified audit opinion
- Press Release in German and English based on approved and issued with an unqualified opinion by the independent auditor and contains:
  - Selected Figures
  - Consolidated Balance sheet
  - Consolidated Statement of comprehensive income
  - Consolidated Cash Flow statement
  - Consolidated schedule of changes in Equity

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