Consolidated Annual Financial Statement 2013

Table of Contents

Foreword by the Management Board 6
Group Management Report for 2013 10
A) Basic Principles of the Group 10
1. Organizational and Legal Structure 10
Operational subsidiaries 10
aap Biomaterials GmbH 10
European Medical Contract Manufacturing (EMCM) B.V. 10
Associated companies 11
aap BM productions GmbH 11
aap Joints GmbH 11
AEQUOS Endoprothetik GmbH 11
Executive Bodies 11
Management Board 11
Supervisory Board 11
2. Segments 12
3. Important Products and Business Processes 12
4. Important Sales Markets and Competitive Positions 12
5. Fundamental Legal and Economic Influencing Factors 14
6. Research and Development Activities 14
B) Economic Report 16
Overall Economic and Industry-Related Framework Conditions 16
Signing or Termination of Cooperation Agreements and Other Important Contracts 17
Earnings Position 18
(1) Presentation of Earnings Development/Earnings Structure 18
(2) Development of Sales and Orders 22
(3) Fundamental Changes in the Structure of Individual Income and Expense Items 26
Financial Position 28
Asset Position 30
(4) Analysis of Key Financial and Non-Financial Performance Indicators 32
Evaluation of the Management Agenda 2013 33
C) Supplementary Report 34
D) Risk and Opportunities Report 35
1) Internal system of controlling and risk management relating to the (Group-wide) accounting procedure (report pursuant to Section 289 (5) and Section 315 (2) 5 of the German Commercial Code [HGB]) 35
2) Risk Management System 36
3) Description of Individual Risks, Quantification and Explanation of Possible Consequences 36
a) Market, Competition, New Products and Technologies 36
b) Approval of Products 37
c) Patents and Intellectual Property 37
d) Dependence on Customers and Suppliers 38
e) Product Liability Risks 38
f) Capitalization of Development Costs 38
g) Personnel Risks 39
h) Data Protection 39
i) Legal Risks 40
4) Additional Disclosures Pursuant to Section 315 (2) 2 HGB 40
5) Opportunities 42
E) Forecast Report 43

F) Other Disclosures *47*
1. Composition of Subscribed Capital 47
2. Basic Principles of the Remuneration System (Remuneration Report) 47
Management Board Remuneration 47
Supervisory Board Remuneration 48
2008 Stock Option Program 48
2010 Stock Option Program 49
2012 Stock Option Program 49
2013 Stock Option Program 49
3. Direct and Indirect Shareholdings >10% of Voting Rights 49
4. Statutory Provisions and Provisions of the Articles of Association for Appointing and Dismissing Management Board Members and Amending Articles of Association 50
5. Management Board Authorization to Issue and Repurchase Shares 50
6. Important Agreements Concluded by the Company that are Conditional on a Change of Control Resulting from a Takeover Bid, and the Consequences 55
7. Compensation Agreements with Members of the Management Board or Employees in the Event of Takeover Bids 56
Consolidated Balance Sheet according to IFRS as of December 31, 2013 57
Consolidated Statement of Comprehensive Income according to IFRS for the period January 1 to December 31, 2013 58
Consolidated Cash Flow Statement according to IFRS 59
Consolidated Schedule of Changes in Equity 60
Notes to the Consolidated Annual Financial Statements to December 31, 2013 according to IFRS 61
A. Information About the Company 61
B. Accounting Methods 61
Basic Principles for the Preparation of the Consolidated Financial Statements *61*
Consolidation Principles *62*
Consolidation Entity 62
Accounting and Valuation Methods 62
Corporate Mergers and Goodwill 62
Significant Accounting Methods *63*
Shares in Joint Ventures and Associated Companies 63
Business Segments 63
Currency Translation 64
Revenue Recognition 64
Taxes 65
Public Sector Grants 66
Non-current Assets Held for Sale and Discontinued Operations Segments 66
Fair Value 66
Intangible Assets 67
Tangible Assets 67
Financial Instruments 68
a) Financial Assets 68
b) Financial Liabilities 69
Inventories 69
Borrowing Costs 70
Cash and Cash Equivalents 70
Revaluation Reserve 70
Share-based Payments 70
Provisions 70
Other Assets and Liabilities 70
Leasing Transactions 70
Contingent Liabilities; Contingent Assets 70

Revisions in Accounting Methods *71*
New and Revised Standards and Interpretations without Effect on the Group 71
Published Standards Still Not Mandatory to Apply 72
C. Material Discretionary Decisions, Estimates and Assumptions 74
D. Business Combinations, Acquisition and Sale of Shares 75
Establishment of Subsidiaries *75*
Shares in Joint Ventures and Associated Companies *75*
Joint Ventures 75
Associated Companies 75
Discontinued Operations Segment 76
E. Notes on the Statement of Comprehensive Income 78
1. Sales *78*
2. Other own work capitalized *79*
3. Other Operating Income *79*
4. Cost of purchased materials and services *79*
5. Personnel Expenses *80*
6. Depreciation *80*
7. Other Operating Expenses *81*
8. Financial Result *81*
9. Exchange Rate Differences *81*
10. Income Tax *81*
11. Earnings per Share According to IAS 33 ..... *83*
F. Notes on the Consolidated Balance Sheet 84
1. Intangible Assets *84*
Goodwill 85
Development costs 86
Other Intangible Assets 87
2. Tangible Assets *87*
3. Financial Investments Accounted for Using the Equity Method *89*
4. Financial assets *90*
5. Deferred tax assets and liabilities *90*
6. Inventories *91*
7. Trade Receivables *92*
8. Receivables from Service Contracts *93*
9. Other Financial Assets *93*
10. Other Assets *95*
11. Cash and Bank Balances *95*
12. Shareholders' Equity *95*
13. Share-based Payments *97*
14. Provisions *100*
15. Liabilities *101*
16. Gross amount due to customers for contract work *102*
17. Other Financial Liabilities *102*
18. Other Liabilities *103*
19. Other Financial Liabilities *103*
20. Contingent Liabilities *104*
G. Reporting on Financial Instruments 104
1. *Financial Instruments by Valuation Categories* 104
2. *Expenses, Income, Losses and Profits from Financial Instruments* 107
3. *Write-downs of Financial Assets* 107
4. *Management of Financial Risks* 108
5. *Capital Management* 110
6. *Cash Flow Statement* 111

H. Other Disclosures 111
1. *Related Party Disclosures* 111
2. *Management Body, Supervisory Board* 112
3. *Disclosures in Accordance with Section 160 (1) (8) AktG* 114
4. *Auditor's Fees* 116
5. *Subsequent Events* 116
6. *Declaration on the German Corporate Governance Code* 117
7. *Publication* 117
Responsibility Statement by the Legal Representatives pursuant to Section 37 (1) of the German Securities Trading Act (WpHG) 118
Auditor's Audit Certificate 119
Glossary 120

Foreword by the Management Board

Ladies and Gentlemen,

Dear shareholders, employees and business partners,

in 2013, *aap* Implantate AG delivered on its financial and strategic goals, setting the stage for long term growth. We have made significant progress in our effort to build a company with a focused portfolio of innovative, IP-protected medTech products that address unmet needs in the global healthcare system. This included continued growth in sales of our Trauma products, especially with LOQTEQ® and the advancement of several new product technologies, like silver coating and magnesium alloys, along with the divestment of our non-core anti-adhesion product Adcon® and our orthopedic reconstructive implant business (hip, knee and shoulder products). In addition, in early 2014 we completed the divestment of our contract manufacturing business, further focusing *aap*'s business model and providing incremental capital to invest in our core business Trauma and PMMA bone cement businesses. As we continue to execute our strategy, we believe the performance of the Company is best evaluated on an annual basis, rather than quarter to quarter since quarterly fluctuations are likely.

The Company's strategic goals are clearly defined; here are the highlights of our 2013 performance which reflect the achievements made:

Creating value for shareholders	The market capitalization of the Company during 2013 increased from €41.1 million to €65.9 million
Achieving long term financial performance	The Cash-EBT improved year over year from €2.1 million to €3.5 million
Driving sustainable profitable growth	For the third consecutive year the Company delivered profitable growth(EBITDA growth > sales growth)
Reducing financial risks	Reduction of intangible assets from 57% of the balance sheet total to 46%, the DCR improved from 0.8 to 0.5 and the ICR improved from 11.8 to 32.9

Strategy point of view: Focus on core business							
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Dental	+						
Analytics	+						
Medical Aesthetics	+						
Recon	+	+	+	+	+		
Contract Manufacturing	+	+	+	+	+	+	
Biomaterials	+	+	+	+	+	+	+
Trauma	+	+	+	+	+	+	+

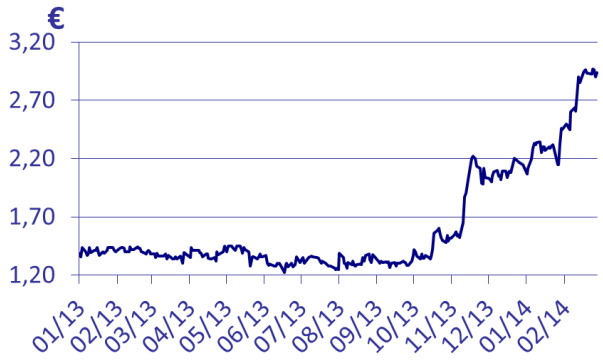
Profit & Loss point of view				
in € million	2010	2011	2012	2013
Sales	28.4	29.2	36.4	40.0
EBITDA[1] (normalized)	3.4	4.1	6.1	7.0
Cash-EBT[2] (normalized)	-2.1	-1.2	2.1	3.5
R&D costs ratio	14%	12%	8%	8%
Freshness-Index*	13%	13%	15%	22%

[1] EBITDA: EBITDA without one-time effects from share disposal and costs involved as well as write-ups on intangible assets
[2] Cash-EBT: EBT excluding capitalized development work and depreciation thereof as well as an extraordinary goodwill depreciation
* The Freshness Index is the percentage share of product sales achieved by products newly approved in the United States and Europe in the past three years.

Balance Sheet point of view				
in € million	2010	2011	2012	2013
Total Assets	63.6	66.2	68.6	65.2
Intangible Assets	37.0	38.2	39.4	29.6
Intangible Assets ratio	58%	58%	57%	46%
Equity ratio	70%	73%	74%	75%
Net debt (interest bearing)	9.3	6.9	4.3	3.0
DCR rolling (last 4 quarters)	2.7	1.7	0.8	0.5
ICR rolling (last 4 quarters)	6.1	6.8	11.8	32.9

Shareholder point of view*	2013	2012	Change
Total amount of shares in millions	30.7	30.7	0%
Share price (closing) (€)	2.15	1.34	60%
Market Capitalization (€ million)	65.9	41.1	60%
Share price (average) (€)	1.45	1.02	43%
Share price (high) 52 weeks (€)	2.22	1.45	53%
Share price (low) 52 weeks (€)	1.22	0.7	74%
Average Volume/day (pieces)	30,426	29,029	5%

*XETRA closing prices



Ultimately, our goal is to deliver sustainable, long term value to our shareholders. We strongly believe we can achieve this by executing our strategy and operating as responsible managers of the business. Maintaining good corporate governance is a high priority, as reflected in our Declaration of Compliance. We are also supporting a diversity policy to ensure that our employees are diverse in age, cultural background, gender and competency. We believe this will make the Company stronger and allow us to best meet our customers' needs.

aap is fortunate to operate in the strong trauma segment of the orthopedic market, with significant opportunity to gain share through product innovation and introducing technology to emerging markets. A key focus for the Company is bringing innovation to our products and customer service,

particularly in new geographic markets for the business, many of which are growing 10% to 20% per year. This growth, especially in the trauma segment, is related to the increased incidents as result of traffic accidents (for example motorcycles) and labor injuries.

Let us summarize the main achievements for 2013

- Sales increase of 10%, including LOQTEQ® product growth of 150%
- Normalized EBITDA growth of 15% from €6.1 million to €7.0 million
- Net debt reduced from € 4.3 million to €3.0 million
- Trauma sales (incl. LOQTEQ®) increased from € 6.3 million to € 9.6 million driven by line extensions and entry into new markets like Colombia, Russia, Egypt and Saudi Arabia
- Signed a development and supply agreement for a PMMA bone cement with a global orthopedic company
- Signed a license agreement with BiosCompass Inc. for the anti adhesive product Adcon® for € 1.6 million
- Received € 3 million for spin off of recon business into a joint venture, *aap* Joints GmbH, with 67% of the shares sold to a Chinese partner

Evaluation of the 2013 Management Agenda

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 SMIT-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
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

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	Initiation of development of in-house polyaxial	Yes

"Polyaxial"	locking system	
Preparation of application file for first silver coated trauma product	Good progress made, including a related technology patent granted in the USA	Yes

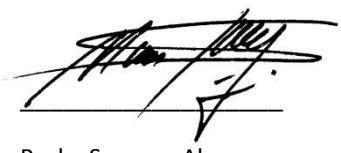
Finance		
Goals of the 2013 Management Agenda	**Results of the 2013 Management Agenda**	**Goal achieved**
Profitable growth: sales +10% and EBITDA +15%	Sales +10% and EBITDA +15%	Yes
Working capital ratio to sales > 2.2	Working capital ratio 2013: 2.4	Yes
Positive Economic Profit[1] (ROCE > WACC)	For 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

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

For 2014 we have published a new Management Agenda that will allow all our stakeholders to track the ongoing implementation of our strategy. We will include updates on our progress in our quarterly reports.

We want to thank our employees for their engagement, commitment and creativity. We reiterate our commitment to improving our performance in products and services.

Biense Visser
Management Board
Chairman/CEO



Bruke Seyoum Alemu
Management Board
member/COO

Marek Hahn
Management Board
member/CFO

[1] Economic profit = (ROCE -WACC) x Capital Employed / Return on Capital Employed (ROCE) is a ratio that indicates the efficiency and profitability of a company's capital investments. Thereby is the EBIT divided by the total capital minus short term liabilities and cash. Weighted Average Cost of Capital (WACC) is the rate that a company is expected to pay on average to all its security holders to finance its assets.

Group Management Report for 2013

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

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

A) Basic Principles of the Group

1. Organizational and Legal Structure

aap Implantate AG is the parent company of the *aap* Group. Presented commercially, the fully consolidated operational companies of the *aap* Group as of December 31, 2013 are as follows: *aap* Implantate AG, *aap* Biomaterials GmbH and the European Medical Contract Manufacturing (EMCM) B.V.

Operational subsidiaries

aap Biomaterials GmbH

All German development and manufacturing activities in the area of bone cement and cementing techniques as well as medical biomaterials are consolidated in *aap* Biomaterials GmbH. The company's headquarters are in Dieburg near Frankfurt/Main.

European Medical Contract Manufacturing (EMCM) B.V.

EMCM, based in Nijmegen, bundles the Dutch development and manufacturing functions in the field of medical biomaterials. In line with the strategic focus on the areas of trauma and bone cement and mixing devices, the Management Board agreed to the sale of EMCM at the end of December 2013. In February 2014, a corresponding share purchase agreement was signed with a private equity company, which was notarized at the beginning of March 2014 upon fulfillment of all other

requirements. This is why EMCM is presented separately as a discontinued operation segment in the consolidated financial statements as of December 31, 2013.

Associated companies

aap BM productions GmbH

There is a 50% shareholding in *aap* BM productions GmbH, Dieburg. The manufacturing activities in the dental area have been merged in *aap* BM productions GmbH. The company will be operated as a joint venture by *aap* and an exclusive distribution partner in the dental area.

aap Joints GmbH

After the sale of 67% of the shares in June 2013, there is a participating interest of 33% in *aap* Joints GmbH. In *aap* Joints GmbH, all the orthopedic activities (knees, hips and shoulders) are bundled together with the C~Ment® line.

AEQUOS Endoprothetik GmbH

aap Implantate AG has a 4.57% shareholding in AEQUOS Endoprothetik GmbH. The innovative AEQUOS® knee system developed and produced together with *aap* Implantate AG was distributed by the company until the end of 2010. At the beginning of 2011, all assets relating to the AEQUOS® knee system were sold to an Italian group in return for shares and a sales-based licensing model. In the course of 2012, the overwhelming majority of shares held in the Italian group were sold to an investment company. In connection with this, the shares issued to AEQUOS were bought back. The funds received by AEQUOS were used in combination with a capital reduction to offset the balance sheet loss at AEQUOS. The company's further development will now be determined solely by the Italian group's marketing of the AEQUOS® knee system and the resulting license payments to the company.

Executive Bodies

Management Board

The Management Board of *aap* Implantate AG consists of three members.

Mr. Biense Visser (61) is Chief Executive Officer (CEO) and responsible for Corporate Development, Legal Affairs and Investor & Public Relations.

Mr. Bruke Seyoum Alemu (48) is Chief Operating Officer (COO) and responsible for Research & Development, Production and Sales & Marketing in the Group.

Mr. Marek Hahn (39) is Chief Financial Officer (CFO) and responsible for Human Resources, IT and Administration as well as the area of Finance.

Supervisory Board

The Supervisory Board of *aap* Implantate AG consists of three members. Mr. Rubino Di Girolamo is Chairman of the Supervisory Board and Mr. Ronald Meersschaert is Deputy Chairman.

2. 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 used to manage the company only covers Group revenue, the progress on major development projects of the Group and the liquidity and working capital of the entire Group. The company is managed on the basis of this data. The *aap* Group is therefore managed both internally and externally as a company without separate segments.

3. Important Products and Business Processes

In Germany, *aap* has two manufacturing sites: Berlin and Dieburg. In Berlin, *aap* Implantate AG manufactures osteosynthesis (trauma) and endoprosthetic products. In Dieburg, *aap* has one of the world's most efficient state-of-the-art bone cement production facilities. Dieburg is also the site of the development and production capacity for medical biomaterials as well as bone cement and cementing techniques. In the Netherlands, *aap* has a modern biomaterials production facility in Nijmegen where manufacturing is carried out in clean room conditions and in accordance with Good Manufacturing Practice (GMP) standards. In addition, there is also a logistics center and distribution warehouse for international distributors in Nijmegen.

Along with the center of excellence for trauma, marketing and sales at *aap*'s headquarters location in Berlin, there are other centers of excellence for bone cement and cementing techniques in Dieburg and for contract manufacturing in Nijmegen. A cross-location research and development board and quality management board promote the synergy effects between technologies from the areas of metal implants and biomaterials. Cross-functional teams ensure that business processes are optimized continuously.

In keeping with the focus strategy that we have been pursuing since 2009, our development and sales activities are concentrated on the trauma and bone cement and mixing systems product areas. The highlight of the 2013 financial year was the successful CE clearance of four of the six new LOQTEQ® plating systems (phase 2) and FDA clearance of three of the four systems. Our focus in 2014 and the following years will be on the continuous expansion of the LOQTEQ® portfolio to cover more indication areas, the corresponding CE and US approvals and further development of the entire trauma portfolio with innovations in the area of silver coating and resorbable magnesium implants.

4. Important Sales Markets and Competitive Positions

aap has three distribution channels. Direct sales to hospitals, buying syndicates and hospital groups in German-speaking countries account for nearly 9% of sales (previous year: 11%). The share related to the continuing operations segment is 12% (previous year: 14%). Sales are also handled by an international network of distributors in over 60 countries and by means of OEM partnerships with national and international customers. Distribution channels for existing and new products are consistently being developed. International distribution activities are focused on key countries and regions such as the United States, the EU, the BRICS and SMIT countries and the Middle East. *aap* also sells its products to distribution partners around the world under its own and third-party brand

names and is one of the global technology leaders in a number of niche markets. A large part of the sales generated by *aap* comes from developing and manufacturing products for leading orthopedic companies that distribute products manufactured by *aap* all over the world under their own labels. In addition, *aap* has established another mainstay for future growth in the form of project sales, such as licensing and supply agreements, or the sale of patents for IP-protected products or technologies. Project sales focusing on the technology areas of bone cement and cementing technology are planned for 2014.

The analysis of the existing intellectual property portfolio resulted in the identification of products and technologies that can contribute to strengthening the Group's competitive position and boosting its enterprise value due to their unique selling positioning. Continuously building the strategic IP portfolio therefore remains another cornerstone in the development of *aap* into an innovation and product leader.

In 2013, *aap* introduced its product range at the most important international trade fairs, such as the 14th EFORT Congress (European Federation of National Associations of Orthopaedics and Traumatology) in Istanbul and the 32nd Annual Meeting of European Bone and Joint Infection Society (EBJIS) in Prague as well as EuroSpine in Liverpool. *aap* also presents its products at the Arab Health Exhibition & Congress in Dubai and the AAOS (American Academy of Orthopaedic Surgeons) in Chicago. Both events were accompanied by a workshop on LOQTEQ® products for distributors and medical specialists from the USA, South and Central America as well as the Middle East. Due to the many new distributors and ongoing high interest in our LOQTEQ® portfolio, numerous product training sessions and workshops were held. These included a training session complete with cadaver workshops for close to 50 participants from Italy, Turkey and five Eastern European countries. A two-day workshop in Berlin was attended by over 30 participants comprising distributors and doctors from Spanish-speaking countries. In addition to a LOQTEQ® product training for the Italian distributor in Milan focusing mainly on LOQTEQ® "phase 2" products, *aap* employees supported our partners at a trauma congress in Italy in which 600 doctors participated. In addition, our trauma product line, especially LOQTEQ®, was exhibited at SPOT (Sociedad Puertorriqueña de Ortopedia y Traumatología), the most important Caribbean congress held annually in Puerto Rico. The feedback from the Caribbean doctors on our LOQTEQ® portfolio, especially with regard to the new "phase 2" products, was unanimously positive.

In Germany, *aap* was one of the companies represented at Medica 2013 in Düsseldorf, the 22nd Thuringian Trauma and Orthopaedics Symposium (VLOU) in Teistungen and the German Congress of Orthopaedics and Trauma Surgery (DKOU) in Berlin.

Products that were approved or registered in international growth markets in the course of the financial year included the following:

- CE marking for four of the six new (phase 2) LOQTEQ® product systems
- FDA market approval for three of these four LOQTEQ® plating systems, the angular stable radius plate system 2.5, Kirschner wires and cannulated screw 2.0
- Registration for standard trauma and LOQTEQ® products in countries such as Italy, Iran, Lebanon, Saudi Arabia and Turkey
- China: Successful re-registration of various trauma products and implants

- FDA market approval of bone cements BonOs®R and BonOs®R Genta, which are used for the fixation of artificial joint replacements

5. Fundamental Legal and Economic Influencing Factors

Official registration and approval are required for marketing medical products in every market in the world. Since *aap* products are generally designed to be marketed worldwide, the quality management system is based on the requirements of harmonized international standards and European regulations as well as national and international laws. The *aap* Group is regularly audited and certified accordingly so that its products may be provided with the CE marking and sold. Furthermore, production is carried out in conformity with FDA requirements and at the Dutch subsidiary EMCM according to Good Manufacturing Practices (GMP).

All of the companies are certified according to the relevant, currently valid EN ISO 13485:2012 standard for manufacturers of medical devices and all of the companies except for EMCM are also certified in accordance with European Medical Devices Directive 93/42/EEC (Appendix II). In addition, all of the Group's companies have undergone voluntary EN ISO 9001:2008 certification. 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.

6. Research and Development Activities

The medtech industry is dynamic and highly innovative. Germany is second in the world next to the United States in terms of world trade share and number of patents. German medical technology manufacturers generate around one-third of their sales with products that are no more than three years old. On average, medical technology companies that carry out research invest about 9% of their sales in research and development. That is why Germany plays an important role for medical technology companies as a location for innovation and research.

The proportion of research-based companies in the medical technology industry of 17% is slightly below the industry average of 20%, which is attributable to the fact that there is less research activity in many small companies. However, research and development in medical technology is not just done by large companies: Small companies with fewer than 100 employees reach research and development intensities that are well over the average of small companies. According to the European Patent Office in Munich, 10,412 patents in the medical technology sector were issued in 2012, which not only represents first place on the list of technology areas but is also a clear indication of the innovative strength of medical technology.

a) Trends in Medical Technology

Medical technology develops at a very dynamic pace. Evident trends include the following:

- Modern medical technology methods are making operating procedures increasingly gentle and access more minimally invasive
- Surgeons are receiving support from computer-assisted navigation
- Medical technology and IT are growing ever closer together
- Nanotechnologies are gaining as much ground as biotechnologies

According to many experts, most of the research is being carried out in the following areas: Orthopedics (especially spinal surgery and biomaterials), cardiology (especially coating procedures for medical products and minimally invasive methods) and internal medicine.

The following developments characterize the international progress in medical technology:

- Progressive miniaturization
- Increased use of IT technologies
- Development of new biomaterials with improved compatibility
- Integration of biotechnological methods

Such developments will especially offer long-lasting future opportunities for new products and additional workplaces, which also contribute to better performance and efficiency in health care. Assessing this efficiency at an early stage supports special methods in the process of product development.

In all fields of medical technology, the USA is considered the global technology leader, while in Europe the leaders are often considered to be Germany and the United Kingdom.

b) Research and Development Activities

aap invested substantially in research and development in the financial year 2013 as well. In 2013, 24% of the company's employees worked in Research & Development (R&D), Clinical Affairs, and Regulatory and Quality Management (previous year: 24%). *aap* invested around 6% of sales in the development of new products (previous year: 8%). The ratio of capitalized costs to total costs is 79% (previous year: 91%).

In the continuing operations segment, 27% (previous year: 28%) of the employees work in the aforementioned areas and the R&D/sales ratio comes to 8% (previous year: 10%); the share of capitalized costs in relation to total costs is 81% (previous year: 92%). In addition to the internal R&D activities, *aap* cooperates with a wide range of academic institutions (research institutes, university clinics) for new and further developments as well as clinical studies. *aap* seeks cooperation with the market leaders in the areas of orthopedics and traumatology at an early stage as well as the safeguarding of existing technologies. This is how *aap* aims to establish another promising basis for generating sales and earnings.

With a view to establishing sustainable innovation leadership and developing enterprise value, *aap* consistently seeks to create and develop platform technologies. Its strategic IP portfolio is aimed at safeguarding these technologies and the resulting products:

Platform Technology		Derivative Products
Locking Compression Fixation Technology	**Anatomical Plates** **Radius, Humerus**	**LOQTEQ® Tibia & Femur & Proximal Humerus & Distal Humerus & Clavicle & Osteotomy**
Silver Technology	**Ag Coating**	**Ag Cement**
Magnesium Technology	**Interference Screws**	**Small Plates, Screws & Pins**

Cement and Cement Mixing Technology	**PMMA Cements** **HA-PMMA Cements** **Vertebroplasty Cements** **Vacuum Mixing Systems**	**Prepack Mixing Systems** **Disposable Mixing and Transfer Systems** **Articles for Modern Cementing Techniques**

As a matter of principle, all products are developed in close cooperation with medical users, and frequently on their initiative.

In the Trauma area, the focus in 2013 was also on further development of the LOQTEQ® product family. To extend the indication areas, R&D worked on new plate designs and the production of prototypes. The further development of six additional plating systems (phase 2) went according to plan. In 2013, all six systems were turned over to the production department for batch fabrication and four systems were made available to the market in the area of CE approval. Together with our clinical trauma experts, several workshops on optimization and design verification of the different new plating systems were held and all mechanical tests were successfully passed. *aap* covers around 80% of the common indications with the current LOQTEQ® plating systems.

The following developments could be seen with the biomaterials: Significant progress was also made in the silver coating project. The development of the coating methods could be successfully extended to other core products of the trauma portfolio. After obtaining approval, the first implantation experiments were started as part of the animal testing necessary for the clearance process. The analysis of the results of the first test group was begun and a long-term group is still being tested. In the area of magnesium technology, a joint venture was entered into with the Chinese company Eontec Co. Ltd. The future developments are coordinated under one umbrella; once the cooperation is established, joint operations go according to plan. In the area of order fulfillment, *aap* worked successfully on different bone cements. In the course of selling our contracting manufacturing business and following the strategic focus of our company on the areas of traumatology, PMMA bone cements and mixing systems, we adopted an amendment of the principles for the capitalization of development costs in the area of biomaterials. All ongoing development activities in this area (e.g., bone replacement materials or collagen products) will be permanently discontinued. Only already completely developed and marketed products from this area will continue to be maintained.

B) Economic Report

Overall Economic and Industry-Related Framework Conditions

The Management Board's opinion on how the overall economic and industry-specific development has affected the course of business

a) Overall Economic Conditions

In 2013, the global economy experienced very restrained growth. After global gross domestic product (GDP) growth declined to 3.1% in 2012, less than 3% is expected for 2013. This is due to the weak economy of the eurozone countries as well as the minimal growth in North America and

restrained growth momentum of the emerging markets. Due to a better outlook in the eurozone and North America, a GDP of 3.6% is expected for 2014.

The low growth rate of the industrial countries (+1.1%) is mainly attributable to declining growth in the eurozone. Cautious corporate investments as well as weak private consumption are putting a strain on growth, which is likely to drop by around 0.5%. In contrast, the German economy is developing positively, therefore higher public spending as well as higher private consumption are likely to bring about an increase in GDP of around 0.5%.

b) Industry Framework Conditions

The medical technology industry is a global growth market. In the future, the following factors will contribute to ensuring that this does not change:

- Progress in medical technology: This makes it possible to treat diseases which could not be treated at all even 10 or 20 years ago. With innovative, gentler techniques, more and more operations can be performed on increasingly older patients.
- Demographic development: In Germany, there are increasing numbers of older people, who often suffer from many illnesses at the same time.
- Greater quality of life as a broader concept of health care: Patients themselves are increasingly asking for services regarding their health. They are prepared to pay more for better quality and additional services.

The need for health services will increase further as a result of these factors.

The medical technology industry has experienced annual growth of around 4.4% worldwide. Growth in Germany has decreased to 2.6% following 5% in previous years.

The global market for medical technologies in 2012 came to EUR 220 billion. The USA accounts for the largest global market share with EUR 90 billion. Meanwhile, the European market is estimated at EUR 70 billion. Of this, Germany has a share of EUR 22 billion. That represents 31% of the European market and around 10% of the global market. That makes the German market the third largest medtech market after the USA and Japan (EUR 25 billion).

According to a study by the Hamburg Institute of International Economics (HWWI), demand for medical technology will increase on average between 9% and 16% per year in the threshold countries until 2020. For the developed countries, the study assumes annual growth of between 3% and 4% (Source: FAZ of January 6, 2011, “In der Medizintechnik herrscht Zuversicht”).

Signing or Termination of Cooperation Agreements and Other Important Contracts

In the first quarter of 2013, the subsidiary EMCM B.V. signed an exclusive license agreement with the US-based BiosCompass, Inc. The exclusive license relates to all intellectual property rights of the non-core product Adcon® and is applicable worldwide. Under the agreement, *aap* receives a one-time license fee of EUR 1.7 million. The transaction only has a minimal effect on net profit/loss for the year since intangible assets were impaired in the amount of EUR 1.4 million and at the same time a discounting effect on sales of EUR 0.1 million was recorded. BiosCompass, Inc. will continue to source

the product from EMCM in the Netherlands. Adcon®Gel is a resorbable biomaterial that provides a physical barrier to prevent post-operative tissue adhesions.

Also in the first quarter of 2013, our subsidiary *aap* Biomaterials GmbH concluded a development and supply agreement with a global medical technology company that had already been signed in the second quarter of 2012. The effectiveness of the agreement was dependent on obtaining different delaying conditions, which were fulfilled at the end of March 2013. The agreement relates to the development of a biomaterial and an associated mixing and application device with the subsequent transfer of knowledge. With the successful completion of all milestones of the development agreement, *aap* receives payments totaling EUR 6.9 million (based on conversion rates from March 2013). The supply agreement has a term of 24 months with a renewal option.

At the end of the second quarter of 2013, *aap* Implantate AG and a private equity company based in the British Virgin Islands entered into a joint venture for *aap*'s reconstructive business (knees, shoulders, hips and the C~ment® line) in the Asian market. According to the terms of the agreement, the private equity company acquired 67% of the shares in *aap* Joints GmbH for EUR 3.0 million in cash. The notary authorization of all agreements took place on July 3, 2013. Prior to this, *aap* Implantate AG had brought all assets related to the recon and C~ment® portfolio (expertise, patents, customer relationships and inventories) into *aap* Joints GmbH. In 2012, sales related to these products came to EUR 2.2 million. *aap* will continue as contract manufacturer for all products during the transitional period.

Also in the fourth quarter of 2013, *aap* Biomaterials GmbH and a Chinese partner concluded an exclusive license and distribution agreement for a spinal column cement. The license includes marketing the cement in China, Hong Kong and Macau as well as the use of the corresponding brand name and resulted in a sales effect of EUR 0.6 million.

In the course of 2013, LOQTEQ® distribution agreements were also concluded in countries such as China, Russia, Saudi Arabia and Bulgaria.

During the course of 2013, *aap* concluded new credit agreements with a total volume of EUR 2.0 million as well as financing lease agreements totaling EUR 0.3 million. All credit agreements are used for financing the investments carried out in 2013 to increase capacity in the trauma area. Two tranches totaling EUR 0.5 million mature at the end of 2014 and are used for preliminary financing of the share of funding that *aap* will receive in 2014. The other two tranches totaling EUR 1.5 million have a term of five years and will be paid back in quarterly installments. The interest of the respective tranches is fixed over the applicable periods of time and was negotiated on the basis of the current credit rating.

Earnings Position

(1) Presentation of Earnings Development/Earnings Structure

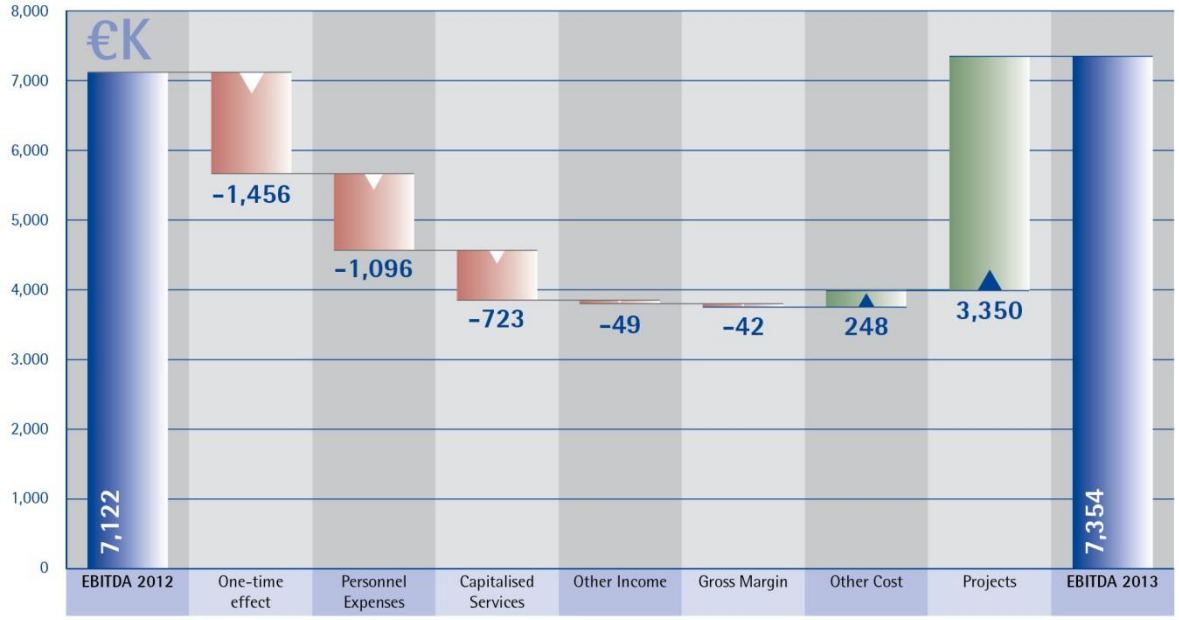
Total operating output (the sum of sales, inventory changes and capitalized own and development costs) rose by 4% from EUR 39.3 million to EUR 41.0 million as a result of increased sales despite a significant decrease in inventories and a reduction in capitalized own and development costs. This resulted in an overall effect of EUR 0.2 million from the continuing operations segments.

In accordance with IFRS, *aap* as a development-intensive company capitalizes not only internally produced capital goods but also spending for in-house and development projects that are highly likely to secure approval and achieve commercial marketing success. In the current financial year, *aap* capitalized EUR 2.0 million (previous year: EUR 2.7 million) in relation to own work capitalized and development costs. A total of EUR 1.7 million (previous year: EUR 2.4 million) are attributable to the continuing operations segment. After market launch of the products, these capitalized development costs are depreciated over their useful life.

Other operating income increased significantly to EUR 4.3 million (previous year: EUR 3.3 million) and mainly includes income from the presentation of revenue from development and license agreements, income from the sale of subsidiaries, income from services for associated companies as well as income from expenditure grants for research and development projects. A total of EUR 4.2 million (previous year: EUR 2.0 million) is attributable to the continuing operations segment, which represents a significant share.

The analysis of the different cost categories showed the following: Cost of materials increased as a result of the higher sales volume as well as taking into account the effects from license businesses from EUR 10.8 million to EUR 12.0 million in addition to increased personnel expenses of EUR 14.6 million (previous year: EUR 13.5 million). Depreciation increased especially as a result of impairment charges on development projects (EUR 2.3 million; previous year: EUR 0.8 million) and goodwill (EUR 4.0 million) from EUR 3.9 million to EUR 9.5 million, while other operating expenses showed only a slight increase from EUR 11.2 million to EUR 11.4 million.

The analysis of the continuing and discontinued operations segment also show similar changes: Cost of materials in relation to the continuing operations segment fell from EUR 8.7 million to EUR 8.2 million while in the discontinued operations segment an increase of EUR 1.6 million to EUR 4.6 million was recorded. A significant reason for this was the recognition of EUR 1.4 million as part of an exclusive license agreement. Both areas showed a year-on-year increase in personnel costs. In the continuing operations segment, there was an increase from EUR 10.7 million to EUR 11.3 million and from EUR 2.8 million to EUR 3.3 million in the discontinued operations segment. The same applies to the analysis of other operating expenses, whereby continuing operations increased from EUR 8.8 million to EUR 9.1 million and discontinued operations remained at a constant level of EUR 2.6 million. With regard to depreciation, there are special effects in both areas: In the continuing operations segment, depreciation increased from EUR 2.0 million to EUR 4.4 million and includes impairment losses on development projects of EUR 2.3 million. In the discontinued operations segment, depreciation also increased from EUR 2.0 million to EUR 5.1 million and in the financial year includes impairment losses on goodwill of EUR 4.0 million, whereas in the previous year an amount of EUR 0.8 million was reported for impairment losses on development projects.



EBITDA 2012 versus 2013

EBITDA increased by 4% from EUR 7.1 million to EUR 7.4 million and EBIT (operating result) decreased from EUR 3.2 million to EUR -2.1 million. There were special effects in both financial years, which make comparison based on this information difficult. In order to facilitate comparison, the presentation of normalized EBITDA and EBIT does not include the special effects:

	2013	2012	Change	Change
	EUR million	EUR million	EUR million	%
EBITDA	7.4	7.1	0.3	4%
One-time effects	0.4	1.0	-0.6	-60%
Normalized EBITDA	7.0	6.1	0.9	15%
thereof continuing operations segments	4.7	3.1	1.6	52%

In the financial year 2013, one-time effects on EBITDA amounting to EUR 0.4 million related to the deconsolidation effect from the sale of 67% of the shares in *aap* Joints GmbH, which was sold to a Chinese private equity investor at the end of the second quarter as well as to costs of EUR 0.2 million already incurred in the financial year in connection with the sale of EMCM, also considered a one-time effect. In the previous year, an effect of EUR 1.0 million in EBITDA from a reversal of impairment losses on assets was shown in other operating income. In addition to the growth in sales, especially in the trauma area, the increase in EBITDA was mainly attributable to the conclusion of both license and supply agreements in the first and fourth quarter. The improvement in EBITDA is wholly attributable to the continuing operations segment, which realized an increase in EBITDA of EUR 1.6 million to EUR 4.7 million compared to the previous year, whereas in the discontinued operations segment, EBITDA decreased by EUR 0.7 million to EUR 2.3 million despite an increase in sales.

	2013	2012	Change	Change
	EUR million	EUR million	EUR million	%
EBIT	-2.1	3.2	-5.3	>-100%
One-time effects	5.9	-0.2	6.1	>100%
Normalized EBIT	3.8	3.0	0.8	27%
thereof continuing operations segments	2.7	1.2	1.5	>100%

In addition to the aforementioned one-time effects on EBITDA, there were impairment losses on assets in both periods. Therefore, an impairment loss on goodwill of EUR 4.0 million was made as part of the intention to sell the discontinued operations segment, which reflects the anticipated deconsolidation loss including selling costs in the first quarter of 2014 and are allocated to the discontinued operations segment. In the course of the sales process of EMCM and in line with the corporate strategy of focusing on the trauma and PMMA bone cement business, *aap* decided not to continue the development activities in other areas. This resulted in a one-time impairment charge on capitalized development costs of EUR 2.3 million, which is shown in the income statement of the continuing operations segment. In contrast, impairment losses of EUR 0.8 million on three development projects were carried out in the previous year (allocated to the discontinued operations segment), which are no longer being pursued and are outside the scope of our core competences. Analogous to the development of EBITDA, the improvement of normalized EBIT by EUR 0.8 million to EUR 3.8 million is completely allocated to continuing operations, which increased by EUR 1.5 million from EUR 1.2 million to EUR 2.7 million.

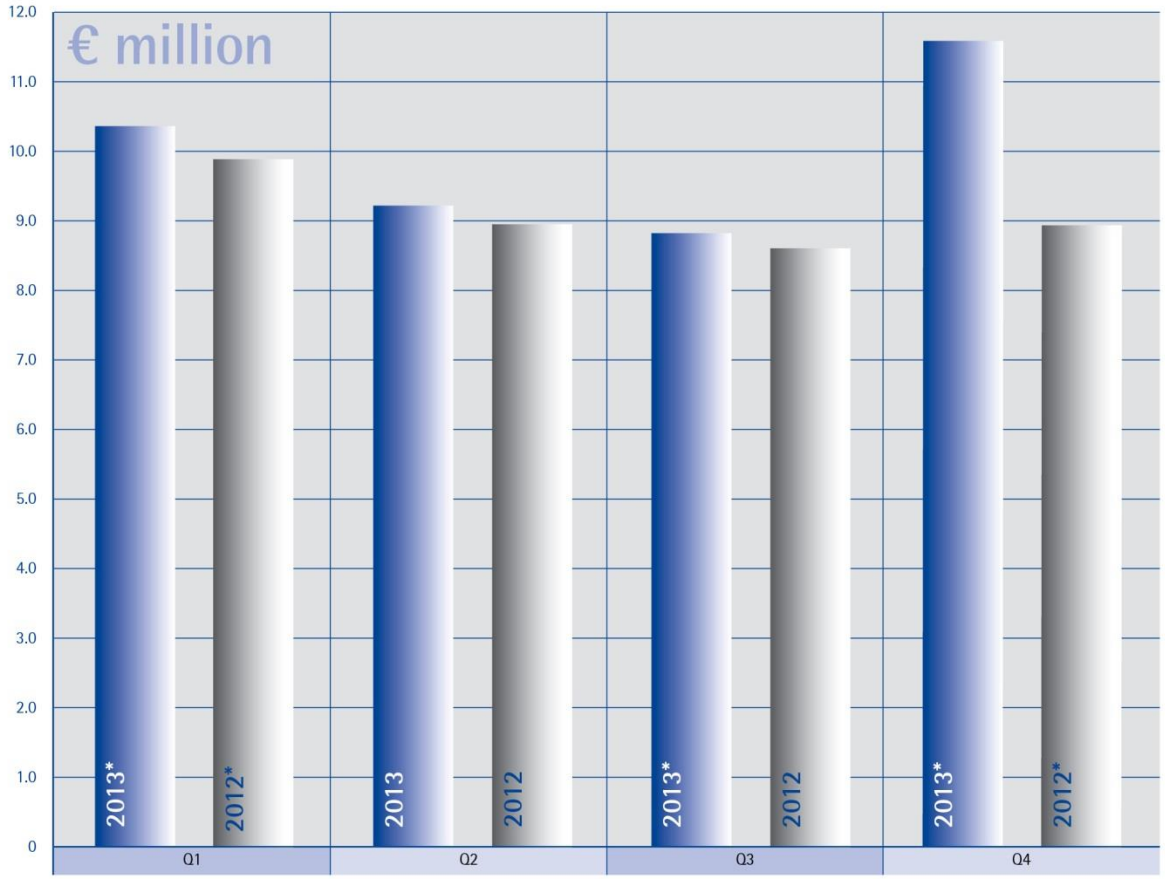
For the first time, a low investment result in the amount of EUR 21 thousand was realized (previous year: EUR -1 thousand), which results from the activities with the associated companies *aap* Joints GmbH and *aap* BM productions GmbH. The allocation is carried out completely under the continuing operations segments.

The financial result improved significantly from EUR -0.5 million to EUR -0.2 million, with EUR -0.2 million (previous year: EUR -0.4 million) to be allocated to continuing operations and a balanced result (previous year: EUR -0.1 million) to discontinued operations.

Income tax stated at EUR 0.2 million is the result of the actual tax expenditure of EUR 0.3 million and the income of EUR 0.1 million from the net change of deferred tax assets and liabilities. In relation to the continuing operations segment, there are no effects from income taxes (previous year: EUR 9 thousand) and EUR 7 thousand (previous year: EUR -0.2 million) from the net change of deferred tax assets and liabilities. For the development of deferred taxes, see the information in the Notes.

aap realized a significantly reduced result after tax of EUR -2.5 million (previous year: EUR 2.4 million), with the continuing operations segment accounting for EUR 0.6 million (previous year: EUR 0.8 million) and the discontinued operations segment for EUR -3.0 million (previous year: EUR 1.6 million).

(2) Development of Sales and Orders



2012* First and fourth quarter contain effects from project sales.
2013* First, third and fourth quarter contain effects from project sales.

Sales 2012 versus 2013 by Quarters

The *aap* Group generates its total sales in two ways: The first is through product sales of biomaterials and implants distributed under its own label as well as produced for OEM partners; the second is from project sales (e.g., out-licensing).

In the financial year 2013, total sales increased by 10% from EUR 36.4 million to EUR 40.0 million compared to the previous year. Consequently, the 10% year-on-year sales increase forecast for 2013 made at the beginning of the financial year was achieved.

Total sales of EUR 40.0 million for the financial year 2013 are made up of the sale of products and services as well as the three license agreements concluded in the financial year. Excluding license sales, the figure for 2013 at the product level is comparable at EUR 36.4 million, representing an 8% increase over the previous year.

The different effects mentioned above can be summarized as follows:

	2013 EUR million	2012 EUR million	Change in EUR million	Change in %
Product sales	36.4	33.8	2.6	+8%
Project business	3.6	2.6	1.0	+38%
Total sales	40.0	36.4	3.6	+10%

The following presentation is based on the continuing operations segment:

	2013 EUR million	2012 EUR million	Change in EUR million	Change in %
Product sales	26.6	24.8	1.8	7%
Project business	2.0	2.2	-0.2	-9%
Total sales	28.6	27.0	1.6	6%

The presentation for the discontinued operations segment developed similarly:

	2013 EUR million	2012 EUR million	Change in EUR million	Change in %
Product sales	10.7	10.0	0.7	7%
Project business	1.6	0.4	1.2	>100%
Total sales	12.3	10.4	1.9	18%

The EUR 2.6 million year-on-year increase in sales at the product level was mainly due to higher sales in the trauma core competence area. The discontinued operations segment of contract manufacturing for aseptic filling of liquids, gels and fluids and processing of tissue material at our Dutch site also contributed to growth.

Continuing operations

The trauma product area consists of fracture healing products for all major skeletal regions. In 2013, sales in this area rose by 52% to EUR 9.6 million (previous year: EUR 6.3 million). Sales growth in this product area is mainly characterized by the successful distribution of our innovative, patented-protected LOQTEQ® system with sales totaling EUR 5.0 million in the financial year 2013 (previous year: EUR 2.0 million). In addition, the development of sales of our standard trauma products also made a positive contribution to growth with an increase of EUR 0.3 million.

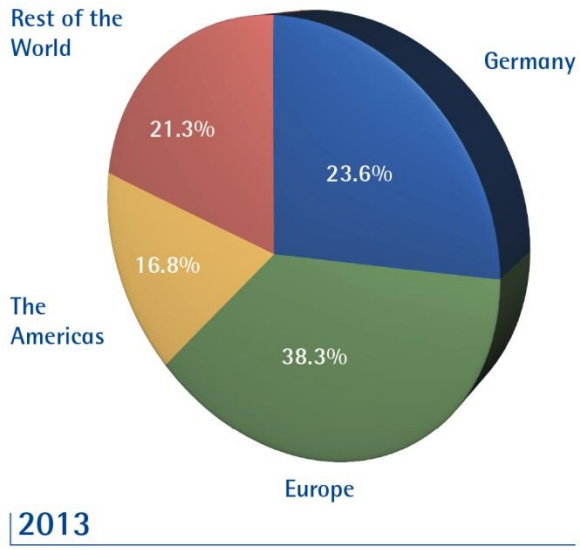
In the area of biomaterials with the core product areas of bone cement/cementing techniques, infection therapy and bone and tissue regeneration, sales decreased from EUR 19.2 million to EUR 17.7 million. The sales figures for both years include major effects from the project businesses: In 2013, *aap* realized a total of EUR 2.0 million from the conclusion of a development and supply agreement with a global medical technology company for the development of a biomaterial and a related mixing and application device with subsequent transfer of expertise (sales effect: EUR 1.5 million) as well as from an exclusive licensing and distribution agreement for a bone cement with a Chinese partner for distribution of the cement in China, Hong Kong and Macau, and use of the corresponding brand name (sales effect of EUR 0.5 million). In the financial year 2012, EUR 2.2 million was realized from the out-licensing of a bone regeneration product to a leading global

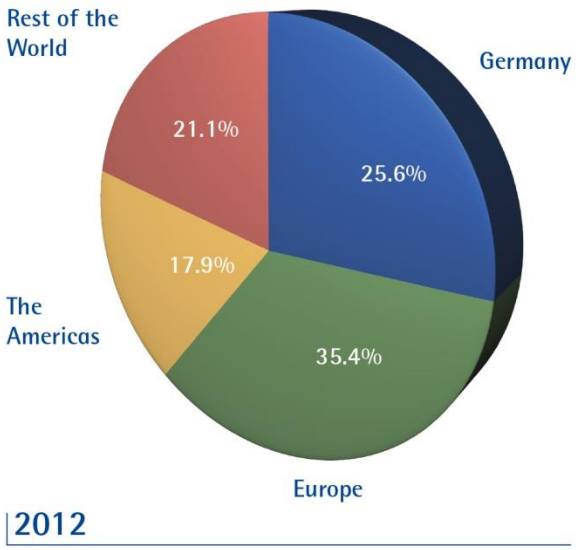
medical technology company. After excluding these effects, the result is a comparable sales figure for 2013 and 2012 of EUR 15.7 million and EUR 17.0 million, respectively. This decline was mainly attributable to the significant reduction in the order volume of a major customer that now largely meets its requirements from its own production. This decrease could, however, be offset in large part by the acquisition of a new major customer. As we first started supplying our new customer in the third and fourth quarter of 2013, we expect stronger sales growth for 2014. In addition, our subsidiary *aap* Biomaterials GmbH is currently in an advanced state of negotiations with different global orthopedic companies involving the manufacture and supply of a bone cement developed by *aap*.

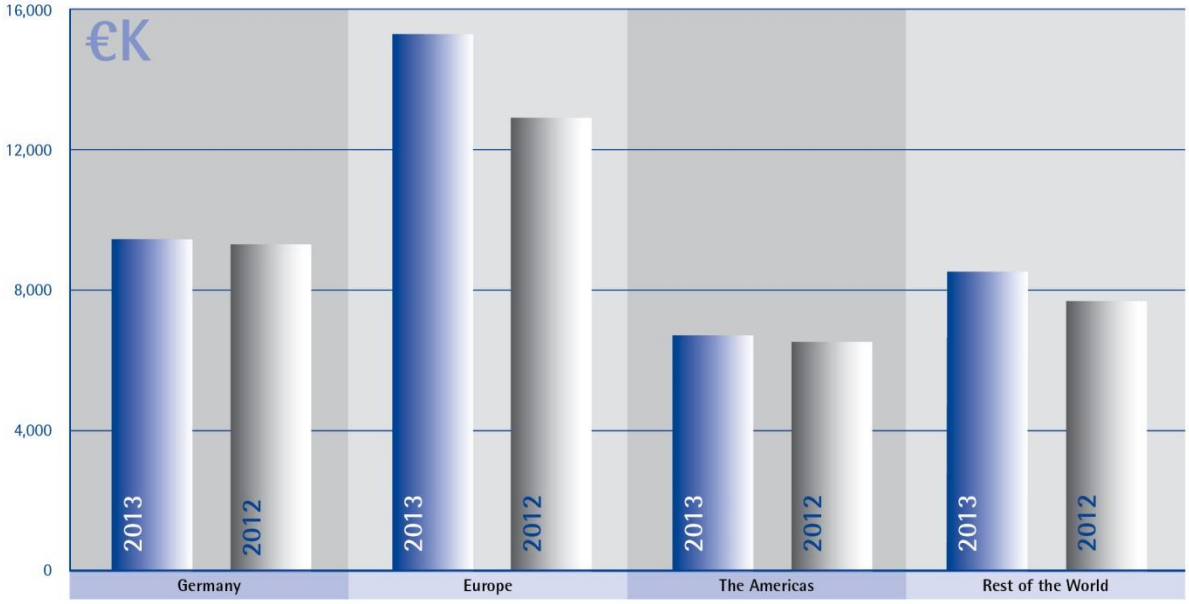
After the transfer of all assets (IP, expertise, brand names, customer relationships and inventories) of our orthopedics (hips, knees and shoulders) product area to the *aap* Joints GmbH with subsequent sale of 67% of the shares to a Chinese private equity investor in the second quarter of 2013, *aap* now acts only as contract manufacturer and service provider for specific administrative activities. In the financial year 2013, this area contributed to total sales with EUR 1.3 million (previous year: EUR 1.5 million). There is a clear understanding between the parties that *aap* will assume the role of contract manufacturer during the transitional period only and that production possibilities (e.g., in China) will be evaluated parallel to the registration process.

Discontinued Operations

In the area of contract manufacturing for aseptic filling of liquids, gels and fluids as well as the processing of tissue materials, sales increased from EUR 10.4 million to EUR 12.3 million. The financial year 2013 as well as in the previous year both include a special effect: In the financial year, an exclusive license agreement with the US-based BiosCompass, Inc. was signed, which relates to specific intellectual property rights of the non-core product Adcon®, is applicable worldwide and had a sales effect of EUR 1.6 million. In the financial year 2012, EUR 0.4 million was realized from out-licensing a spinal cement to a Chinese partner. After adjusting for this aforementioned effect, product sales in 2013 totaled EUR 10.7 million, corresponding to adjusted growth of 7% on the previous year. Sales growth at the product level was mainly generated by the acquisition of new customers.







Total Sales 2013 versus 2012 by Region

Analysis of the geographic distribution of sales reveals the following:

- The significant increase in sales in the European region is mainly attributable to customers from Germany relocating their headquarters to a neighboring European country. In the previous year, sales of a bone cement customer in the amount of EUR 1.6 million in Germany was recognized, which in 2013 is reported in Europe with EUR 2.0 million. At the same time, however, increases in 2013 with the existing customer in the dental contracting business (EUR 0.5 million) and in the discontinued operations segment with new customers in the amount of EUR 0.6 million could be realized. The result of the aforementioned effects is a decrease of EUR 8.0 million to EUR 7.6 million in the continuing operations segment.

- Although sales in Asia increased only by EUR 0.6 million compared to the previous year, strong opposing effects can be observed here: For example, while the distributor business in Berlin with trauma and biomaterial products, driven especially by our LOQTEQ® system, grew from EUR 1.7 million to EUR 3.2 million and at the same time an exclusive licensing agreement with a Chinese partner in the amount of EUR 0.6 million contributed to sales growth, sales in our discontinued operations area showed a declining development of EUR 5.5 million to EUR 4.1 million. Decisive factors here were the diminished order volume with a Chinese customer in the area of contract manufacturing of medical aesthetic products (EUR 1.0 million) as well as license sales in 2012 for a spinal cement also with a Chinese partner (EUR 0.4 million). The continuing operations segment accounts for an increase in sales of EUR 1.7 million to EUR 3.8 million.

- The change in sales in North America of EUR 1.2 million also shows strong opposing effects: Sales in continuing operations decreased from EUR 5.7 million to EUR 2.5 million, which is mainly a result of license sales of EUR 2.2 million in the previous year as well as diminished order volume of a major customer in the area of bone cement of EUR 1.0 million. In contrast, in the discontinued operations segment, an increase from EUR 0.3 million to EUR 2.8 million

could be achieved, which was mainly a result of the license business in the first quarter for the non-core product Adcon® (EUR 1.6 million) as well as a significantly increased supply business (EUR 0.8 million) with this product.

- The increase in sales in South America of EUR 0.9 million is due solely to our continuing operations segment and is mainly attributable to the increased business with an existing Brazilian customer and the new customer business with our LOQTEQ® system (e.g., in Colombia).

Through the expansion of the international business – in both areas with OEM customers and local distribution partners – *aap* no longer realizes 91% of sales in the German direct distribution (2012: 89%) and thereby also limits the effects resulting from pricing pressure and structural changes in the German health care system. Considering solely the continuing operations segment, the aforementioned amount changes to 88% (previous year: 86%)

(3) Fundamental Changes in the Structure of Individual Income and Expense Items

Total operating output (the sum of sales, inventory changes and capitalized own and development costs) rose by 4% from EUR 39.3 million to EUR 41.0 million as a result of increased sales despite a significant decrease in inventories and a reduction in capitalized own and development costs. This resulted in a total effect of EUR 0.2 million from the continuing operations segments.

The reported decrease in inventories of EUR 1.0 million mainly resulted from our continuing operations segment (EUR 0.7 million), especially the bone cement business. The reason for this development was mainly the sales generated by our subsidiary in the fourth quarter, which accounted for a share of 42% of annual product sales.

It is expected that inventory will increase in 2014, particularly in view of the goal of increasing our trauma sales to over EUR 16.0 million and especially having adequate supply capability.

The capitalization of own work and development costs decreased from EUR 2.7 million to EUR 2.0 million, with the continuing operations segment accounting for EUR 1.7 million (previous year: EUR 2.4 million). The decreased extent of capitalization compared to the previous year clearly reflects the strategic focus on the areas of trauma and bone cements and consequently the concentration on fewer development projects. The largest additions in continuing operations relate to the development of resorbable magnesium implants, our silver technology as well as the expansion of our LOQTEQ® systems to include additional plating systems for specific indication areas.

Other operating income increased by EUR 1.0 million to EUR 4.3 million, which for the most part is attributable to the continuing operations segment with EUR 4.2 million (previous year: EUR 2.0 million). These include two special effects: First, the reflection of the collection of a one-time payment for research and development costs resulted from the license and supply agreement for a biomaterial and a related mixing and application device concluded in the first quarter in the amount of EUR 2.2 million. Furthermore, the proceeds from the disposal of 67% of the shares in *aap* Joints GmbH amounted to EUR 0.8 million. Adjusted for these two effects, other operating income of the continuing operations segment consists mainly of income from services for associated companies,

income from government or European grants, income from the reversal of provisions and obligations and from the private use share of company cars.

The adjusted cost of materials ratio, excluding the effects of the licensing business (sales: EUR 4.4 million; cost of materials: EUR 1.4 million) is 29% (previous year: 27%). This increase was due mainly to a change in product mix and sales structure with higher cost of materials ratios. Based on the analysis of the continuing operations segment, the adjusted cost of materials ratio comes to 31% (previous year: 29%). Here as well, compared to the previous year the reason for the increase was mainly a change in the product mix and sales structure with higher use of materials as well as a one-time effect in the first quarter of 2013 of EUR 0.25 million without a corresponding sales recognition. In addition, there were slight delays in building capacity for our trauma products, therefore some production processes were contracted out to third-party companies in order to fully guarantee delivery capability. After completion of the capacity building measures in the first quarter of 2014, we expect a positive effect on cost of materials for the entire year.

The cost of personnel ratio rose with higher overall performance due to a marked increase in absolute personnel expenses from 34% to 36%. Considered in absolute values, personnel costs rose from EUR 13.5 million to EUR 14.5 million. Of this, EUR 11.3 million (previous year: EUR 10.7 million) relate to the continuing operations segment.

As of December 31, 2013, the Group had 290 employees, thereof 237 full-time and 53 part-time staff members (previous year: 264, thereof 212 full-time and 52 part-time staff). Of this, the continuing operations segment accounts for 215 employees, thereof 198 full-time and 17 part-time staff members (previous year: 191, thereof 175 full-time and 16 part-time members). To ensure long-term production capabilities, *aap* Implantate AG continues to train its own skilled employees. The year-on-year increase in personnel expenses of continuing operations is mainly attributable to the addition of staff in the production and production-related areas as well as to one-time effects from the termination of contracts with former employees. A further increase in personnel costs is to be expected in 2014 if we are to achieve our ambitious sales targets in the trauma area.

Other operating expenses rose only slightly from EUR 11.2 million to EUR 11.4 million, with an increase in overall performance. As a result, the share of other operating expenses remains virtually unchanged at 28%. Costs of EUR 9.1 million (previous year: EUR 8.8 million) were incurred for the continuing operations segment. The increase in the continuing operations segment can be attributed to higher consulting expenses, especially in connection with the sale of our contract manufacturing business as well as the disposal of 67% of the shares in *aap* Joints GmbH, increased premise expenses due to renovation work for developing capacity for trauma at the Berlin location and the one-time effects from the concluded license agreements in the financial year.

Depreciation of intangible assets of fixed assets and intangible assets remained unchanged at EUR 3.1 million, of which EUR 2.0 million (previous year: EUR 2.0 million) related to the continuing operations segment. The depreciation ratio also remained unchanged at 8% (continuing operations segment: 7%; previous year: 7%). In addition, the discontinuation of development activities in the biomaterials area resulted in an impairment loss on capitalized development costs of EUR 2.3 million, which is recognized in the income statement of the continuing operations segment. In addition, an impairment loss on goodwill of EUR 4.0 million was made as part of the intention to sell the

discontinued operations segment, which reflects the anticipated deconsolidation loss (including selling costs) in the first quarter of 2014 and are allocated to the discontinued operations segment.

Our development activities are reviewed regularly for conformity to our strategy of focusing on the areas of trauma and bone cement/mixing cements and their economic application (cost/anticipated benefit, approval, etc.). Further depreciation may be required in the future if development projects no longer comply with the strict requirements of IAS 38.

The financial result improved significantly from EUR -0.5 million to EUR -0.2 million. Of this, a financial result of EUR -0.2 million (previous year: EUR -0.4 million) relates to the continuing operations segment. Decisive factors for this positive development were the reduction in net debt as well as the replacing high-interest bearing liabilities with significantly lower interest-bearing loans.

Financial Position

The *aap* Group's operating cash flow decreased in the financial year by EUR 3.6 million to EUR 3.5 million (previous year: EUR 7.1 million). The continuing operations segment realized an operating cash flow of EUR 2.0 million after EUR 2.8 million in the previous year. This change is mainly influenced by the significant increase in trade receivables, which represents an effect of EUR 4.2 million for the continuing operations segment and which could not be fully absorbed by the profitable growth. The increase in receivables results from the extraordinarily strong fourth quarter in which total sales of EUR 9.6 million could be realized, of which in turn EUR 5.4 million relate only to December 2013. In addition, advance payments received from customers on placed orders decreased by EUR 0.8 million, which are shown under the change of other liabilities for the discontinued area. Appropriate management of working capital will continue to be a central feature of management at *aap,* especially with a view to reducing the amount of capital tied up in inventories.

Cash flow from investment activities in the amount of EUR -2.2 million (previous year: EUR -3.9 million) was particularly characterized by investments in development projects, technical installations and machines as well as operating and business equipment and payments from the sales of shares of subsidiaries. Of this, investment cash flow of EUR -1.4 million relates to the continuing operations segment, which is mainly comprised of the following effects: An investment of EUR 3.2 million mainly applies to the expansion of capacity relating to the trauma area. In addition, EUR 1.7 million went into the capitalized development projects while in the financial year a total of EUR 3.5 million were received from the disposal of 67% of the shares in *aap* Joints GmbH and 50% of the shares in *aap* BM productions.

Cash flow from financing activities increased by EUR 0.9 million to EUR -2.5 million (previous year: EUR -1.6 million) and is mainly attributable to scheduled repayments made in the financial year on loan/finance leasing liabilities (EUR -0.4 million), the now complete reduction of high-interest-bearing shareholder loans (EUR -0.8 million), the significantly reduced utilization of credit lines (EUR -3.7 million), as well as the acceptance of long-term loans (EUR +2.3 million) to finance the trauma capacity investments. The continuing operations segment accounts for EUR 2.0 million from new borrowing, EUR 0.8 million from the reduction of shareholder loans, EUR 3.7 million from decreased

utilization of current accounts and EUR 0.2 million from the repayment of loan and finance leasing liabilities.

Net debt (the sum of all liabilities on which interest is paid less cash and cash equivalents held at banks) decreased from EUR 4.3 million (12/31/2012) to EUR 3.0 million despite the decrease in cash and cash equivalents as a result of significantly reduced utilization of current account credits, the scheduled loan repayments in the financial year, the complete reduction of shareholder loans and the acceptance of long-term loans. Considering solely the continuing operations segment, net debt changed from EUR 4.3 million to EUR 3.9 million.

The cash and cash equivalents of the Group as of 12/31/2013 came to EUR 2.5 million (previous year: EUR 3.7 million), of which EUR 1.6 million (previous year: EUR 3.2 million) are attributable to the continuing operations segment. This reduced level for continuing operations in comparison to December 31, 2012 is mainly attributable to the financing of working capital in the operating cash flow as well as the significantly decreased debt level.

As of December 31, 2013, the *aap* Group had at its disposal contractually guaranteed credit lines of EUR 5.8 million, of which EUR 4.5 million relate to the continuing operations segment. Of these, a total of EUR 0.8 million (continuing operations: EUR 0.8 million) was utilized as of the reporting date. As of December 31, 2013 *aap* had a utilizable liquidity (total of cash and cash equivalents as well as freely available credit lines) in the amount of EUR 7.4 million (previous year: EUR 4.9 million).

in EUR million	12/31/2013	12/31/2012
Gross utilization of credit lines	-0.8	-4.5
Credit line balances	1.6	3.3
Net balance (previous year: utilization) credit lines	0.8	-1.2

As of December 31, 2013, the continuing operations segment had usable liquidity (the sum of cash and cash equivalents as well as freely available lines of credit) of EUR 5.3 million (previous year: EUR 3.3 million) at its disposal.

in EUR million	12/31/2013	12/31/2012
Gross utilization of credit lines	-0.8	-4.4
Credit line balances	0.7	2.9
Net utilization of credit lines	-0.1	-1.5

The *aap* Group has credit lines totaling EUR 5.8 million at its disposal for 2014 until further notice. For the time being, the German part and, with that, the continuing operations segment have credit lines totaling EUR 4.5 million at their disposal for 2014. Based on the budget for 2014, *aap's* liquidity position should show a further improvement in 2014. *aap* expects to end 2014 with positive cash flow as well. The possibility that short-term funding of working capital may prove necessary to ensure sales growth in 2014 cannot, however, be ruled out.

The debt coverage ratio and interest coverage ratio, strategically important key financial figures for *aap,* continue to develop favorably. The result for the rolling debt coverage ratio (basis: last four

quarters) is 0.5 (12/31/2012: 0.8) and the rolling interest coverage ratio (basis: last four quarters) is 32.9 (12/31/2012: 11.8). With these figures, which were an improvement on the previous year, *aap*'s ratios continue to be well above the minimum that the banks usually require and therefore provide a sound basis for ensuring ongoing profitable growth of the *aap* Group.

The values based on only the continuing operations segment are also favorable: The rolling debt coverage ratio (basis: last four quarters) is 0.9 (12/31/2012: 1.5) and the rolling interest coverage ratio (basis: last four quarters) is 22.7 (12/31/2012: 6.6). The strict target values for a debt coverage ratio of less than 3.0 and an interest coverage ratio of more than 8 (each in relation to the rolling operating EBITDA) continue to apply in 2014. For further information about liquidity management, please see the Notes (Capital Management).

Asset Position

The balance sheet of the *aap* Group changed significantly based on the assets held available for sale. Consequently, in connection with the sale of EMCM B.V., around EUR 22.9 million in assets and EUR 5.5 million in liabilities will be removed from the consolidated balance sheet. These were shown as held for sale according to IFRS 5. Total assets dropped by 5% from EUR 68.6 million to EUR 65.2 million.

The decrease in non-current intangible assets from EUR 39.4 million to EUR 14.5 million resulted mainly from the reclassification of goodwill (EUR 11 million) to the available-for-sale assets item as well as from impairment losses on development costs as part of the discontinuation of development activities for new biomaterial products outside of the PMMA bone cements and mixing systems (EUR 2.3 million). In addition, there was a further decrease of intangible assets as a result of the disposals recognized within the scope of the licensing business for the non-core product Adcon® (EUR 1.4 million), the development and supply agreement concluded in the first quarter (EUR 0.7 million) and the disposal of the corresponding assets following the sale of 67% of the shares in *aap* Joints GmbH (EUR 1.3 million). With capitalized development costs now representing only a 22% share of the balance sheet total, we are on the way to aligning ourselves with comparable international standards.

Tangible fixed assets decreased from EUR 7.8 million to EUR 5.9 million following a disposal amount of EUR 1.9 million for the discontinued area. The increase before allocation of the assets from EUR 2.7 million to EUR 7.8 million is mainly attributable to the extensive investment in new capacity in the area of trauma in 2013.

Under financial assets, a minority interest is shown based on the at equity method after the sale of 67% of the shares in *aap* Joints GmbH. At the time of the addition in the second quarter of 2013, this was measured at its fair value (EUR 1.4 million).

Inventories decreased from EUR 13.9 million to EUR 9.4 million after a disposal amount of EUR 1.8 million in relation to the discontinued operations segment. Bringing in the inventories in connection with the sale of the shares in *aap* Joints GmbH also resulted in a decrease of inventories (EUR 2.2 million).

Trade receivables, including receivables from service contracts, increased by EUR 3.1 million to EUR 7.3 million despite an allocation of EUR 2.4 million to the discontinued operations segment. The reason for this was the very strong fourth quarter with a high sales share in December 2013.

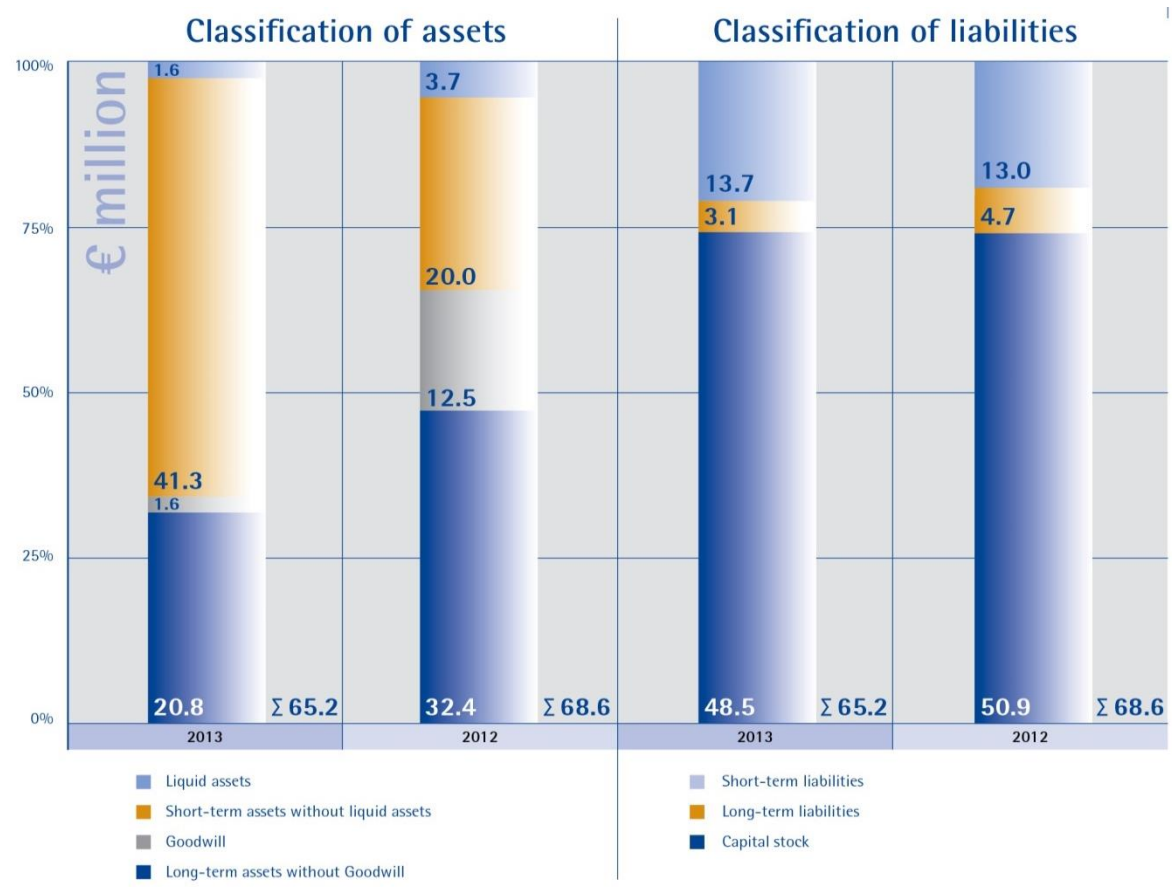
Cash and cash equivalents decreased to EUR 1.6 million after an allocation of EUR 0.9 million to the discontinued operations segment. Please refer to the notes on the financial position for further details.

Equity decreased from EUR 50.9 million to EUR 48.5 million as a result of the negative annual result. The equity ratio remained unchanged at a high level of 74%.

Non-current and current liabilities changed after an allocation of EUR 5.5 million to the discontinued operations segment to EUR 16.8 million especially due to the decrease in financial liabilities to banks of EUR 1.8 million, the increase of other liabilities and trade liabilities by EUR 0.6 million and EUR 0.7 million, respectively, as well as by the full reduction of all as of December 31, 2012 existing liabilities to shareholders in the amount of EUR 1.1 million.

The amount of capitalized deferred taxes remains unchanged at EUR 0 thousand. In accordance with IFRS, *aap* has capitalized deferred tax assets on the basis of past results since the financial year 2008 only insofar as they are covered by deferred tax liabilities arising from temporary differences as of the reporting date even if the tax loss carryforwards have a higher potential use.

The development of important items in the consolidated balance sheet as of December 31, 2013 compared with the previous year is summarized in the following chart:



(4) Analysis of Key Financial and Non-Financial Performance Indicators

aap as an innovative growth-oriented company sees sustainable profitable growth, establishing long-term partnerships with leading global orthopedic enterprises and developing innovative products as its primary performance indicators. In addition, in the course of the ongoing focus on the trauma, bone cement and cementing techniques areas, there was a focus on customers, costs and liquid funds.

Committed and well-trained employees are the key to corporate success at *aap*. Their professional expertise enables the company to develop and manufacture innovative medical products that meet market requirements. That is why it is important for *aap* to recruit qualified, talented employees, to retain them and create a work environment in which all of them can contribute their full potential. In order to ensure this, *aap* positions itself as an attractive employer. The cornerstones of human resources are supporting in-service training, performance-based remuneration, a positive working atmosphere and measures for reconciling work and family.

As an internationally active enterprise, *aap* collaborates with a large number of national and international suppliers in the area of procurement. The aim of all procurement activities is to ensure product quality and delivery reliability by means of close, long-term cooperation with suppliers and thereby gain a lasting competitive edge.

A decisive success factor for sustainable development at *aap* was and is increasingly the close contact with customers and a sound knowledge of international markets. In order to ensure this, *aap* exhibits at major industry trade fairs around the world, has a network of key opinion leaders in the relevant medical areas and is a member of various industry associations (e.g., BVMed).

As part of the monthly and quarterly reporting of the *aap* Group, the main financial indicators used for management of the entire company are as follows:

- Actual/target comparison of sales
- Development of the main development projects measured by the Freshness Index
- Liquidity measured by usable liquidity
- Working capital to sales ratio

The development and marketing of IP-protected products represents an integral part of *aap's* strategy. The Freshness Index was introduced for measuring the innovative strength of the *aap* Group. This measures the percentage share of total product sales generated by products newly approved in the United States and Europe in the past three years.

As a growth-oriented company, *aap* relies on always having sufficient financial resources at its disposal. In addition to balances at financial institutions, this also includes agreements with banks for lines of credit that can be used on a daily basis. *aap* measures its financial latitude according to usable liquidity, which reflects the utilization of credit lines less credit line accounts plus other balances at financial institutions.

The working capital to sales ratio measures the turnover rate of the working capital in relation to sales. Working capital is measured as the sum of inventories and trade receivables less trade liabilities. Sales on a rolling 12-month period are then divided by working capital.

Evaluation of the Management Agenda 2013

Let us summarize the main achievements in 2013:

- Sales growth of 10%, including 150% product growth for LOQTEQ®
- Normalized EBITDA growth of 15% from EUR 6.1 million to EUR 7.0 million
- Net debt was reduced from EUR 4.3 million to EUR 3.0 million
- Trauma sales (including LOQTEQ®) increased from EUR 6.3 million to EUR 9.6 million (driven by successful product line extensions as well as by the entry into new markets such as Colombia, Russia, Egypt and Saudi Arabia)
- Conclusion of a development and supply agreement for a PMMA bone cement with a global orthopedic company
- Conclusion of a license agreement with BiosCompass Inc. for the anti-adhesion product Adcon® in the amount of EUR 1.6 million
- Spin-off of the recon business into a joint venture (*aap* Joints GmbH); sale of 67% of the shares to a Chinese partner for EUR 3.0 million

Evaluation of the 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 SMIT-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
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

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

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[2] (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

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

C) Supplementary Report

On February 24, 2014, *aap* announced the conclusion of a final agreement, under which a private equity company acquires *aap*'s contract manufacturing business, which is bundled in the Dutch subsidiary European Medical Contract Manufacturing B.V. (EMCM). The purchase price for all shares in EMCM comes to EUR 18 million in cash and will be paid in three installments by the end of April 2014. At the end of February, *aap* had already received one-third of the purchase price. The notary authorization took place at the beginning of March 2014. The transaction results in a one-time

[2] Economic profit = (ROCE -WACC) x Capital Employed / Return on Capital Employed (ROCE) is a ratio that indicates the efficiency and profitability of a company's capital investments. Thereby is the EBIT divided by the total capital minus short term liabilities and cash. Weighted Average Cost of Capital (WACC) is the rate that a company is expected to pay on average to all its security holders to finance its assets..

deconsolidation loss of EUR 4.0 million with no effect on cash, which was recognized in the consolidated financial statements for 2013 as an impairment loss on goodwill. In the course of the sale of EMCM, *aap* adopted an amendment of its principles for the capitalization of development costs in the area of biomaterials. All corresponding development activities will not be continued. This results in a one-time impairment on capitalized development costs with no effect on cash in the amount of EUR 2.3 million. The aforementioned effects are taken into consideration in the 2013 consolidated financial statements. Recognition of the contract manufacturing area is carried out as a discontinued operations segment.

D) Risk and Opportunities Report

1) Internal system of controlling and risk management relating to the (Group-wide) accounting procedure (report pursuant to Section 289 (5) and Section 315 (2) 5 of the German Commercial Code [HGB])

The aim of the internal control system (ICS) for the accounting process is to provide reasonable assurance through the implementation of controls that the financial statements are drawn up in accordance with the regulations. *aap* Implantate AG as the parent company prepares the consolidated financial statements for the *aap* Group.

With reference to the accounting ICS, there can only ever be a relative degree of certainty and no absolute assurance that material errors in the accounting will be avoided or uncovered.

At *aap,* the Finance department controls the processes for the group accounting and preparation of the management report. Laws, accounting standards and other rules are continuously analyzed for their relevance to and effects on the consolidated financial statements. Relevant requirements are communicated and, together with the Group-wide reporting calendar, form the basis of the process for preparing the financial statements.

In the organization of the ICS, the Management Board exercises overall responsibility at the Group level. Of the various control mechanisms and processes used in preparing the accounts, several are essential. Principal instruments are:

- Accounting rules for especially relevant accounting standards both at the Group level and the individual Group companies
- Involvement of third-party experts when their services are required
- Use of suitable, largely uniform IT financial systems and detailed authorization concepts to ensure that powers correspond to the respective tasks
- Division of tasks between the entry of transactions as well as their review and approval
- A clear allocation of important tasks by planning operational accounting processes, such as adjusting claims and liabilities by means of balance confirmations
- Inclusion of risks recorded and assessed in the risk management system in the annual financial statements where this is required by existing accounting regulations
- Strict powers of disposal in the course of authorizing contracts, credit notes and the like, as well as consistent cross-checking
- Allocation instructions for material business transactions
- Clear instructions on the process of stocktaking and capitalization of development costs

- Regular training for employees involved in the Group accounting process

All of the structures and processes described are subject to constant review by those in charge of risk management. Furthermore, *aap* operates an active benchmarking process based on examples of best practices in other companies. Any scope for improvement that is identified is implemented in a targeted manner.

2) Risk Management System

Due to the nature of its operating activities, the *aap* Group is exposed to a large number of risks that are inherent to business activity.

The risk management system at *aap* is an integral component of corporate management and is based on three main elements:

- Certified quality management system: Clearly structured and explicitly documented processes within the framework of the quality management system and quality control are a prerequisite for the authorization of medical devices and for placing them on the market. The objective is risk prevention. The quality management systems in use at *aap* are certified by DEKRA (*aap* Implantate AG, Berlin), TÜV (*aap* Biomaterials GmbH) and the Dutch DEKRA Certification B.V. (EMCM B.V.).
- Controlling instruments: The Controlling department of *aap* informs the Management Board, Supervisory Board and decision makers of *aap* regularly and in good time via reports on earnings, assets and liquidity as well as key figures relating to the company's economic position and the status of potential risks.
- Risk management system: To identify and assess risks and enable the company to take appropriate countermeasures, *aap* has developed a risk management system. An important element of this system is the regular recording, systematization and evaluation of possible risks, the likelihood of them occurring and the potential for damage.

3) Description of Individual Risks, Quantification and Explanation of Possible Consequences

a) Market, Competition, New Products and Technologies

Competition in the medical technology market in general and the market for orthopedic and biological implants in particular will continue to increase. There is thus a risk that *aap* may be slower than its competitors to respond to market developments with new products or with updates to existing products. This could have a negative effect on the assets, earnings and financial position of the company and lead to a deterioration of its market position.

aap takes active measures to counter this risk by investing significant amounts in research and development and by operating an ongoing system of market and technology screening.

In addition, government changes to the health care system could have a negative effect on the Group's sales and earnings. *aap* counters this risk by means of progressive internationalization of its sales and intensive monitoring of the German health care system with a view to anticipating negative developments in order to be able to counteract them.

A constant process of corporate consolidation is under way in the global market, which also affects *aap*'s customers. *aap* is responding to this industry consolidation by cooperating with a large number of companies and constantly building new partnerships.

b) Approval of Products

Medical technology and health care are subject to strict approval requirements that differ from country to country. Rejection or delayed approval of the company's products could have a negative effect on future *aap* sales and earnings.

In order to recognize such developments at an early stage and to be able to react appropriately, the company follows developments in this area very closely and monitors regulatory changes in great detail within the scope of its quality management system.

The approval requirements for the first-time placement of medical products on the market are increasing daily. For implants that remain in the patient's body (endoprostheses, bone cement, resorbable regeneration materials), expert assessments based on clinical data are required as a prerequisite for the CE marking. *aap* has responded to this by expanding its regulatory and clinical affairs divisions and the increasing internationalization of sales so that higher production volumes can cover increased costs.

In the public debate in this area, the growing demand can be observed that the European Conformity Assessment Procedures for medical devices should be the same as the significantly stricter approval requirements for medicinal products. In order to do justice to the medical technology sector, the differences between it and the pharmaceutical industry must be understood and taken into consideration:

- With medicinal products, the main effect is achieved by pharmacological means. In contrast, the effects of medical devices on the human body are usually of a physical nature. The term "effectiveness" is therefore to be understood with regard to medical devices in the sense of functionality.
- Medicinal products affect complex biological systems and their therapeutic effect is an interaction between drugs and the human body. Medical devices, in contrast, affect the human body – and not vice-versa.
- Adverse effects of medicinal products can frequently not be predicted. It is not possible to state when they may occur, how serious they will be and whether they can be reversed. Adverse effects of medical devices, in contrast, are more predictable and can generally be reversed. In addition, the clinical effects of medical devices are greatly dependent on the skill, knowledge and experience of the user.

That is why medical devices and medicinal products must be dealt with differently.

c) Patents and Intellectual Property

The possibility of third parties asserting claims against *aap* for breach of industrial property rights in the future cannot be ruled out. Any such breach could, in certain circumstances, delay the delivery of products. In the event of a negative outcome of litigation, *aap* could be required to enter into fee or

license agreements. A suit filed against *aap* for breach of intellectual property rights could therefore have a detrimental effect on the Group's assets, financial and earnings position.

To actively protect the Group's own intellectual property, *aap* has a cross-site IP Committee that regularly monitors current developments in the patents and approvals market and protects own developments at an early stage by means of comprehensive patent protection. We have additionally implemented guidelines on how to deal with employee inventions in order to encourage our employees' innovative strength while at the same time protecting their and our intellectual property.

d) Dependence on Customers and Suppliers

In addition to products developed and manufactured by *aap*, the company also rounds off the product portfolio with commercial products such as instruments, lavage systems and the acquisition of a biomaterial product. Different *aap* products are manufactured by third-party suppliers (e.g., injection molding, polymers, collagen) if the production capability is not available. Such a partnership means increased dependency on the quality and supply availability of the supplier. *aap* protects itself as far as possible against this risk by means of strategic cooperation with a few qualified suppliers and regular reviews of their qualification.

In 2013, *aap* realized 24% (previous year: 38%) of its sales (including with the project sales realized with the respective customers) with the company's three major customers. For the continuing operations segment, the share of sales for the three major customers is 34% (previous year: 36%). OEM sales are set to increase further in the years ahead. The short-term loss or possible inability to pay on the part of one of these customers could pose a threat to the Group's earnings and financial position. Due to the size of these OEM partners, however, we consider this risk to be very slight.

aap counters this risk by developing its sales organization, by means of further internationalization and by acquiring additional major customers (stability, sales strength, financial power).

e) Product Liability Risks

aap products are intended for insertion into and, in some cases, permanent placement in the human body. Due to different healing processes as well as the varying experience of the physicians using the products, it is not possible to entirely rule out a malfunction of the products. No compensation claims of any significance have yet been made against *aap* with respect to product liability, but the possibility of this occurring in the future cannot be ruled out.

aap protects itself against possible product liability suits by means of a strict system of quality control and product liability insurance to the extent customary in the industry. In this regard, there is a residual risk that the existing insurance coverage might not be sufficient for potential claims, especially in the United States.

f) Capitalization of Development Costs

As a development-intensive medtech company, in addition to internally produced fixed assets, *aap* also capitalizes the expenditure incurred for internal and development projects. Based on our own experience and on industry analysis, the average development cycle for a new medical device ranges between 3 to 8 years. Development projects must be classified as assets if more than six criteria laid down in IAS 38 Intangible Assets are fulfilled. All six criteria apply in equal measure, but one of the

most challenging ones is to provide proof that the asset will probably achieve a future economic benefit. All capitalized development projects, in-house and acquired, must be subjected to an annual impairment test. Any impairment requirement must be stated immediately in the year that it is established as an unscheduled depreciation in the income statement. In the financial year 2013, for example, *aap* wrote down eight development projects that will not be pursued further as a result of the strategy to focus on the areas of trauma and PMMA bone cement as well as the related mixing systems. This involves five projects from the area of bone substitute technology, two projects for soft tissue regeneration based on collagen as well as a recon application for the treatment of surfaces with hydroxylapatite.

After completion and first-time use, capitalized development projects are subject to scheduled depreciation over their useful lives. The current depreciation period is between 10 and 15 years. The management continuously evaluates whether this depreciation period corresponds to the expected economic useful life or if any adjustments (e.g., shorter depreciation periods) need to be made. The development of depreciation of intangible assets, especially capitalized development projects, shows that depreciation has increased continuously in recent years. Combined with sales and earnings growth, this reflects the contribution that development projects make to the positive development of these parameters. *aap* has put extensive measures and processes in place to prevent undesirable developments or project cancellations. They include the establishment of centers of excellence or collaboration with highly regarded leading international scientists and physicians in areas such as the development of new trauma plating systems, silver coating of trauma products or the development of medical devices made of magnesium. The Management's expectations of a further contribution by capitalized development projects can be seen from our goal of a further improvement in our Freshness Index in 2014/15, especially by means of rising sales of LOQTEQ® and bone cements and mixing systems developed in-house. It is our clear understanding that the effect on results from capitalized development projects is to be balanced for the period of development until the end of the economic useful life.

g) Personnel Risks

In many areas of its business activities, *aap* is dependent on the specialized knowledge of its employees. In particular for the development and approval of IP-protected medical devices, but also in regard to the establishment and expansion of new business activities, *aap* relies on the knowledge and expertise of specially qualified key personnel. In order to minimize fluctuation of qualified employees as well as to acquire talented individuals, it is important for *aap* to create a working environment in which everyone can realize their full potential. In order to ensure this, *aap* positions itself as an attractive employer. The cornerstones of human resources are supporting in-service training, performance-based remuneration, a positive working atmosphere and measures for reconciling work and family. Despite these measures and high employee satisfaction, *aap* cannot guarantee that these employees will remain with the company or show the necessary level of commitment.

h) Data Protection

Companies over a certain size are required by law to appoint a data protection officer. *aap* Implantate AG complied with this statutory requirement by appointing an external data protection

officer. Since 2012, the external data protection officer at *aap* Implantate AG has also been employed at the *aap* Biomaterials GmbH site in Dieburg.

At the Dieburg site, an initial review was also carried out, leading to a status report. Like at *aap* Implantate AG, the finding was that a high level of data protection was already in place at *aap* Biomaterials GmbH at the time the status report was prepared. By implementing further measures, the high level of data protection will continue to be maintained or optimized.

Most of the employees were trained in the area of data protection at *aap* Implantate AG as well as *aap* Biomaterials GmbH. An effective obligation to maintain data secrecy pursuant to Section 5 of the German Federal Data Protection Act (BDSG) is thus ensured. This process is carried out continuously in order to maintain an uninterrupted high level of data protection.

i) Legal Risks

In connection with the termination of a sales agreement, a former sales partner of the subsidiary *aap* Biomaterials GmbH asserted claims for damages and filed a suit for a payment of EUR 350 thousand on December 30, 2010. As of December 31, 2013, the management of *aap* Biomaterials GmbH reduced the provisions that were established for this purpose in 2009 to EUR 65 thousand because this amount was accepted by the opposing party in the course of out-of-court settlement negotiations in the financial year 2013. The legal record of the settlement agreement is still pending.

In connection with the termination of a supply agreement, a supplier of *aap* Implantate AG is seeking compensation for damages in the amount of EUR 83 thousand plus interest and legal costs for alleged invalid termination of the contract. On January 23, 2013 we were notified of the lawsuit after we had served notice in August 2012 to terminate the contract with effect from February 15, 2013. This lawsuit was readily dismissed in full by the court on April 24, 2013 and the supplier filed an appeal. In our view, the contract terms do not oblige us to take delivery for the originally planned order. Based on the current state of knowledge and legal advice, we therefore still see no risk for a possible claim against *aap*.

4) Additional Disclosures Pursuant to Section 315 (2) 2 HGB

Risks due to price changes cannot be completely ruled out. *aap* counteracts these risks by means of moving sales to product innovations developed and produced in-house with higher margins.

Possible default risks with regard to trade receivables are minimized by an active receivables management system. In addition, *aap* regularly sets up adequate risk provisioning for this in the form of specific and general bad debt allowances (2013: EUR 183 thousand, previous year: EUR 301 thousand), which related entirely to the continuing operations segment in the financial year. Overall, however, the risk can be regarded as limited because write-offs on receivables after the use of value adjustments in the reporting year amounted to just EUR 4 thousand (0.01% of sales). Here as well, the write-offs related entirely to the continuing operations.

The financing position of the Group and *aap* Implantate AG can be considered adequate in view of the cash funds and open credit lines available as of the December 31, 2013 reporting date. As of December 31, 2013, the *aap* Group had at its disposal contractually guaranteed credit lines of EUR 5.8 million, of which EUR 4.5 million relate to the continuing operations segment. Of these, a total of

EUR 0.8 million (continuing operations: EUR 0.8 million) was utilized as of the reporting date. As of December 31, 2013 *aap* had a utilizable liquidity (total of cash and cash equivalents as well as freely available credit lines) in the amount of EUR 7.4 million (previous year: EUR 4.9 million).

in EUR million	12/31/2013	12/31/2012
Gross utilization of credit lines	-0.8	-4.5
Credit line balances	1.6	3.3
Net balance (previous year: utilization) credit lines	0.8	-1.2

As of December 31, 2013, the continuing operations segment had usable liquidity (the sum of cash and cash equivalents as well as freely available lines of credit) of EUR 5.3 million (previous year: EUR 3.3 million) at its disposal.

in EUR million	12/31/2013	12/31/2012
Gross utilization of credit lines	-0.8	-4.4
Credit line balances	0.7	2.9
Net utilization of credit lines	-0.1	-1.5

The *aap* Group has credit lines totaling EUR 5.8 million at its disposal for 2014 until further notice. For the time being, the German part and, with that, the continuing operations segment have credit lines totaling EUR 4.5 million at their disposal for 2014. Based on the budget for 2014, *aap's* liquidity position should show a further improvement in 2014. *aap* expects to end 2014 with a positive cash flow. The possibility that short-term funding of working capital may prove necessary to ensure sales growth in 2014 cannot, however, be ruled out.

The debt coverage ratio and interest coverage ratio, strategically important key financial figures for *aap,* continue to develop favorably. The result for the rolling debt coverage ratio (basis: last four quarters) is 0.5 (12/31/2012: 0.8) and the rolling interest coverage ratio (basis: last four quarters) is 32.9 (12/31/2012: 11.8). With these figures, which were an improvement on the previous year, *aap's* ratios continue to be well above the minimum that the banks usually require and therefore provide a sound basis for ensuring ongoing profitable growth of the *aap* Group.

The values based on only the continuing operations segment are also favorable: The rolling debt coverage ratio (basis: last four quarters) is 0.9 (12/31/2012: 1.5) and the rolling interest coverage ratio (basis: last four quarters) is 22.7 (12/31/2012: 6.6). The strict target values for a debt coverage ratio of less than 3.0 and an interest coverage ratio of more than 8 (each in relation to the rolling operating EBITDA) continue to apply in 2014. For further information about liquidity management, please see the Notes (Capital Management). As of December 31, 2013, the continuing area had at its disposal contractually guaranteed credit lines of EUR 4.5 million, of which EUR 0.8 million were utilized as of the reporting date.

Interest rate risks result from financial liabilities and investments. *aap* tries to optimize the interest result and minimize interest rate risks. A Group-wide cash management is carried out for this purpose as well as for concluded primary financial transactions. Interest rate and price change risks are managed by means of a mixture of terms to maturity as well as fixed and floating interest rate

positions. Except for current account credit lines and the EUR 2.0 million in loans taken out in 2012, all of the Group's interest-bearing liabilities are subject to fixed interest rates. As of December 31, 2013, approximately 25% (previous year: 19%) of the Group's debt capital was subject to fixed interest rates. Changes in market interest rates only have an effect here if these financial instruments were to be recognized at fair value. However, this is not the case. Sensitivity analyses were carried out for the floating interest-bearing financial liabilities. In this regard, a similar change in the interest rate for all financial liabilities and currencies was assumed. Accordingly, an interest rate change of one percentage point results in an increase in earnings before taxes of EUR 40 thousand (previous year: EUR 71 thousand) or a decrease of EUR 40 thousand (previous year: EUR 71 thousand).

Liquidity risks result, inter alia, from the lack of availability of funding sources due to, among other things, the failure to comply with financial covenants stipulated in the loan agreements. If these financial covenants are not observed, the financing bank has the right to issue an extraordinary notice of cancellation for the respective loans and require immediate repayment. Under the current long-term loan agreements, *aap* must observe, for example, certain maximum and minimum limits with regard to the equity ratio, interest coverage ratio or net debt. The *aap* Group assesses the risk of non-compliance with the financial covenants that could result from a retrograde calculation carried out by the respective financing bank as low. In addition, *aap* fosters a policy of transparent and communication with the financing banks in order to identify possible risks at an early state and developing risk-adequate solutions together.

A key element of the working capital management is also the strict monitoring of the average debtor days (average trade receivables/sales x 360 days). This gives an increased value of 68 days for 2013 following 47 days in 2012. Nevertheless, we are still within the industry benchmark range of 65–70 days.

In the financial year 2013, *aap* essentially entered only into internal foreign currency hedging transactions because the foreign currency risk was low. In the future, however, *aap* plans to take external hedging precautions against these receivables for higher sales denominated in US dollars.

5) Opportunities

In addition to the 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 our products and our research and development integrated in the centers of excellence (CoE), we will continue to harness opportunities quickly as well as create new sales potential.

Opportunities through positive economic development

The general economic environment has an impact on the development of business at *aap*. Our statements on the continuing development of the Group are based on the expected overall economic environment described in the forecast report. If the global economy develops more dynamically than currently assumed, our forecast for the sales, earnings and financial position can 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. The 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 efficient solutions. If the international health care markets develop more rapidly than currently expected, this could have a positive effect on our sales, earnings and cash flow situation.

Opportunities through research and development

Innovations on 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 the market. Earlier market readiness of our research and development projects than currently expected could improve our sales, earnings and cash flow situation.

Opportunities through international presence

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

Financial opportunities

Favorable exchange rate trends can have a potentially positive impact on the Group's development of earnings. *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 the 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 sales, earnings and cash flow.

E) Forecast Report

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.

The MedTech Environment

The USA and Europe are the leading medical technology (MedTech) markets today, together accounting for 85% of the sales of the major orthopedic companies. Emerging markets such as the BRICS and SMIT countries represent a relatively smaller but faster growing segment of the market. The growth in these countries is driven by and expanding middle class that is increasing its healthcare spending as a percentage of Gross Domestic Product (GDP).

Since 2007, the orthopedic market has been characterized by declining growth rates in the hip and knee markets, from high single digit growth to approximately 2% growth in 2013. Encouragingly, these markets gained momentum heading into the end of the year, and growth expectations for 2014 and beyond are rising to the mid-single digit level. This turnaround, which may be a positive driver for the whole industry, is related to recovering economies, the demographics of aging populations, new technologies and penetration of emerging markets.

The healthcare markets in the USA and Europe are undergoing significant structural changes:

First: There continues to be a trend toward consolidation among the healthcare providers, such as hospitals. As a result of this centralization of care, these larger, multi-site institutions have also increased the purchasing leverage of their procurement departments, who are focused on reducing the number of vendors and driving down cost.

Second: In-home patient care is another growing segment of the healthcare market, with a goal of lowering costs while also providing better patient care. This is being supported by reimbursement policies that encourage this model. In the USA, leading healthcare distribution companies like Cardinal Health, who historically have only sold pharmaceuticals and supplies, have entered the home care market, which is expected to grow 6% to 8% per year.

Third: The introduction of innovative new technologies is driving a reduction in the time spent in the hospital for procedures and recovery time. The silver-coating technologies for trauma and recon products that we are developing, which have the potential to reduce infections, have the potential to change the standard of care in these orthopedic categories. The same is true of our efforts to develop resorbable trauma implants made from magnesium, which would make a second explantation operation unnecessary.

Fourth: In emerging markets such as in the BRICS and SMIT countries there continues to be attractive growth rates, however these markets are also characterized by unsteady economies and currencies, and unpredictable government and legal systems, which require a cautious approach.

Fifth: There has been a decline in venture capital investments in the MedTech industry. Data from a recent PricewaterhouseCoopers (PwC) study showed that since 2007, investments in emerging medical technology companies had come down by 40%.

In 2013, the average MedTech M&A (merger & acquisition) deal size increased, along with the number of transactions of more than $100 million. One of the most remarkable transactions in 2013 was the acquisition of Wright Medical Group, Inc.'s hip and knee business by China based MicroPort Scientific Corp. This acquisition represents the first major transaction of a Chinese MedTech company purchasing a U.S. MedTech business and may result in the creation of the first non USA and/or Europe based major MedTech company.

Long Term Outlook

The strategy of *aap* has a long planning time horizon and may be summarized by:

- Focus: IP based product portfolio

- Markets: BRICS and SMIT countries next to USA and Europe
- Products: Shall contribute to better and more affordable healthcare

In 2013, we made significant progress in our strategy to focus on our core product portfolio. During the year we spun off our hip, knee and shoulder business into a joint venture, *aap* Joints GmbH, with a Chinese partner. *aap* retains a 33% equity stake in the joint venture, however our Chinese partner will be the primary driver of strategy and operational execution for the business. In early 2014, *aap* concluded the divestment of its contract manufacturing business, EMCM, to a private equity company. Together, these divestments narrowed our focus to Trauma product and Biomaterials, while also improving the financial position of the company and strengthening the balance sheet. The cash proceeds from the EMCM transaction will be used to accelerate the development of the LOQTEQ® family of trauma products and the company's new product pipeline. The proceeds may also contribute to our acquisition strategy and may be used to deliver cash to shareholders (for example by share repurchases).

In 2014 *aap* will focus on its two centers of excellences:

- *aap* Implantate AG: focused and IP backed trauma business around the LOQTEQ® product family, based in Berlin (Germany)
- *aap* Biomaterials GmbH: an OEM business in Biomaterials predominantly PMMA bone cement and mixing devices, based in Dieburg (Germany)

As described in last year's Annual Report, the Trauma business has the major potential to create high enterprise value because of robust market growth, a favorable IP position for LOQTEQ®, the development pipeline (silver coating and resorbable magnesium implants) and a growing number of market authorizations around the world.

The five year business plan for the trauma business describes in detail the further development of products and services and also the expansion into various regional markets. In 2014 and 2015 the trauma/LOQTEQ® growth will continue to be high (approx. 50%). In 2014 the trauma business is expected to generate positive EBITDA for the first time, and we expect it to become cash flow positive in 2017. In summary: *aap* is building a broad based platform that can address the fundamental challenges in trauma healthcare, enabling new standards.

The OEM business of *aap* Biomaterials made good progress in extending its customer base in 2013. As of now, all of the major orthopedic companies are a respected customer of *aap* Biomaterials. Our biomaterials products are sold mainly in the European and US markets, along with a growing number of countries in Asia and Latin America. The pipeline of the company is focused on developing new bone cements and IP protected, closed mixing devices and other appendages. New product technology in the area of mixing and delivery has the potential to drive increased volume and improve the value of the business over the long term. The OEM business is expected to deliver 5% to 10% volume growth per year. In past years the company has also generated income from license deals and/or milestone payments, an opportunity that is not included in the previously mentioned growth expectation. The business is generating attractive levels of profitability and a strong free cash

flow. In summary: *aap* Biomaterials is building a strong position in a very attractive and sustainable niche of the hip, knee, spine and dental market.

In the Management Agenda 2014 we outline the company´s strategic goals for the categories Customer-Innovation-Finance-Organization/IT. The agenda has a few changes compared to the one published in early January; the deletions are related to the divestment of EMCM.

Goals for the 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

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

Outlook for 2014

The new sales target after the divestment of EMCM is € 35 million, representing growth of 22%. The new EBITDA target is between € 5 and € 6 million, representing 0-20% growth. It is our goal to expand our trauma activities by a combination of organic growth supplemented with acquisitions. In order to further accelerate the transformation of *aap* Implantate AG into an international Trauma company, *aap* has initiated studies to consider the position of *aap* Biomaterials GmbH (bone cement and mixing device business) as part of its business portfolio.

F) Other Disclosures

1. Composition of Subscribed Capital

As of December 31, 2013, the company's share capital amounted to EUR 30,670,056.00 divided into 30,670,056 fully paid bearer unit shares. Each share entitles the holder to one vote at the company's Shareholders' Meeting. Only the statutory voting restrictions exist. There are no differences in voting rights.

2. Basic Principles of the Remuneration System (Remuneration Report)

Management Board Remuneration

The Supervisory Board resolved on September 26, 2012 to renew the terms of office of all three Management Board members, which were due to expire on December 31, 2012, for another three years until December 31, 2015. On October 8, 2012 the new management contracts, valid from January 1, 2013, were signed. They now all comply with the recommendations of the German Corporate Governance Code and the remuneration structure was geared to sustainable corporate development in accordance with the Act on the Appropriateness of Management Board Remuneration (VorstAG; Section 87 (1) AktG).

The following Management Board remuneration provisions thus applied from January 1, 2013:

The total cash remuneration consists of a fixed and a performance-related variable component. 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 on the company's economic result, ensures a long-term incentive effect.

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 LOQTEQ® sales (partial bonus 1 – weighting 1/3) and cash flow target achievement (partial bonus 2 – weighting 2/3). Subject to the degree of target attainment the partial amounts are graduated and limited by an absolute amount or ceiling.

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

If the results for the year after the bonus year and/or the second year after the bonus year are more than 30% below the quantitative target, the part of the bonus that has been withheld will be forfeited. The bonus for 2013 could therefore be reduced if the targets are not met in 2014 and 2015

and the bonuses for 2014 and 2015 could be reduced if the targets are not met in 2015 and 2016 or in 2016 and 2017. 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.

In the event of a change of control at the company, members of the Management Board will be entitled to a special right of termination that they can exercise at the end of the second month after the change of control (not including the month in which the change of control occurs) by serving 14 days' notice to the end of the month. There are three cases in which a change of control entitles the exercise of the special right of termination: If a current shareholder or third party acquires at least 50% of the voting rights and thereby exceeds the mandatory offer threshold according to 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 2013 was as follows:

	Remuneration components in TEUR				
	Performance-unrelated	Performance-related	With long-term incentive effect	Total (2013)	Total (2012)
Biense Visser, CEO	285	75	24	384	346
Bruke Seyoum Alemu, COO	306	75	21	402	431
Marek Hahn, CFO	210	50	15	275	269
	801	200	60	1,061	1,046

Supervisory Board Remuneration

Supervisory Board members receive, in addition to reimbursement of their expenses, a fixed remuneration of EUR 5,000 per Supervisory Board meeting. No remuneration is paid for meetings held by conference call.

2008 Stock Option Program

By resolution of the Shareholders' Meeting of September 29, 2008, the Management Board and – provided members of the company's management are entitled – the Supervisory Board are authorized to issue stock option programs by September 28, 2013 for members of the company's Management Board, selected executives of the company as well as members of the Management and employees of the company and affiliated enterprises and to grant up to 1,200,000 stock options with subscription rights to one share in the company, each with a term of up to five years from the date of issue. Shareholders of the company do not have subscription rights. The stock options can also be taken over by a bank with the obligation to transfer them to the entitled parties as instructed by the company; in this case as well, the options can only be exercised by the entitled person. The fulfillment of exercised option rights may be effected at the company's discretion either by utilizing contingent capital 2008/I or through treasury shares in the company.

For further details, please see the Notes under (11) Equity.

2010 Stock Option Program

The Management Board of the company and, if members of the company's Management Board are among the entitled persons, the Supervisory Board are authorized to issue by December 19, 2011 a stock option program (the "2010 Stock Option Program") for employees and Board members of the company as well as for employees and the management of affiliated enterprises and to grant up to 1,486,000 stock options with subscription rights for one share in the company ("subscription rights"), each with a term of up to eight years after the date of issue. Shareholders of the company do not have subscription rights. The stock options can also be taken over by a bank with the obligation to transfer them to the entitled parties as instructed by the company; in this case as well, the subscription rights may be exercised only by the entitled person. The fulfillment of exercised option rights may be effected at the company's discretion either by utilizing contingent capital, treasury shares in the company or a cash settlement.

For further details, please see the Notes under (11) Equity.

2012 Stock Option Program

The Management Board of the company is authorized to issue by December 19, 2014 a stock option program (the "2012 Stock Option Program") for employees of the company and employees of affiliated enterprises and to grant up to 300,000 stock options with subscription rights for one share in the company ("subscription rights"), each with a term of up to eight years after the date of issue. Shareholders of the company do not have subscription rights. The stock options can also be taken over by a bank with the obligation to transfer them to the entitled parties as instructed by the company; in this case as well, the subscription rights may be exercised only by the entitled person. The fulfillment of subscription rights exercised can, at the company's discretion, be carried out either by making use of the conditional capital that is up for approval, by treasury shares or by means of a cash settlement.

For further details, please see the Notes under (11) Equity.

2013 Stock Option Program

The Management Board of the company is authorized to issue by December 19, 2015 a stock option program (the "2013 Stock Option Program") for employees of the company and employees of affiliated enterprises and to grant up to 300,000 stock options with subscription rights for one share in the company ("subscription rights"), each with a term of up to eight years after the date of issue. Shareholders of the company do not have subscription rights. The stock options can also be taken over by a bank with the obligation to transfer them to the entitled parties as instructed by the company; in this case as well, the subscription rights may be exercised only by the entitled person. The fulfillment of subscription rights exercised can, at the company's discretion, be carried out either by making use of the conditional capital that is up for approval, by treasury shares or by means of a cash settlement.

For further details, please see the Notes under (11) Equity.

3. Direct and Indirect Shareholdings >10% of Voting Rights

To the best of our knowledge, the following direct and indirect shareholdings of more than 10% of the share capital in *aap* Implantate AG totaling EUR 30,670,056.00 were held as of December 31, 2013:

Name	Voting rights in %

1. Elocin B.V.	20.89
2. Noes Beheer B.V.	16.66
3. Jürgen W. Krebs	12.56

4. Statutory Provisions and Provisions of the Articles of Association for Appointing and Dismissing Management Board Members and Amending Articles of Association

The appointment and dismissal of members of the Management Board are governed by Section 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 and appoints them. The Supervisory Board can appoint a member of the Management Board as chairman and another as deputy chairman. The Supervisory Board also dismisses members of the Management Board. Management Board members are appointed for a maximum of five years. Reappointment or extension of the term of office for an additional five years is also 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 Shareholders' 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 Sections 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.

5. Management Board Authorization to Issue and Repurchase Shares

The Management Board was authorized, with the Supervisory Board's consent, to increase the company's share capital by August 26, 2012, once or several times, by up to EUR 2,988,935 against cash or contributions in kind (authorized capital 2007/I) and to lay down the terms and conditions of the share issue, again subject to the Supervisory Board's consent. Subscription rights for shareholders may be excluded with Supervisory Board consent. After partial utilization, this authorized capital now amounts to only EUR 1,721,578.

The Management Board is authorized, with the Supervisory Board's consent, to increase the company's share capital by August 6, 2014, once or several times, by up to EUR 8,026,571 against cash or contributions in kind (authorized capital 2009/I) and to lay down the terms and conditions of the share issue, again subject to the Supervisory Board's consent. Subscription rights for shareholders may be excluded with Supervisory Board consent. After partial utilization, this authorized capital now amounts to only EUR 5,238,385.

The Management Board is authorized, with the Supervisory Board's consent, to increase the company's share capital by July 15, 2015, once or several times, by up to EUR 4,192,786.00 against cash or contributions in kind (authorized capital 2010/I) and to lay down the terms and conditions of the share issue, again subject to the Supervisory Board's consent. Subscription rights for shareholders may be excluded with Supervisory Board consent.

The Management Board is authorized, with the Supervisory Board's consent, to increase the company's share capital by July 5, 2017, once or several times, by up to EUR 4,182,279 against cash or contributions in kind (authorized capital 2012/I) and to lay down the terms and conditions of the share issue, again subject to the Supervisory Board's consent. Subscription rights for shareholders may be excluded with Supervisory Board consent.

The August 7, 2009 Shareholders' Meeting authorized the company to buy and use treasury shares in accordance with Section 71 (1) 8 of the German Stock Corporation Act (AktG) and to exclude subscription rights. Treasury shares of up to an imputed share of EUR 1,000,000 in the capital stock may be acquired. The authorization resolved by the Shareholders' Meeting on August 7, 2009 expired on February 4, 2011. In accordance with the terms of Section 71 (1) 8 AktG as amended by the July 30, 2009 act implementing the European Shareholders' Rights Directive (ARUG), this authorization may now be granted for a period of up to five years. The July 16, 2010 Shareholders' Meeting accordingly authorized the company to buy and use treasury shares in accordance with Section 71 (1) 8 of the German Stock Corporation Act (AktG) and to exclude subscription rights. Treasury shares of up to an imputed share of EUR 1,000,000 in the capital stock may be acquired. The shares acquired together with the other treasury shares held by or attributed to the company in accordance with Section 71a et seq. AktG shall at no time exceed 10% of the capital stock. The authorization may not be used for trading in the company's shares.

Use may be made of the authorization wholly or in part, once or several times, in pursuit of one or more objectives by the company or third parties on account of the company. The authorization is valid until July 15, 2015.

Shares may be purchased at the Management Board's discretion either on the stock market, by public tender or by a public call for a tender submission:

- For shares purchased on the stock market, the price per share paid by the company (excluding ancillary purchase costs) may not be more than 5% higher or lower than the opening auction price in the Xetra trading system (or comparable successor system) on the trading day at the Frankfurt Stock Exchange.

- For shares purchased by public tender or by a public call for tender submission, the offer price or threshold values of the purchase price range per share (excluding ancillary purchase costs) may not exceed or fall below by more than 10% the average closing rates in the Xetra trading system (or a comparable successor system) on the Frankfurt Stock Exchange on the three trading days prior to the date of the public announcement of the offer or the public tender for bids. If there are substantial variations in price following the announcement of a public offer or the public tender, the offer or tender may be adjusted accordingly. In this case, the average price on the three trading days prior to the public announcement of any adjustment will be taken as the basis of calculation. The purchase offer or the call to tender a purchase offer can include further conditions. If the purchase offer is oversubscribed or if, in the case of a call to tender an offer with several equivalent offers, not all of them are accepted, the acceptance must be carried out by quotas. A preferential acceptance of small numbers of up to 100 shares for the purchase

of shares offered per shareholder can be specified. The provisions of the German Securities Acquisition and Takeover Act (WpÜG) insofar as they are applicable.

The Management Board is authorized to use the shares in the company purchased on the basis of this authorization for all legally permissible purposes and in particular for the following:

I. The shares can be called in without requiring another resolution of the Shareholders' Meeting. They can also be called in using a simplified procedure without a reduction in capital by adjusting the proportional arithmetical amount for the remaining individual shares in the company's capital stock. Calling in can be limited to only part of the shares purchased. The authorization to call in shares can be exercised several times. If the shares are called in by means of a simplified procedure, the Management Board is authorized by the articles of association to adjust the number of individual shares.

II. The shares can be sold by methods other than via the stock exchange or by means of an offer to shareholders if shares are sold for cash at a price that is not significantly lower than the stock market value of equivalent shares in the company at the time of the sale. In this case, the number of shares to be sold together with the number of new shares issued since the granting of this authorization to the exclusion of subscription rights in accordance with Section 186 (3) 4 of the German Stock Corporation Act (AktG) may not exceed 10% of the company's share capital at the time the resolution is adopted at the Shareholders' Meeting.

III. The shares can be issued against contributions in kind, especially in connection with the acquisition of companies, parts of companies or shareholdings in companies, as well as mergers (including measures in connection with the German Reorganization Act [UmwG]).

IV. The shares can be used for issuing to strategic partners.

V. The shares can be used to pay for consulting services.

VI. The shares can be used for issuing to lenders instead of interest payments in cash or in addition to cash payments as "equity kickers," especially in connection with mezzanine financing.

VII. The shares can be used to repay loans or other liabilities.

VIII. The shares can be used to fulfill conversion rights under convertible bonds or bonds with warrants issued on the basis of the authorization granted by the June 30, 2006 Shareholders' Meeting (Notarial Deed No. M 211/2006 of the Berlin notary Klaus Mock). The key points of the conditions of the authorization dated June 30, 2006 are set forth in the notarial record of the June 30, 2006 Shareholders' Meeting (Notarial Deed No. M 211/2006 of the Berlin notary Klaus Mock) and as such can be inspected at the commercial register of the Charlottenburg district court in Berlin.

IX. The shares can be used to fulfill option rights resulting from stock options issued on the basis of the authorization granted by the June 30, 2006 Shareholders' Meeting (Notarial

Deed No. M 211/2006 of the Berlin notary Klaus Mock). The key points of the conditions of the authorization dated June 30, 2006 are set forth in the notarial record of the June 30, 2006 Shareholders' Meeting (Notarial Deed No. M 211/2006 of the Berlin notary Klaus Mock) and as such can be inspected at the commercial register of the Charlottenburg district court in Berlin.

X. The shares can be used to fulfill option rights resulting from stock options issued on the basis of the authorization granted by the September 29, 2008 Shareholders' Meeting (Notarial Deed No. M 334/2008 of the Berlin notary Klaus Mock). The key points of the conditions of the authorization dated September 29, 2008 are set forth in the notarial record of the September 29, 2008 Shareholders' Meeting (Notarial Deed No. M 334/2008 of the Berlin notary Klaus Mock) and as such can be inspected at the commercial register of the Charlottenburg district court in Berlin.

XI. The shares may be used, if authorized at the Shareholders' Meeting of July 16, 2010, to fulfill option rights arising from stock options issued by the company based on the authorization granted at the Shareholders' Meeting of July 16, 2010. The key points of the conditions of the authorization of July 16, 2010 arise from the resolution of the Shareholders' Meeting of July 16, 2010 – if the Shareholders' Meeting approves the proposal of the Management Board and Supervisory Board, the key points of the conditions of this authorization from the proposal given by the Management Board and Supervisory result in topic 5 on the agenda that is announced with the calling of the Shareholders' Meeting.

The authorizations under II. to XI. also include the use of shares in the company acquired on the basis of Section 71d (5) of the German Stock Corporation Act (AktG).

The authorizations may be used once or several times, in full or in part, individually or jointly, and authorizations as per II. to XI. can also be used by dependent or majority-owned enterprises of the company on their account or on the account of third parties acting on the company's behalf.

The price, excluding ancillary costs of realization, at which shares of the company are sold or issued in accordance with an authorization pursuant to II. to VII. must not be more than 5% lower than the opening auction price of *aap* Implantate AG shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the day of the sale or binding agreement with the third party.

The price, excluding ancillary costs of realization, at which shares in the company are used in accordance with the authorization as per VIII. must amount to at least 80% of the average value of the final auction prices for *aap* Implantate AG shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange during the 10 trading days before the day on which the Management Board decided to issue the convertible bonds or option bonds.

The price, excluding ancillary costs of realization, at which shares in the company are used in accordance with the authorization as per IX. amounts to the average value of the final auction prices for *aap* Implantate AG shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange during the 10 trading days before the day on which the option agreement signed by

the company on the basis of the authorization to grant stock options agreed by the June 30, 2006 Shareholders' Meeting (Notarial Deed No. M 211/2006 of the Berlin notary Klaus Mock) is handed over to the entitled person in question (the "issue date"). The option conditions specified on the basis of the above-mentioned June 30, 2006 authorization to grant stock options can, in the event of measures being undertaken during the term of these stock options that influence the value of the options (a capital increase with a direct or indirect subscription right for shareholders in the company, sale of treasury shares, the issue of bonds with conversion and/or option rights to shares in the company), provide for adjustments to the exercise price and/or subscription relationship. There is no reduction on the basis of the above-mentioned June 30, 2006 authorization to grant stock options if the entitled person is granted a direct or indirect subscription right to the new shares or treasury shares or new bonds that leaves him in the same position as if he had exercised the option. The option conditions laid down on the basis of the above-mentioned June 30, 2006 authorization to grant stock options can also provide for an adjustment of option rights in the event of a capital increase from company funds or a capital reduction, a share split or a reverse split of shares as well as in the case of bonuses and extraordinary disbursements in cash and/or kind in accordance with the practices on the German and international futures exchanges.

The price, excluding ancillary costs of realization, at which shares in the company are used in accordance with the authorization as per X. must amount to the average value of the final auction prices for *aap* Implantate AG shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange during the 20 trading days before the day on which the option agreement signed by the company on the basis of the authorization to grant stock options agreed by the September 29, 2008 Shareholders' Meeting (Notarial Deed No. M 334/2008 of the Berlin notary Klaus Mock) is handed over to the entitled person in question (the "issue date"). The option conditions specified on the basis of the above-mentioned September 29, 2008 authorization to grant stock options can, in the event of measures being undertaken during the term of these stock options that influence the value of the options (a capital increase with a direct or indirect subscription right for shareholders in the company, sale of treasury shares, the issue of bonds with conversion and/or option rights to shares in the company), provide for adjustments to the exercise price and/or subscription relationship. There is no reduction on the basis of the above-mentioned September 29, 2008 authorization to grant stock options if the entitled person is granted a direct or indirect subscription right to the new shares or treasury shares or new bonds that leaves him in the same position as if he had exercised the option. The option conditions laid down on the basis of the above-mentioned September 29, 2008 authorization to grant stock options can also provide for an adjustment of option rights in the event of a capital increase from company funds or a capital reduction, a share split or a reverse split of shares as well as in the case of bonuses and extraordinary disbursements in cash and/or kind in accordance with the practices on the German and international futures exchanges.

The price, excluding ancillary costs of realization, at which shares in the company are used in accordance with the authorization as per XI. must amount to the average auction price (arithmetic mean) for *aap* shares in electronic trading (Xetra or a successor system) on the Frankfurt Stock Exchange on the five trading days prior to the first day of the purchase period in which the stock options in question were issued. A trading day as meant here is a day on which the Frankfurt Stock Exchange sets prices for the company's share in electronic trading. The pecuniary gain resulting from

exercise of the subscription right by the entitled person (the difference between the final auction price of the *aap* share in Xetra trading or a comparable successor system on the day the subscription right was exercised and the exercise price) may not exceed four times the exercise price ("the limit") set when the stock option was issued. If this figure is exceeded, the exercise price will be adjusted accordingly and will correspond to the difference between the final auction price for the *aap* share in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the day the subscription was exercised and four times the exercise price. The Management Board or, if a member of the Management Board is involved, the Supervisory Board may decide in individual instances to reduce the limit appropriately. If, during the term of the stock options, the company's share capital is increased by an issue of new shares with a subscription right for shareholders or of own shares or of bonds with conversion or option rights to shares in the company, the option conditions can provide for an adjustment of the exercise price in the same proportion as the average price of the subscription right to which shareholders are entitled on all trading days on the Frankfurt Stock Exchange compared with the final auction price of the company's shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day before the deduction of subscription rights. The adjustment will not apply if no subscriptions are traded or the holders of stock options are granted a subscription right that is equivalent to that of the shareholders. The option conditions may also provide for an adjustment in the event of capital measures (a share consolidation or split, a capital increase from company funds or a capital reduction) during the term of the subscription rights.

This is without prejudice to Section 9 (1) of the German Stock Corporation Act (AktG).

The subscription right of shareholders to these treasury shares is excluded insofar as the shares are used in accordance with the above authorization as per II. to XI.

The Supervisory Board can decide that the Management Board may only take measures on the basis of this Shareholders' Meeting resolution with its consent.

6. Important Agreements Concluded by the Company that are Conditional on a Change of Control Resulting from a Takeover Bid, and the Consequences

There are service agreements between two subsidiaries and an external company on the provision of certain services that constitute a material business relationship for the subsidiaries. In the event of a change of control, the external company is entitled to cancel the agreement if a change in the subsidiary's share ownership occurs in the course of which another person, group or company takes over or acquires more than 50% of the voting rights or is found to hold them.

There is a supply agreement and a development and delivery agreement between a subsidiary and another external company for certain products of the subsidiary's that constitute a material business relationship for the subsidiary. In the event of a change of control, the external company is entitled to cancel the agreement if a change in the subsidiary's share ownership occurs in the course of which a competing company takes over, acquires or otherwise gains control of more than 50% of the voting rights.

Between a subsidiary and another external company there is a distribution and license agreement for certain of the subsidiary's products that constitutes a material business relationship for the

subsidiary. In the event of a change of control, the external company is entitled to cancel the agreement. If the external company were to exercise this right and the buyer of the subsidiary were, in the final analysis, to be a company named in this agreement, *aap* would be required to repay all one-time and sales-related license fees paid in accordance with the terms of the agreement. A change of control by the terms of the distribution and license agreement means a person or company, or various persons or companies, gain control over the company in one or more transactions or by acquiring assets that individually or jointly play a material role in delivering the services owed according to the terms of the agreement. Control here means holding, directly or indirectly, the right to determine the company's business policy and management.

In December 2012, a joint venture agreement was concluded between a subsidiary and a distribution partner. Should a third partner acquire more than 50% of the shares in the subsidiary or a third party that does not hold a share of at least 10% in the company on the closing date exceed 50% of the voting rights in the company, the distribution partner will have a call option for all shares in the joint venture.

Otherwise, the company has no material agreements in place that are conditional on a change of control.

7. Compensation Agreements with Members of the Management Board or Employees in the Event of Takeover Bids

The board members are entitled to a special right of termination in the event of a change of control and receive a payment amounting to 90% of their capitalized total annual remuneration for the remaining term of their service contracts not to exceed a maximum of three years' remuneration.

Consolidated Balance Sheet according to IFRS as of December 31, 2013

Assets	Notes	31.12.2013 TEUR	31.12.2012 TEUR
Non-current assets		**22,394**	**44,921**
Intangible assets	1	14,502	39,403
Goodwill		1,568	12,490
Capitalized Services		12,074	21,858
Intangible assets		860	5,055
Tangible assets	2	5,906	5,107
Trade receivables	6	170	0
At-Equity financial assets	3	1,554	55
Financial assets	4	238	356
Deferred taxes	5	24	0
Current assets		**42,843**	**23,669**
Inventories	6	9,429	13,943
Trade receivables	7	6,866	4,226
Receivables from service contracts	8	281	0
Other financial assets	9	1,405	1,331
Other assets	10	348	471
Cash and bank balances	11	1,580	3,698
Assets classified as held for sale	D.	22,934	0
Total assets		**65,237**	**68,590**

Liabilities and shareholders' equity		31.12.2013 TEUR	31.12.2012 TEUR
Shareholders´equity	12	**48,451**	**50,866**
Subscribed Capital		30,670	30,670
Capital reserve		18,768	18,611
Revenue reserve		228	228
Other Reserves		490	608
Consolidated Balance Sheet Profit/Loss		-1,705	749
Non-current liabilities (above 1 year)		**3,115**	**4,706**
Financial liabilities	15	2,144	2,000
Other financial liabilities	15	190	388
Deferred taxes		0	2,090
Provisions	14	27	27
Other liabilities	15,18	754	201
Current liabilities (up to 1 year)		**13,671**	**13,018**
Financial liabilities	15	2,568	4,486
Advance payment		0	1,125
Gross amount due to customers for contract work	15,16	25	0
Trade accounts payable	15	2,853	3,259
Due to partners		0	1,057
Other financial liabilities	15,18	1,491	1,753
Provisions	14	230	205
Other liabilities	15,18	558	1,133
Liabilities due to discontinued business	15	419	0
Liabilities directly associated with assets classified as held for sale	D.	5,527	0
Total Liabilities and Shareholders' equity		**65,237**	**68,590**

Consolidated Statement of Comprehensive Income according to IFRS for the period January 1 to December 31, 2013

	Notes	2013 Continued operations TEUR	2012 Continued operations TEUR	2013 Discontinued operations TEUR	2012 Discontinued operations TEUR	2013 Consolidation TEUR	2012 Consolidation TEUR	2013 Group Total TEUR	2012 Group Total TEUR
Sales	1	28,573	26,965	12,317	10,375	-901	-926	39,989	36,414
Changes in inventories of finished goods and work in progress		-704	3	-265	176	0	0	-969	179
Other own work capitalized	2	1,742	2,416	279	328	0	0	2,021	2,744
Other operating income	3	4,164	2,007	380	1,526	-268	-268	4,276	3,265
Cost of purchased materials and services	4	-8,282	-8,724	-4,565	-2,978	897	926	-11,950	-10,776
Personnel expenses	5	-11,295	-10,682	-3,293	-2,811	0	0	-14,588	-13,493
Depreciation of tangible assets and intangible assets	6	-4,362	-1,959	-5,107	-1,952	0	0	-9,469	-3,911
Other operating expenses	7	-9,063	-8,837	-2,580	-2,641	272	268	-11,371	-11,210
Other taxes		-54	0	0	0	0	0	-54	0
Operating income		**719**	**1,189**	**-2,834**	**2,023**	**0**	**0**	**-2,115**	**3,212**
Financial result	8	-179	-427	-2	-64	0	0	-181	-491
Income / Expense from joint ventures and associates		21	-1	0	0	0	0	21	-1
Result before income taxes (and minority interest)		**561**	**761**	**-2,836**	**1,959**	**0**	**0**	**-2,275**	**2,720**
Income tax	10	131	185	-310	-495	0		-179	-310
Result before minority interest		**692**	**946**	**-3,146**	**1,464**	**0**	**0**	**-2,454**	**2,410**
Minority interest		0	0	0	0	0	0	0	0
Result after tax		**692**	**946**	**-3,146**	**1,464**	**0**	**0**	**-2,454**	**2,410**
Valuation of available-for-sale assets*		-117	0	0	0	0	0	-117	0
Income tax effect		0	0	0	0	0	0	0	0
Total comprehensive income		**575**	**946**	**-3,146**	**1,464**	**0**	**0**	**-2,571**	**2,410**
Net income per share (basic) in EUR	11	0.02	0.03	-0.10	0.05	-	-	-0.08	0.08
Net income per share (diluted) in EUR	11	0.02	0.03	-0.10	0.05	-	-	-0.08	0.08
Weighted average shares outstanding (basic) in units		30,670	30,670	30,670	30,670	-	-	30,670	30,670
Weighted average shares outstanding (diluted) in units		31,011	30,670	31,011	30,670	-	-	31,011	30,670

*Might be reclassified in future periods in other income in consolidated statement of comprehensive income

Consolidated Cash Flow Statement according to IFRS

	Notes	01.01. - 31.12.2013	01.01. - 31.12.2012
	G.6.	TEUR	TEUR
Net income (after tax) from continued operations		692	946
Net income (after tax) from discontinued operations		-3,146	1,464
Net income (after tax)		**-2,454**	**2,410**
Expenses from share based payments		158	208
Depreciation and impairment loss of fixed assets/current assets		9,469	3,911
Appreciation of fixed assets		0	-999
Changes in deferred taxes		-121	-86
Changes in provisions		95	11
Gain/Loss from retirement of subsidiary		-782	-945
Gains/loss from retirement of fixed assets		679	11
Share of net profit/loss of associates		-21	1
Changes in inventories, other receivables and other assets		-4,289	1,353
Changes in other liabilities		813	1,213
Cash flow from operating activities		**3,547**	**7,088**
Additions to intangible and tangible assets		-5,719	-3,902
Incoming payments from investing activities		24	9
Incoming payments from subsidiary minus incurred cash		0	-2
Incoming payments from retirement of shares from subsidiaries minus incurred cash		3,475	-25
Cash flow from investing activities		**-2,220**	**-3,920**
Outgoing payments from raising ownership shares in subsidiaries		0	-101
Inflow from financial liabilities		2,262	2,963
Redemption of shareholder loan		-750	-2,395
Redemption of financial liabilities		-3,815	-2,001
Redemption of finance lease		-217	-88
Dividend payments		0	0
Cash flow from financing activities		**-2,520**	**-1,622**
Decrease / Increase in cash & cash equivalents		-1,193	1,546
Cash & cash equivalents at beginning of period		3,698	2,152
Cash & cash equivalents at end of period		**2,505**	**3,698**

Consolidated Schedule of Changes in Equity

			Revenue reserves		Non-cash changes in equity						
	Subscribed capital	Capital reserve	Legal reserves	Other revenue reserves	Revaluation reserve	Available-for-sale assets	Total	Balance Sheet result	Shares of the group	Minority interests	Total
01.01.2012	**30,670**	**40,422**	**42**	**186**	**608**		**608**	**-23,575**	**48,353**	**-3**	**48,350**
Increase in shares	0	0	0	0	0		0	0	0		0
Stock options	0	208	0	0	0		0	0	208		208
Settlement of capital reserve with balance sheet loss	0	-21,914	0	0	0		0	21,914	0		0
Raising ownership shares in subsidiaries	0	-105	0	0	0		0	0	-105	3	-102
Income of the group 2012	0	0	0	0	0		0	2,410	2,410		2,410
31.12.2012	**30,670**	**18,611**	**42**	**186**	**608**	**0**	**608**	**749**	**50,866**	**0**	**50,866**
Increase in shares	0	0	0	0	0		0	0	0		0
Stock options	0	157	0	0	0		0	0	157		157
Valuation of available-for-sale assets	0	0	0	0	-118		-118	0	-118		-118
Raising ownership shares in subsidiaries	0	0	0	0	0		0	0	0		0
Income of the group 2013	0	0	0	0	0		0	-2,454	-2,454		-2,454
31.12.2013	**30,670**	**18,768**	**42**	**186**	**490**	**0**	**490**	**-1,705**	**48,451**	**0**	**48,451**

Notes F.12 and F.13

Notes to the Consolidated Annual Financial Statements to December 31, 2013 according to IFRS

A. Information About the Company

As the parent company of the Group, *aap* Implantate AG is headquartered in Germany, 12099 Berlin, Lorenzweg 5. The company's shares are traded in the Neuer Markt segment of the Frankfurt Stock Exchange under Security ID No. 506 660. Since May 16, 2003, the company has been listed in the Prime Standard regulated market segment with further and more exacting admission requirements. The company is registered at the Berlin-Charlottenburg district court under HR B 64083 and was entered into the court's commercial register on September 10, 1997.

The consolidated financial statements for the financial year from 1/1/2013 to 12/31/2013 encompass *aap* Implantate AG and its subsidiaries. The Group is a company in the medical technology sector. The Group's business activity consists of research, development, manufacture and sale of implants, medical instruments, bone cements and replacement materials. The production facilities of the Group were in Germany and the Netherlands through 2013 and beginning in 2014 only in Germany. Its principal sales areas are the European Union, Asia and the United States.

B. Accounting Methods

Basic Principles for the Preparation of the Consolidated Financial Statements

The consolidated financial statements of *aap* Implantate AG to December 31, 2013 were drawn up in accordance with International Financial Reporting Standards (IFRS) as applied in the European Union and with the commercial law provisions of Section 315 a (1) of the German Commercial Code (Handelsgesetzbuch/HGB). In principle, all International Financial Reporting Standards that are mandatory as of the reporting date are applied in the consolidated financial statements.

The consolidated financial statements consist of the statement of comprehensive income, the consolidated cash flow statement, balance sheet and statement of changes in equity, and the Notes.

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 Stock Corporation Act. The conversion to IFRS was made at the level of the individual companies.

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

The consolidated cash flow statement was prepared in accordance with IAS 7 using the indirect method. Cash flows are structured in accordance with payment flows from operating, investing and financing activity. Fixed-term disposal restrictions do not exist. The effects of exchange rate fluctuations are shown separately.

The consolidated financial statements are denominated in euros. All amounts, unless otherwise indicated, are presented rounded to thousand euros (TEUR).

The consolidated financial statements of *aap* were prepared on the basis of the historic cost of acquisition or manufacture, with the exception of assets held available for sale, which are carried at fair value. In general, the historic cost of acquisition and manufacture are based on the fair value of the financial consideration given in return for the asset. Significant accounting methods are discussed below. The described methods were applied consistently to the reporting periods presented.

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

Consolidation Principles

Consolidation Entity

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

Consolidated Subsidiaries:

	2013 Shareholding	2012 Shareholding
aap Biomaterials GmbH, Dieburg, Germany	100%	100%
OSARTIS Verwaltungs-GmbH, Dieburg, Germany	100%	100%
European Medical Contract Manufacturing B.V., Nijmegen, Netherlands	100%	100%
aap Joints GmbH, Berlin, Germany	-	100%
MAGIC Implants GmbH, Berlin, Germany	100%	-

For the preparation of its management report and the disclosure and audit of its annual financial statements, *aap* Biomaterials GmbH made use of the exemption provision in Section 264 (3) HGB. As of the reporting date, OSARTIS Verwaltungs-GmbH was in the process of liquidation. Reference is made to the sale of shares to *aap* Joints GmbH and the reestablishment of MAGIC Implants GmbH in Section D.

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 the course of consolidation insofar as they are of minor importance. Possible balancing differences are stated with effect on results.

Corporate Mergers and Goodwill

Financial statements for mergers are prepared in accordance with IFRS 3 Business Combinations on the basis of the purchase method. Capital consolidation is thereby undertaken at the time of purchase by netting out the purchase price against the revalued pro rata net assets of the subsidiary acquired.

At the time of initial consolidation, the allowable assets, liabilities and contingent liabilities of the subsidiaries are stated at their full fair value irrespective of minority interest. Positive differential amounts are capitalized as goodwill. Negative differential amounts arising from initial consolidation are reviewed and retransferred with effect on results. After initial capitalization, goodwill is tested annually for impairment. For this reason, it is allocated to the cash-generating unit or cash-generating units, which will, in the opinion of management, benefit the most from the merger. If there are indications of impairment, an unscheduled impairment test is made. If the recoverable amount of a cash-generating unit is less than its book value, the impairment loss is initially allocated to the book value of each goodwill attributed to the unit and then pro rata to the other assets on the basis of the book value of each asset within the unit. An impairment charge on goodwill may not be recovered in a future period. In the case of a disposal of a subsidiary, its share of goodwill is taken into account in determining the net proceeds of disposal.

Significant Accounting Methods

Shares in Joint Ventures and Associated Companies

A joint venture is a contractual arrangement whereby the Group and other contracting parties engage in commercial activity under joint control. This is the case if the strategic financial and business policy associated with the joint venture's commercial activity is subject to the approval of all parties that share control. The Group recognizes its holdings in jointly controlled entities using the equity method.

The Group's holdings in associated companies, on which it can exert significant influence, are recognized using the equity method.

The equity method requires shares in joint ventures or associated companies to be stated at the time and cost of acquisition. On first-time inclusion of participating interests stated using the equity method, a difference is drawn between the cost of acquisition of the interest and its Group share of identifiable assets, liabilities and contingent liabilities calculated at fair values in accordance with the principles of full consolidation. Goodwill is a part of the interest's book value and is not tested separately for impairment. There is, however, an annual test of whether impairment may apply to the entire book value of the participating interest. In that case the difference between the book value and the recoverable amount is posted as an impairment and shown in the income statement under the results of participating interests stated at equity. The Group's share of earnings of a company valued using the equity method is stated with effect on results. Changes to reserves are stated pro rata in the consolidated reserves. Cumulative changes are offset against the carrying amount for the participating interest.

The financial statements of the participating interest included by applying the equity method are prepared on the basis of uniform accounting and valuation 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 entails exclusively consolidated sales, progress with significant development projects, liquidity and the working capital of the entire Group. The company is managed on the basis of this data. The *aap* Group is therefore managed both internally and externally as a company without separate segments.

Currency Translation

Foreign currency transactions are converted into the Group's functional currency at the valid spot rate on the day of the transaction. The functional currency for the consolidated financial statements is EUR. Balances of monetary assets and liabilities are converted on the reporting date at the valid mean spot rate. Gains and losses arising by the reporting date from the valuation of monetary balance sheet items in a foreign currency are stated with effect on results under other operating income or expenses.

The consolidated companies prepare their financial statements in the national currency in which they do most of their business. In their individual financial statements, they translate business transactions denominated in foreign currencies at the exchange rates valid on the transaction date. Monetary assets and liabilities are converted at the respective mean spot rate that is valid on the reporting date.

Revenue Recognition

Group sales consist of product sales, license fees and services. Sales are realized when due delivery or performance has been rendered or the terms of the contract have been fulfilled. In the case of deliveries, this is generally the case after the physical delivery of the goods, when the ownership risk is transferred to the purchaser. Furthermore, the economic benefit must be sufficiently probable and the costs incurred must be reliably ascertainable. Contracts are considered as having been fulfilled when all performance obligations have essentially been fulfilled and the customer has accepted the goods or services as being in accordance with the contract.

Sales from the provision of services in connection with customer-specific development projects are recognized in accordance with IAS 18 depending on the respective percentage of completion of the project. The percentage of completion is determined based on the ratio of the incurred project costs to the planned contract costs (cost-to-cost method). If the amount of income cannot be estimated reliably, income is recognized in accordance with the percentage-of-completion method. Otherwise, income is recognized only in the amount of expenses incurred (zero-profit method). If the entire cost of the contract is likely to exceed income earned from it, the anticipated loss is recognized immediately as an expense. Payments by the customer that exceed the value of the degree of completion are stated as a liability toward the customer (development contract with a net debit balance). Payments based on progress billing that do not exceed the degree of completion are deducted from receivables due from the customer. The balance of contract costs incurred plus partially realized profits that exceeds payments received is stated separately as a service contract receivable.

If rights of use are transferred, income recognition is evaluated according to the economic substance of the agreement. If licensing limited in time or purpose is involved, the license fees are earned in the reporting period. If, on the other hand, exclusive rights of use to a technology or a worldwide, unlimited license is granted so that no future economic benefit is expected from the underlying asset, the revenue is recognized immediately with effect on the result or as other operating income. If and when earnings are subject to further uncertain future conditions such as exceeding certain delivery targets or the purchaser holding rights of rescission 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.

The current tax expense is calculated using the tax laws of the countries in which the subsidiaries operate and are valid on the reporting date or will soon apply to the taxable income. The management checks tax returns regularly, especially with regard to issues that are open to interpretation and, when appropriate, creates provisions based on the amounts that are expected to be due to the tax authorities.

Deferred taxes are stated for all temporary differences between the tax base of assets and liabilities and their book value in the IFRS financial statements (known as the liabilities method). But 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 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 a taxable result is likely to be available for it in the future and 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 were 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 as 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 payables 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.

Deferred tax benefits acquired as part of a merger that fail to fulfill the criteria for separate statement at the time of acquisition are stated in subsequent periods insofar as this arises from new information about facts and circumstances obtaining at the time of acquisition. The adjustment is undertaken either as a reduction of goodwill if it occurs during the valuation period and does not exceed the goodwill, or in the result.

Public Sector Grants

Public sector grants are only stated if there is a reasonable certainty that the conditions 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. Additional conditions for classification 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 depreciated following reclassification. Associated companies accounted for using the equity method are reclassified as "held for sale."

Fair Value

Fair value is the market price that a 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. In the process, 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 of 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 which 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 an limited useful life and are depreciated in a straight line. Industrial property rights and similar rights disclosed under other intangible assets are depreciated over a useful life of three to 12.5 years; customer relationships identified in the course of the purchase price allocation are depreciated over a period of 15 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

Capitalized development costs also include borrowing costs. They are depreciated according to schedule in a straight line over their useful life, between 10 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, goodwill or capitalized development costs undergo annual impairment tests. Assets, except for goodwill, 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 if no further economic use is expected.

Tangible Assets

Tangible fixed assets are valued at cost of acquisition or manufacture and, where depreciable, taking linear depreciation into account. The manufacturing costs of tangible fixed assets are the full costs. Costs of borrowing are capitalized as part of acquisition or manufacturing costs insofar as they related 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 in a straight line 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 down an asset is established as the difference between the net proceeds of the sale and the residual carrying amount and is recorded with effect on results.

Tangible fixed 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. Reporting in accordance with IFRS 7 is shown under G Financial Instruments.

The *aap* Group holds only primary financial instruments.

Holdings of primary financial instruments are shown in the statement of financial position. The level of financial assets corresponds to the maximum risk of default.

a) Financial Assets

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

- Financial assets, which are to be valued at fair value (financial assets held for trading (FAHfT))
- Financial investments held to maturity (HtM)
- Loans and Receivables (LaR)
- 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 when 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 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 the result.

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. 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.

In the consolidated financial statements of *aap* as of 12/31/2013, financial assets are disclosed as "loans and receivables" or as "available for sale."

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 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.

Inventories

Inventories are stated at the lesser of either the 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

Borrowing costs that relate to qualified intangible assets (capitalized development costs) are capitalized. All other borrowing costs are stated as expenses in the period in which they were incurred.

Cash and Cash Equivalents

The item includes cash on hand and bank deposits.

Revaluation Reserve

Unrealized gains and losses from changes in the fair value of financial assets held available for sale are placed in the revaluation reserve without effect on results.

Share-based Payments

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

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 legal basis between companies or they are not settled through cash assets or financial assets. They are shown in the statement of financial position 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 rewards 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 in the statement of financial position. 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 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 case of an operating lease, the leasing item is not capitalized and the lease payments are stated as expenses at the time when they occurred.

Contingent Liabilities; Contingent Assets

Contingent assets and liabilities are possible or existing assets or liabilities based on past events that are not likely to involve an inflow or outflow of funds. They are not recorded in the statement of

financial position. The amounts stated as contingent liabilities correspond to the extent of liability on the reporting date.

Contingent assets do not exist as of the date of the financial statements.

Revisions in Accounting Methods

New and Revised Standards and Interpretations without 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 result in any impact or result in only minor impact on the assets, financial and earnings position of the Group.

Revised IAS/ IFRS Standard	Brief Explanation	Mandatory Application
IAS 1 Presentation of Financial Statements	The revision affects the presentation of items in other comprehensive income. Items to be reclassified in the future in the net profit or loss for the period ("recycling") must be presented separately from items that are not considered for reclassification.	From 7/1/2012
IAS 12 Deferred Taxes: Realization of Underlying Assets	The revision involves the measurement of deferred taxes in case of real estate held as a financial investment but no longer measured at fair value. The issue is discussed whether the book value of an asset is realized through use or sale. There is a rebuttable assumption that the realization of book value normally occurs through sale.	From 1/1/2013
IAS 19 Employee Benefits	The essential revisions involve the determination of expected income from defined benefit plan assets, the elimination of the corridor method and accounting for benefits arising from termination of employment.	From 1/1/2013
IFRS 1 Public Sector Loans	The revision deals with the retrospective application of the Standard for first-time users.	From 1/1/2013
IFRS 7	The revision and the additional disclosures in the Notes should clarify the comparability of offsetting criteria	From 1/1/2013

Offsetting of Financial Assets and Financial Liabilities	between IFRS and US GAAP. The applicable offsetting model in accordance with IAS 32 is retained. Accordingly, financial assets and liabilities can only be offset if a legally enforceable right to offset currently exists and the intention also exists to carry out the offset.	
IFRS 13 Fair Value Measurement	Insofar as an IFRS Standard requires the valuation of an asset or a liability at fair value, uniform rules for determining fair value are now available in IFRS 13. In addition, the disclosures in the Notes for all assets and liabilities to be measured at fair value have been expanded. IFRS 13 defines fair value as the price on the measurement date a company would receive under normal market conditions for selling an asset or pay for transferring a liability. IFRS 13 leads to additional disclosure requirements.	From 1/1/2013
Annual Improvements IFRS 2009 – 2011	The revisions standard for the Annual Improvements Project Cycle 2009 - 2011 includes revised rules in connection with IAS 1 (Comparative Information), IAS 16 (Classification of Servicing Equipment) and IAS 34 (Interim Reporting of Segment Assets)	From 1/1/2013

Published Standards Still Not Mandatory to Apply

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 1/1/2013. *aap* Implantate AG does not yet apply them. The effects of the following standards on *aap*'s consolidated financial statements are currently under review.

Revised IAS/IFRS Standard	**Brief Explanation**	**Mandatory Application**
IAS 27 Individual financial statements	IAS 27 (as amended in 2011) includes requirements for individual financial statements remaining after the requirements for control in IFRS 10 were adopted.	From 1/1/2014
IAS 28 Investments in Associates and Joint Ventures	With the adoption of IFRS 11 and IFRS 1, IAS 28 was renamed "Investments in Associates and Joint Ventures" and the scope, which had been previously restricted to associates, was expanded to the application of the equity method to joint ventures.	From 1/1/2014
IAS 32	Amendments to IAS 32 involve the requirements for the offsetting of financial assets and financial liabilities.	From 1/1/2014

Offsetting of Financial Assets and Financial Liabilities		
IFRS 9 Financial Instruments	IFRS 9 replaces the previous provisions of IAS 39 on the classification and valuation of financial assets and financial liabilities.	still open
IFRS 10 Consolidated Financial Statements	IFRS 10 replaces the provisions on consolidated financial statements in IAS 27 and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 establishes a uniform concept of control, which is applied to all companies, including special purpose entities. The revisions introduced by IFRS 10 require significant discretionary decisions on the part of management in comparison to the previous legal situation relative to the question over which companies in the Group control is exercised and whether they should be included through full consolidation.	From 1/1/2014
IFRS 11 Joint Operations	IFRS 11 governs accounting by entities that jointly control an arrangement based on the nature of the parties' rights and duties arising from the arrangement. The joint arrangement can extend to a joint business activity or a joint venture. IFRS 11 states that the equity method must be applied to the inclusion of joint ventures; proportional consolidation is no longer permissible.	From 1/1/2014
IFRS 12 Disclosure of Interests in Other Entities	IFRS 12 governs the disclosure requirements for all kinds of participating interests in other companies, including subsidiaries, joint ventures, associated companies, structured enterprises and off-balance sheet entities. The disclosure requirements are much more far-reaching than previously and are intended to enable the addressees of financial statements to assess the nature of the investment, the risks involved and the effects on the assets, financial and earnings position.	From 1/1/2014
Revisions to IFRS 10, 11 and 12	This revision involves the transitional provisions.	From 1/1/2014
Revisions to IAS 36	The revisions apply to the disclosure requirements in connection with the measurement of the recoverable amount of impaired assets, which result from a subsequent revision in connection with IFRS 13 Fair Value Measurement.	From 1/1/2014

Annual Improvements IFRS 2010-2012	The IASB published annual improvements to the IFRS Cycle 2010 to 2012 on December 12, 2013 and revised the following Standards among others: IFRS 3 (accounting of contingent consideration in business combinations), IFRS 13 (short-term receivables and liabilities) and IAS 24 (members of management).

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.

Liabilities arising from original financial instruments can be stated either at amortized cost or at fair value through profit or loss. In principle, *aap* values all financial liabilities at amortized cost.

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 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, 2013 the book value of capitalized development costs was EUR 12,074 thousand (previous year: EUR 21,858 thousand). Project progress made in the reporting year along with customer response to date has confirmed the estimates of future earnings. However, uncertainties as to future market shares and profit margins remain – partly against the background of increasingly exacting approval requirements – and could lead to a need for adjustment over the next financial years. For further details, see the risk report in the Management Report (Section D).

Goodwill and capitalized development costs are subjected to annual impairment tests. To determine possible impairment of goodwill, the value in use of the cash-generating unit (CGU) to which the goodwill has been allocated must be determined. To calculate the value in use, future cash flows of the 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. As of 12/31/2013, the book value of goodwill amounted to EUR 1,568 thousand (previous year: EUR 12,490 thousand) and accrued to the area of biomaterials.

The fair value for the sale of available assets was determined using the discounted cash flow method. The valuation requires certain assumptions by the management regarding such input factors as sales, interest rates and terms. In accordance with IFRS 7, the valuation is done at hierarchy level 3.

The impairment of doubtful receivables is established on the basis of maturity structure and by means of estimates and assessments of individual receivables in terms of their customer-specific loan and default risk.

Personnel expenses from granting share-based payments are valued at the time of grant 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 Payments.

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. 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 liabilities affected will be adjusted accordingly.

On the basis of the facts known when the consolidated financial statements were being drawn up, no material change in the assumptions and estimates needs to be assumed, so no adjustment of the book values of the stated assets and liabilities is to be expected for the financial year 2013.

D. Business Combinations, Acquisition and Sale of Shares

Establishment of Subsidiaries

With the company agreement dated 3/25/2013, MAGIC Implants GmbH, Berlin was established. *aap* Implantate AG holds all shares in the company. The company was entered in the commercial register on 5/23/2013.

Shares in Joint Ventures and Associated Companies

Joint Ventures

By the terms of a purchase contract dated December 21, 2012, *aap* Implantate AG acquired all shares in *aap* BM productions GmbH, Berlin (formerly aptus 782. GmbH). As of the same date, 50% of the shareholding was sold to a third party at the same time as concluding a joint venture agreement.

Associated Companies

With the agreement as of 6/28/2013, *aap* Implantate AG transferred its recon portfolio (knee, shoulder, hip) and the C~ment® line to its wholly owned subsidiary *aap* Joints GmbH. The assets connected to the product line were transferred to *aap* Joints GmbH as a contribution in kind without consideration. The value of the transferred intangible assets (expertise, patents and customer relations) and the value of the transferred inventories were contractually set at EUR 1,250 thousand and EUR 1,900 thousand, respectively. As a result of the further implementation of the company's strategic focus, *aap* Implantate AG sold 67% of the shares in *aap* Joints GmbH at a purchase price of

EUR 3 million to a third party and therefore lost control over the company. The net assets of EUR 3,172 thousand at the time of the disposal was comprised as follows:

	TEUR
Capitalized development costs	1,250
Inventories	1,900
Cash	23
Trade liabilities	-1
Net assets	3,172

The net assets of *aap* Joints GmbH were deconsolidated with effect on results so that all of the amounts shown in other comprehensive income in relation to this company are accounted for in such a way as if the parent company had sold the related assets and liabilities directly. The remaining 33% were measured at fair value. The fair value of EUR 1,478 thousand represents the value of goods received for the valuation of shares in associated companies in accordance with the equity method. The share in the associated company's profits and losses is stated in the consolidated income statement from the date of acquisition. Changes to reserves are stated pro rata in the consolidated reserves. Cumulative changes are offset against the carrying amount for the participating interest. The financial statements of the participating interest included by applying the equity method are prepared on the basis of uniform accounting and valuation methods.

Discontinued Operations Segment

In June 2013, the Management Board of *aap* was instructed by the Supervisory Board to review the strategic, financial and operational further development of the subsidiary European Medical Contract Manufacturing B.V. (EMCM). EMCM develops and produces sterile medical products in the areas of biomaterials, pharmaceuticals and tissue processing. In mid-September, one of the options under consideration arising from the evaluation process was the possible sale with the sending of an information memorandum to selected acquirers. As a result of the continued strategic focus on the core area of trauma, the management invited select potentially interested parties to submit binding offers for the acquisition of all shares in EMCM by 11/22/2013. After reviewing the offers and the alternative options, the Management Board decided in late December 2013 to enter into detailed negotiations with an interested party. With notarial authentication as of 3/4/2014, all the contract manufacturing bundled in EMCM was sold to a private equity company. While it belonged to the Group, EMCM was operated as a separate subsidiary and accounted for separately from other parts of the company. It generates its own cash flows that are not insubstantial for the entire company. Therefore, EMCM is classified in the consolidated financial statements as of 12/31/2013 as a discontinued operations segment.

From the sales price and the expected selling costs, an impairment loss of EUR 4,015 thousand was determined. The impairment loss was offset with the recorded goodwill.

All disclosures on items in the income statement apply exclusively to the continued areas. Disclosures from the previous years were adjusted. In the presentation of the statement of comprehensive income, existing business relationships following the planned sale were brought over in a consolidation column in the previous year's consolidated financial statements.

The primary groups of assets and liabilities of EMCM, which was classified as a discontinued operations segment, are comprised as follows:

	2013	2012
	TEUR	TEUR

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	925	456
Assets held available for sale	**22,934**	**26,430**
Deferred taxes	-1,993	-2,123
Trade liabilities	-1,356	-1,959
Financial liabilities	-1,407	-841
Other liabilities	-771	-653
Liabilities related to assets held available for sale	**-5,527**	**-5,576**

The net cash flow from the discontinued operations segment is comprised as follows:

	2013	**2012**
	TEUR	**TEUR**
Operating activities	1,510	4,253
Capital expenditure activities	-772	-836
Financing activities	63	-478
Net cash flow	**801**	**2,939**

Tax deferrals and accruals result from the following balance sheet items:

Deferred tax assets and liabilities	12/31/2013		12/31/2012	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	TEUR	TEUR	TEUR	TEUR
Intangible assets	0	444	0	506
Development costs	0	1,454	0	1,504
Tangible assets	0	95	0	113
	0	1,993	0	2,123
Balancing	0	0	0	0
Total	0	1,993	0	2,123

The income tax total after balancing tax accruals and deferrals breaks down as follows:

	12/31/2013		12/31/2012	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	TEUR	TEUR	TEUR	TEUR
From first-time consolidation of the Dutch sub-group	0	1,288	0	1,446
From temporary differences	0	705	0	677
	0	1,993	0	2,123
Balancing	0	0	0	0

E. Notes on the Statement of Comprehensive Income

All disclosures on items in the income statement apply exclusively to the continued areas. Disclosures from the previous years were adjusted.

1. Sales

By region[3]	**2013**	**2012***
	TEUR	**TEUR**
Germany	7,607	9,309
Europe	12,481	3,456
America	3,918	6,519
Other	4,567	7,681
	28,573	**26,965**

By category	**2013**	**2012***
	TEUR	**TEUR**
Products	26,554	26,405
Services	1,529	63
Order development	370	328
Use-of-system charges	120	169
	28,573	**26,965**

By product group	**2013**	**2012***
	TEUR	**TEUR**
Biomaterials	17,707	19,109
Traumatology & Orthopaedics	10,866	7,856
	28,573	**26,965**

* adjusted

[3] According to the geographical location of external customers.

Income from long-term development work of EUR 221 thousand was recognized in accordance with the accrued cost of the contract, without cost-plus pricing. Other contract income of EUR 149 thousand was recognized using the percentage-of-completion method. The percentage-of-completion was determined based on an assessment of the services provided. The accrued contract costs of EUR 87 thousand are included in material expenses in the period.

In the financial year 2013, sales of EUR 9,591 thousand (previous year adjusted: EUR 9,759 thousand) accrue to three major customers of the company.

2. Other own work capitalized

Capitalized internally produced assets and development work of EUR 1,742 thousand (previous year: EUR 2,416 thousand) primarily involve capitalization in connect with development projects.

3. Other Operating Income

	2013 TEUR	2012* TEUR
Income from licensing and development agreements	2,220	0
Income from the disposal of subsidiaries	786	944
Income from the services of associated companies	340	160
Private vehicle use	181	163
Income from the release of provisions and the expiration of liabilities	178	281
Grants	156	213
Out-of-period income	46	73
Other	257	173
Total	**4,164**	**2,007**

* adjusted

In connection with development orders for bone cement, *aap* was compensated in the past for accrued research and development costs through a one-time payment.

4. Cost of purchased materials and services

	2013 TEUR	2012* TEUR
Raw materials, consumables, supplies and purchased goods	6,428	6,621
Cost of purchased services	1,854	2,103
Total	**8,282**	**8,724**

* adjusted

5. *Personnel Expenses*

	2013 TEUR	2012* TEUR
Wages and salaries	9,736	8,968
Social security contributions	678	761
Contribution-oriented pension provisions	697	766
Stock options granted to employees	184	187
Total	**11,295**	**10,682**

* adjusted

The *aap* Group makes contribution-oriented pension provisions to government pension insurance plans on the basis of statutory obligations. The Group has no further commitments beyond these payments.

Average annual employee numbers	2013 TEUR	2012* TEUR
Production	92	94
Research & development	28	26
Quality management	26	25
Sales	25	30
Administration	19	17
Total	**190**	**192**
Employees	92	94
Industrial employees	98	98
Total	**190**	**192**

* adjusted

6. *Depreciation*

Scheduled depreciation in the continued areas amounted to EUR 881 thousand (previous year adjusted: EUR 753 thousand) for tangible assets and EUR 1,142 thousand (previous year adjusted: EUR 1,193 thousand) for intangible assets. In 2013, management decided to discontinue all biomaterials in development except for PMMA cements, effective 12/31/2013. This decision resulted in an extraordinary depreciation of EUR 2,338 thousand (previous year adjusted: EUR 12 thousand).

7. Other Operating Expenses

	2013 TEUR	2012* TEUR
Consulting costs	1,720	1,393
Premises costs	1,488	1,120
Advertising and travel expenses	1,066	1,122
Research, analysis, experiments and sterilization	773	1,006
Outgoing packaging, freight and merchandise transfer costs	521	543
Repairs and maintenance	513	431
Insurance, contributions, duties	452	415
Vehicle costs	446	438
Office costs, phone, fax, postage	394	351
Patent and other fees	357	397
Sales commissions	340	335
Other	993	1,287
Total	**9,063**	**8,837**

* adjusted

8. Financial Result

	2013 TEUR	2012* TEUR
Other interest and similar income	7	29
Other interest and similar expenditure		
- Interest on long-term loans	-59	-61
- Interest on short-term loans	-119	-106
Other interest and similar expenses for other current liabilities	-8	-289
Total	**-179**	**-427**

* adjusted

9. Exchange Rate Differences

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

	2013 TEUR	2012* TEUR
Income from exchange rate differences	23	33
Cost of exchange rate differences	-122	-39
Total	**-99**	**-6**

* adjusted

10. Income Tax

The income statement includes the following income taxes from continued operations segments:

Income tax expenses by origin	2013 TEUR	2012 TEUR
Taxes on income paid or owed in		
- Germany	0	-9
- Other countries	0	0
	0	-9
Deferred taxes		
- From acquisitions	0	0
- From time differences	1,011	-389
- From loss carryforwards	-1,018	447
- Consolidation between the continued and discontinued operations segment	138	136
	131	194
Total	**131**	**185**

For calculating deferred taxes in Germany, a tax rate of 30.2% (previous year: 30.2%) is applied, consisting of corporation tax at 15% since 1/1/2008, solidarity surcharge at 5.5% of the corporation tax payable and trade tax at 14.4%. Trade tax was calculated on the basis of the previous year's IFRS result and trade tax additions and subtractions.

Reconciliation of income tax expenses from continued and discontinued operations segments with theoretical tax expenses in accordance with IFRS is as follows.

	Continued operations segments 2013 TEUR	Discontinued operations segment 2013 TEUR	Group 2013 TEUR	Continued operations segments 2012 TEUR	Discontinued operations segment 2012 TEUR	Group 2012 TEUR
Earnings before taxes	561	-2,836	-2,275	761	1,959	2,720
Theoretical tax expense/(income) 30.2% (previous year: 30.2%)	-169	856	687	-230	-592	-821
Tax effects on						
Depreciation of goodwill	0	-1,213	-1,213	0	0	0
Non-usable loss carryforwards or utilization of off-balance sheet loss carryforwards and depreciation of loss carryforwards	145	0	145	135	0	135
Tax rate differences within the Group	86	48	134	104	86	190
Permanent differences	-286	0	-286	-91	11	-80

Non-deductible expenses and applicable trade tax	-33	-1	-34	-40	-1	-41
Tax-free income	388	0	388	307	0	307
Total tax effects	300	-1,166	-866	415	96	511
Income tax expenses according to IFRS	131	-309	-179	185	-496	-310
Effective tax rate in %	23%	11%	8%	24%	-25%	-11%

11. Earnings per Share According to IAS 33

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

		Jan - Dec. 2013		Jan - Dec. 2012
Undiluted share count (in thousands)		30,670		30,670
Earnings from the continued operations segment	TEUR	692		946
Undiluted earnings per share	EUR	0.02		0.03
Earnings from the discontinued operations segment	TEUR	-3,146		1,464
Undiluted earnings per share	EUR	-0.10		0.05
Consolidated earnings	TEUR	-2,454		2,410
Undiluted earnings per share	EUR	-0.08		0.08
Diluted share count (in thousands)		31,598		30,670
Earnings from the continued operations segment	TEUR	692	0	946
Undiluted earnings per share	EUR	0.02		0.03
Earnings from the discontinued operations segment	TEUR	-3,146	0	1,464
Undiluted earnings per share	EUR	-0.10		0.05
Consolidated earnings	TEUR	-2,454	0	2,410
Undiluted earnings per share	EUR	-0.08		0.08

F. Notes on the Consolidated Balance Sheet

1. Intangible Assets

	Goodwill	Development costs	Concessions, industrial property rights, licenses and similar rights	Customer relationships and similar assets	Advance payments	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Cost of acquisition or manufacture						
As of 1/1/2013	16,508	35,115	15,839	3,661	150	71,273
Additions	0	2,020	83	0	0	2,103
Disposals	-51	-3,730	-2,667	0	0	-6,448
Disposals of the discontinued operations segment	-10,922	-12,630	-1,440	-3,661	0	-28,653
Transfers	0	0	41	0	0	41
As of 12/31/2013	**5,535**	**20,775**	**11,856**	**0**	**150**	**38,314**
Accumulated depreciation						
As of 1/1/2013	-4,018	-13,257	-13,333	-1,261	0	-31,868
Depreciation of the continued operations segment	0	-923	-220	0	0	-1,143
Depreciation of the discontinued operations segment	0	-479	-63	-244	0	-786
Impairment	-4,015	-2,338	0	0	0	-6,353
Disposals	51	1,472	1,288	0	0	2,811
Disposals of the discontinued operations segment	4,015	6,824	1,182	1,505	0	13,526
Transfer	0	0	0	0	0	0
As of 12/31/2013	**-3,967**	**-8,701**	**-11,146**	**0**	**0**	**-23,813**
Book value						
As of 12/31/2013	**1,568**	**12,074**	**710**	**0**	**150**	**14,502**

	Goodwill	Development costs	Concessions, industrial property rights, licenses and similar rights	Customer relationships and similar assets	Advance payments	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Cost of acquisition or manufacture						
As of 1/1/2012	16,508	32,377	15,562	3,661	170	68,278
Additions	0	2,738	257	0	0	2,995

Disposals	0	0	0	0	0	0
Transfers	0	0	20	0	-20	0
As of 12/31/2012	**16,508**	**35,115**	**15,839**	**3,661**	**150**	**71,273**
Accumulated depreciation						
As of 1/1/2012	-4,018	-12,092	-12,904	-1,017	0	-30,031
Depreciation of the continued operations segment	0	-974	-219	0	0	-1,193
Depreciation of the discontinued operations segment		-379	-210	-244		-833
Impairment	0	-811	0	0	0	-811
Reversal of asset impairment (discontinued operations segment)	0	999	0	0	0	999
Disposals	0	0	0	0	0	0
Transfers	0	0	0	0	0	0
As of 12/31/2012	**-4,018**	**-13,257**	**-13,333**	**-1,261**	**0**	**-31,869**
Book values						
As of 12/31/2012	**12,490**	**21,858**	**2,506**	**2,400**	**150**	**39,404**

The non-current intangible assets are located exclusively in Germany. In the previous year, non-current intangible assets of EUR 16,808 thousand were located in Germany and EUR 10,105 thousand were located in the Netherlands.

Goodwill

Goodwill results from various past acquisitions:

- On 1/1/2011, *aap* bio implants Netherlands B.V. merged into its subsidiary, European Medical Contract Manufacturing B.V. (EMCM). In the financial year, it was reclassified as a discontinued operations segment.
- OSARTIS GmbH & Co. KG
- ADC Advanced Dental Care GmbH & Co. KG (since 7/1/2008: ADC Advanced Dental Care GmbH)

Goodwill is allocated at the respective time of acquisition to the cash-generating units which demonstrate the greatest expected benefit from the corporate mergers. All of the goodwill uncovered in the purchase price allocation is allocated to the biomaterials area.

The *aap* Group checks goodwill for impairment by comparing the book value and the recoverable amount from the corresponding cash-generating units annually at the reporting date on 12/31. The amount achievable by the corresponding cash-generating units was determined on the basis of its useful value. Useful value is the cash value of the cash flow that a cash-generating unit is likely to generate in the future.

The impairment loss of EUR 4,015 thousand determined in the valuation of the discontinued operations segment is offset with the share of goodwill which was originally created by the acquisition of EMCM. With the sale on 3/4/2014, the remaining share of goodwill of EUR 6,907 thousand from the acquisition of EMCM is deconsolidated.

For the subsequently remaining goodwill of EUR 1,568 thousand, impairment was tested using the cash flow forecasts in the four-year plan for the Biomaterials cash-generating unit as approved by the Management Board and a discount rate of 11.0% (previous year: 11.2%). The discount rate after taxes was 7.2% (previous year: 7.9%). In determining the perpetuity, a growth discount of 1.5% (previous year: 1.5%) on the weighted average cost of capital (WACC) and a security discount of 10% (previous year: 10%) on the cash flow of the last detailed planning period were taken into consideration. The Management Board is of the opinion that no reasonably conceivable change in the basic assumptions on which the determination of the achievable amount is based would lead to the cumulative book value of the cash-generating unit exceeding its cumulative achievable amount.

The WACC and the future cash flow forecasts were varied in a sensitivity analysis. Even in the event of an increase in the WACC or a discount of more than 40% on cash flows in the perpetuity phase, there were no indications of an impairment of goodwill.

Development costs

The additions to development costs in the continued area include directly attributable borrowing costs of EUR 186 thousand (previous year adjusted: EUR 437 thousand), which is determined based on the average group financing cost rate of 4.41% (previous year: 5.75%). Added development costs related for the most part to the following projects:

	Book value 12/31/2013 TEUR	Book value 12/31/2012 TEUR	Addition 2013 TEUR
Development of LOQTEQ®	2,635	2,192	705
Development of nano silver-coated osteosynthesis products	1,479	1,080	399
Development of resorbable metal implants based on magnesium alloys	2,418	2,137	281
Development of silver cement	736	702	34
	7,268	6,111	1,420

Furthermore, additional research and development costs of EUR 415 thousand (previous year adjusted: EUR 219 thousand) were recognized as expenses.

In addition, on 12/31/2013 the *aap* Group conducted an annual impairment test for development projects by determining their useful value. The useful value of a development project is the cash value of the cash flows that the project is likely to generate in the future. It is determined internally. The determination of useful value is based on cash flow plans until the end of their expected useful life of ten years. Anticipated sales are based on a planning horizon of four years approved by the Management Board. Gross profit margins are derived as far as possible from historical data for comparable products or based on the assumptions of the Management Board.

The discount rates used were derived from market data and the project-specific risk run by the underlying development project and amount to between 11.8% and 21.7% p.a. (previous year: between 13.1% and 18.8%) before and between 7.3% and 11.7% p.a. (previous year: between 7.9% and 9.4%) after taxes.

Continuing the Group's focus on trauma products, the Management Board decided on 12/31/2013 to minimize future development activities for biomaterials, except for silver cement. As a result, only a slight benefit is expected to flow from not yet completed development projects in the future. The affected projects were subjected to impairment of EUR 2,338 thousand during the financial year.

In the previous year, there was a need for impairment of EUR 12 thousand.

Other Intangible Assets

Other intangible assets in the continued areas involve patents (EUR 594 thousand), software (EUR 115 thousand) and advance payments (EUR 150 thousand).

2. Tangible Assets

	Land, land rights and buildings, incl. buildings on third-party land	Technical plant and machinery	Other plant, factory and office equipment	Advance payments	Total
	TEUR	TEUR	TEUR	TEUR	TEUR
Cost of acquisition or manufacture					
As of 1/1/2013	2,451	14,329	4,870	47	21,697
Additions	95	3,081	633	135	3,944
Disposals	-88	-4,061	-1,046	0	-5,195
Disposals of the discontinued operations segment	-1,176	-4,423	-466	0	-6,065
Transfers	0	0	6	-47	-41
As of 12/31/2013	**1,282**	**8,926**	**3,997**	**135**	**14,340**
Accumulated depreciation					
As of 1/1/2013	-1,780	-11,099	-3,711	0	-16,590
Depreciation of the continued operations segment	-13	-555	-313	0	-881
Depreciation of the discontinued operations segment	-57	-233	-16	0	-306
Impairment	0	0	0	0	0
Disposals	88	4,060	1,046	0	5,194
Disposals of the discontinued operations segment	942	2,842	365	0	4,149
Write-up	0	0	0	0	0
Transfer	0	0	0	0	0
As of 12/31/2013	-820	-4,985	-2,629	0	-8,434
Book values					
As of 12/31/2013	**462**	**3,941**	**1,368**	**135**	**5,906**

	Land, land rights and buildings, incl. buildings on third-party land	Technical plant and machinery	Other plant, factory and office equipment	Advance payments	Total
	TEUR	TEUR	TEUR	TEUR	TEUR
Cost of acquisition or manufacture					
As of 1/1/2012	2,400	13,516	5,013	90	21,019
Additions/disposals due to consolidation changes	-6	-29	-204	0	-239
Additions	57	809	292	47	1,205
Disposals	0	-57	-231	0	-288
Transfers	0	90	0	-90	0
As of 12/31/2012	**2,451**	**14,329**	**4,870**	**47**	**21,697**
Accumulated depreciation					
As of 1/1/2012	-1,699	-10,451	-3,798	0	-15,948
Additions/disposals due to consolidation changes	6	7	141	0	154
Depreciation in the reporting year	-87	-710	-275	0	-1,072
Disposals	0	55	221	0	276
Write-up	0	0	0	0	0
Transfers	0	0	0	0	0
As of 12/31/2012	-1,780	-11,099	-3,711	0	-16,590
Book values					
As of 12/31/2012	**671**	**3,230**	**1,159**	**47**	**5,107**

The book value of leased tangible assets as of 12/31/2013 was EUR 302 (previous year: EUR 640 thousand). The Group's liabilities from these finance leases of EUR 255 thousand (previous year: EUR 529 thousand) are covered by the lessors' rights to the leasing items.

The book value of tangible assets assigned as collateral for liabilities is EUR 2,331 thousands (previous year: EUR 1,444 thousand).

The tangible assets are located in the financial year exclusively in Germany. In the previous year, tangible assets of EUR 3,379 thousand were located in Germany and EUR 1,728 thousand were located in the Netherlands.

3. Financial Investments Accounted for Using the Equity Method

The book values of the financial investments measured using the equity method are comprised as follows:

	2013 TEUR	2012 TEUR
Shares in joint ventures	47	55
Shares in associated companies	1,507	0
	1,554	55

The Group owns 50% of the shares in BM productions GmbH. 67% of *aap* Joints GmbH, which was fully consolidated in the previous year, was sold.

The following table shows the 100% values of the assets, liabilities, income, expenses and the annual earnings of the joint ventures and associated companies.

Aggregated financial information on the financial investments measured using the equity method.

	12/31/2013 TEUR	12/31/2012 TEUR
Non-current assets	2,067	992
Current assets	2,729	25
Non-current liabilities	0	0
Current liabilities	-528	-2
Net assets	4,268	1,015
The Group's share of net assets	1,590	507
Elimination of the unrealized gain from "downstream sales"	0	0

	12/31/2013 TEUR	12/31/2012 TEUR
Sales	1,106	0
Other operating income	171	0
Expenses	-1,159	-11
Income taxes	-37	0
Annual earnings (100%)	81	-11
The Group's share of profits	26	-5
Elimination of the unrealized gain from "downstream sales"	0	0
Dividends received	0	0

4. Financial assets

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

	2013 Book value in TEUR	Share in %	2012 Book value in TEUR	Share in %
AEQUOS Endoprothetik GmbH, Munich	238	4.57	356	4.57
Rofil Medical International N.V., Breda, Netherlands	0	10.00	0	10.00
	238		356	

The book value corresponds to the fair value.

5. Deferred tax assets and liabilities

Tax deferrals and accruals result from the following balance sheet items:

	12/31/2013		12/31/2012	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	TEUR	TEUR	TEUR	TEUR
Intangible assets	1	0	0	-505
Development costs	0	-3,464	0	-5,990
Tangible assets	0	0	0	-113
Inventories	24	-71	25	-76
Receivables from development orders	0	-12	9	-2
Provisions	16	0	13	0
Loss carryforwards	3,530	0	4,548	0
Total	3,571	-3,547	4,595	-6,686
Balancing	-3,547	3,547	-4,595	4,595
Total	**24**	**0**	**0**	**-2,091**

The income tax total after balancing tax accruals and deferrals breaks down as follows:

	12/31/2013		12/31/2012	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	TEUR	TEUR	TEUR	TEUR
From the use of existing loss carryforwards	3,530	0	4,548	0
From consolidation	24	0	34	0
From the initial consolidation			0	-1,446
From temporary differences	17	-3,547	13	-5,240

Total	3,571	-3,547	4,595	-6,686
Balancing	-3,547	3,547	-4,595	4,595
Total	**24**	**0**	**0**	**-2,091**

Deferred tax liabilities of EUR 1,288 thousand (EUR 1,446 thousand) from the initial consolidation of the Dutch sub-group were allocated to the discontinued operations segment EMCM. Scheduled depreciation of undisclosed acquisition reserves uncovered in the course of the purchase price allocation led to deferred tax assets of EUR 157 thousand (previous year: EUR 133 thousand). Write-ups on intangible assets of EUR 0 thousand (previous year: EUR 999 thousand) resulted, leading to deferred tax liabilities of EUR 0 thousand (previous year: EUR 250 thousand). Netted out against each other, the income tax effect afterwards amounted to EUR 157 thousand (previous year: EUR 117 thousand).

As of the end of the reporting year, the total of corporation tax or trade tax loss carryforwards for which no deferred tax entitlements were capitalized was about EUR 10.4 million and EUR 12.5 million respectively (previous year: EUR 6.8 million and EUR 9.5 million).

These tax loss carryforwards can be netted out indefinitely against future taxable results of the companies in which the losses were incurred. They exist, however, in Group companies with a history of losses. Loss carryforwards do not expire and cannot be netted out against taxable income of other Group companies unless they exist within the tax group. In the reporting year, the tax group consisted of *aap* Implantate AG and *aap* Biomaterials GmbH.

These Group companies do not have sufficient taxable temporary differences or scope for shaping taxes to lead at present to the statement of tax deferrals in full.

Deferred tax assets in connection with consolidation were calculated on the basis of an average tax rate for the Group of 30.2% (previous year: 30.2 %).

6. Inventories

	2013 TEUR	2012 TEUR
Raw materials, consumables and supplies	2,068	2,784
Work in progress	1,887	2,949
Finished products and merchandise	5,387	8,116
Advance payments	87	94
Total	9,429	13,943

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

	2013 TEUR	**2012 TEUR**
Accumulated value adjustments as of January 1	3,894	3,219
Thereof		
- Marketability discounts	3,637	2,935
- Stated net realizable value	257	284
Expense for marketability discounts	349	702
Expense for net realizable value	0	0
Utilization through the disposal of inventories	-1,080	0

Reversal of asset impairment/Utilization of net realizable value	-114	-27
Accumulated value adjustments as of December 31	3,049	3,894
Thereof		
- Marketability discounts	2,906	3,637
- Stated net realizable value	143	257

Value adjustments of EUR 1,062 thousand were taken as a result of the transfer of the recon portfolio to *aap* Joints GmbH. The book value of inventories stated at their net residual value was EUR 395 thousand (previous year: EUR 382 thousand). No inventories (previous year: EUR 0 thousand) were transferred as collateral for liabilities. In the 2013 reporting year, write-ups of EUR 114 thousand (previous year: EUR 27 thousand) occurred since the circumstances that led to a write-down had changed.

7. Trade Receivables

Trade receivables less write-downs totaled EUR 7,036 thousand (previous year: EUR 4,226 thousand) as of the reporting date. Of that amount, EUR 6,866 thousand was due within a year (previous year: EUR 4,226 thousand). Non-current trade receivables of EUR 170 thousand (previous year: EUR 0 thousand) are due within the next two years. Individual value adjustments are made if customers are likely to have payment difficulties. Furthermore, lump-sum individual value adjustments are made in case of general interest, processing and credit risks.

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

	2013 TEUR	**2012 TEUR**
Accumulated value adjustments as of January 1	**311**	**340**
Disposals due to changes in scope of consolidation	-10	0
Expense in the reporting period	89	84
Recourse to value adjustment	-188	-113
Payments received and impairment reversal of receivables originally written off	-19	0
Accumulated value adjustments as of December 31	**183**	**311**

As of 12/31/2013, the maturity structure of trade receivables was as follows:

Book value	Neither overdue nor value-adjusted	Of that: not value-adjusted as of the date of the financial statements and due in the following periods				
12/31/2013		Up to 3 months	Up to 6 months	Up to 9 months	Up to 12 months	More than 1 year

TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
7,036	5,752	996	62	24	6	196

Book value **12/31/2012**	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	More than 1 year
TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
4,226	2,572	974	119	59	258	244

Trade receivables do not bear interest and generally have a term of 30 to 45 days for domestic customers. Trade receivables from customers abroad usually have a term of 45 to 120 days.

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

Current and future trade receivables are ceded as collateral for the working capital credit line used up to a maximum of EUR 4,500 thousand. As of the reporting date, the blanket assignment amounted to EUR 750 thousand (previous year: EUR 4,441 thousand).

8. Receivables from Service Contracts

The item includes receivables from long-term construction contracts of EUR 281 thousand.

	12/31/2013 TEUR	**12/31/2012 TEUR**
Accrued contract costs, including partial profits	281	0
Partial billing	0	0
Development orders with credit balance from customers	**281**	**0**
Netted advances received for development orders with credit balance from customers	0	0
Total	**281**	**0**

9. Other Financial Assets

	12/31/2013 TEUR	**12/31/2012 TEUR**
Receivables from associated companies	103	0
Public sector grants	652	178
Warranty receivables	53	33
Other	597	1,120

	1,405	1,331

The claim for breach of warranty is against the contributing partners of holdings in CORIMED Kundenorientierte Medizinprodukte GmbH, CORIPHARM Medizinprodukte-Verwaltungs-GmbH and CORIPHARM Medizinprodukte GmbH & Co. KG.

Of the financial assets, EUR 1,403 thousand was due within a year (previous year: EUR 1,331 thousand). Non-current financial assets of EUR 2 thousand (previous year: EUR 0 thousand) are due within the next two years.

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

	2013 TEUR	**2012 TEUR**
Accumulated value adjustments as of January 1	**0**	**12**
Expense in the reporting period	20	0
Reversal of asset impairment/Utilization	0	-12
Accumulated value adjustments as of December 31	**20**	**0**

As of 12/31/2013, the maturity structure of other financial assets was as follows:

Book value	Neither overdue nor value-adjusted	Of that: not value-adjusted as of the date of the financial statements and due in the following periods				
12/31/2013		Up to 3 months	Up to 6 months	Up to 9 months	Up to 12 months	More than 1 year
TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
1,405	1,352	0	0	0	0	53

Book value	Neither overdue nor value-adjusted	Of that: not value-adjusted as of the date of the financial statements and due in the following periods				
12/31/2012		Up to 3 months	Up to 6 months	Up to 9 months	Up to 12 months	More than 1 year
TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
1,331	1,298	0	0	0	0	33

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.

10. Other Assets

	12/31/2013 TEUR	12/31/2012 TEUR
Tax refund entitlements	150	292
Accruals	198	179
	348	**471**

The tax refund entitlements are mainly sales tax (VAT) credits. The other assets are neither overdue nor value adjusted.

Income tax receivables as of December 31, 2013 totaled EUR 1 thousand (previous year: EUR 0 thousand).

11. Cash and Bank Balances

For the purposes of the cash flow statement, cash and bank balances consist solely of cash in hand and with banks totaling EUR 1,580 thousand (previous year: EUR 3,698 thousand).

12. Shareholders' Equity

The company's subscribed capital as of 12/31/2013 amounted to EUR 30,670,056.00 (previous year: EUR 30,670,056.00), consisting of 30,670,056 (previous year: 30,670,056) fully paid-up bearer shares with a nominal value of EUR 1.00 (previous year: EUR 1.00).

Retained earnings at the end of the financial year contain the statutory reserve totaling EUR 41,703.95 and together with the capital reserve exceed one tenth of the capital stock.

The capital reserve contains premiums from share issues, voluntary additional payments by shareholders and shareholders' contributions arising from the issue of stock options.

Conditional Capital

As of December 31, 2013, *aap* Implantate AG had at its disposal conditional capital up to a nominal EUR 2,549,100 or up to 2,549,100 shares to fulfill stock options exercised. Details as follows:

The Shareholders' Meeting on June 14, 2013 waived by EUR 62,000 the remaining conditional increase in capital stock by up to 62,000 (originally 1,200,000) shares approved by the Shareholders' Meeting held on June 30, 2006. The authorization was not used and expired. The capital stock of the company is therefore no longer increased conditionally (Conditional Capital 2006/I).

The Shareholders' Meeting held on July 6, 2012 waived the authorization of the Management Board and Supervisory Board approved by the Shareholders' Meeting held on September 29, 2008 to issue stock options insofar as it had yet to be exercised by issuing stock options, in other words in respect of 70,000 stock options. The company's capital stock was therefore increased conditionally (Conditional Capital 2008/I) by up to EUR 602,500 by the issue of up to 602,500 new bearer shares. The Conditional Capital 2008/I serves the purpose of fulfilling the exercise of option rights granted by September 28, 2013 on the basis of the authorization approved by the Shareholders' Meeting held on September 29, 2008.

The Shareholders' Meeting held on July 16, 2010 approved a conditional increase in the capital stock by up to EUR 1,486,000.00 by the issue of up to 1,486,000 new bearer shares in the company. The

new shares are entitled to a share in profits 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 Shareholders' Meeting held on July 16, 2010. The Shareholders' Meeting held on July 6, 2012 waived by EUR 139,400 the conditional increase in capital stock by up to 1,486,000 shares approved by the Shareholders' Meeting held on July 6, 2010. The company's capital stock was therefore increased conditionally by up to EUR 1,346,600 by the issue of up to 1,346,600 new bearer shares.

The Shareholders' Meeting held on 7/6/2012 approved a conditional increase in the capital stock by up to EUR 300,000.00 by the issue of up to 300,000 new bearer shares in the company. The new shares are entitled to a share in profits 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 12/19/2014 on the basis of the authorization approved by the Shareholders' Meeting held on 7/6/2012.

The Shareholders' Meeting held on 6/14/2013 approved a conditional increase in the capital stock by up to EUR 300,000.00 by the issue of up to 300,000 new bearer shares in the company. The new shares are entitled to a share in profits 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 12/19/2015 on the basis of the authorization approved by the Shareholders' Meeting held on 6/14/2013.

Authorizations

By resolution of the Shareholders' Meeting on September 29, 2008, July 16, 2010, July 6, 2012 and June 14, 2013, the Management Board or the Supervisory Board was authorized to establish stock option programs and to issue them to entitled persons within defined issuing periods. The exercise conditions are presented under F. 13. Share-based Payments

Treasury Shares

By resolution of the Shareholders' Meeting on August 7, 2009, the company was authorized to acquire treasury shares up to a nominal share totaling EUR 1,000,000.00 of the capital stock. The authorization in place until February 4, 2011 was waived for the period after the new authorization approved by the Shareholders' Meeting on July 16, 2010 went into effect. The authorization to use the treasury shares acquired based on the resolution of August 7, 2009 remains in effect. The acquired shares together with other treasury shares, which are in the possession of the company or are attributable to it in accordance with Section 71 a et seq. AktG, must at no time exceed 10% of the capital stock. The authorization may not be used for the purpose of trading in treasury shares.

The authorization may be exercised in its entirety or in partial amounts on one or more occasions in pursuit of one or more purposes by the company or by third parties on the company's behalf. The authorization runs until July 15, 2015.

The purchase may, at the Management Board's discretion, be made in the stock market or by means of a public purchase offer or a public solicitation to make an offer.

Approved Capital

As of December 31, 2013 *aap* Implantate AG held approved capital with a face value of EUR 15,335,028.00 that may be issued in tranches with different time limitations totaling up to 15,335,028 bearer shares.

	Authorization of the Management Board by the Shareholders' Meeting resolution of	Approval of the Supervisory Board until	Approved capital in EUR	Utilization in EUR	Remaining approved capital in EUR
Approved capital 2007/I	8/27/2007	8/26/2012	2,988,935	-1,267,357	1,721,578
Approved capital 2009/I	8/7/2009	8/6/2014	8,026,571	-2,788,186	5,238,385
Approved capital 2010/I	7/16/2010	7/15/2015	4,192,786		4,192,786
Approved capital 2012/I	7/6/2012	7/5/2017	4,182,279		4,182,279
			19,390,571	**-4,055,543**	**15,335,028**

The requirements for the increase in approved capital are nearly identical in all tranches. The capital stock of the company can be increased on one or more occasions in cash or in kind. Subject to Supervisory Board approval, subscription rights for shareholders may be ruled out

a) to balance residual amounts,

b) if the capital increase in cash 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) to issue shares in return for contributions in kind as part of an acquisition of companies, parts of companies, or participations in companies, as well as mergers (only Approved Capital 2010/I and 2012/I); including conversions by the terms of the German Conversions Act,

d) to issue shares to strategic partners,

e) in payment for consulting services,

f) to issue shares to lenders in place of interest payments in cash or in addition thereto (known as equity kickers), especially in connection with mezzanine financing (only Approved Capital 2009/I, 2010/I and 2012/I)

g) to repay loans or other liabilities.

13. Share-based Payments

In the financial year, stock options from two programs (2012 and 2013) were granted to executives and selected employees. The realized payments from the 2008 stock option program were made by cash settlement. The essential conditions of the programs in effect in the financial year are summarized in the following overview:

Essential conditions of the option programs in effect				
	2008	**2010**	**2012**	**2013**
Subscription right	Each option gives the entitled persons the right to purchase one bearer share of *aap* Implantate AG in return for payment of the exercise price.			
		The pecuniary advantage is restricted to four times the exercise price.		

Entitled persons	• Employees and Management Board members of the company • Employees and members of the management of associated companies in accordance with Sections 15 et seq. AktG		• Employees of the company • Employees of associated companies in accordance with Sections 15 et seq. AktG	
Issue period	Until 9/28/2013	Until 12/19/2011	Until 12/19/2014	Until 12/19/2015
Waiting period	Two years after issue 25% and an additional 25% three years, four years and five years after the issue date	4 years		
Term	5 years from the issue date	8 years from the issue date		
Exercise periods	<u>2008</u> Possible at any time after end of waiting period but not during the following periods: • From the last day on which shareholders can register to attend the company's Shareholders' Meeting until the third bank working day in Frankfurt am Main after that Shareholders' Meeting; • From the day of publication in an official journal of the Frankfurt Stock Exchange of a subscription offer for new shares or bonds with conversion and/or option warrant for *aap* shares until the day on which the subscription period ends; • Within four weeks prior to publication of the relevant quarterly or annual report			
	<u>2010, 2012, 2013</u> Within four weeks from the second trading day on the Frankfurt Stock Exchange • After the company's Shareholders' Meeting • After the day on which the management of the Stock Exchange makes the company's annual financial statements, the half-yearly financial statements or the interim reports for the first or third quarter of the financial year available to the general public.			
Exercise price	Average closing price of the *aap* share in electronic trading (Xetra or a successor system) at the Frankfurt Stock Exchange			
	On the last 20 trading days before the issue date, at least at the lowest issue price according to Section 9 (1) AktG, not less than each share's EUR 1.00 pro rata share of the capital stock	On the 5 trading days preceding the first day of the acquisition period, at least at the lowest issue price according to Section 9 (1) AktG		
Performance target	(Average price) of the closing auction price of the *aap* share in Xetra trading (or a comparable successor system) at the Frankfurt Stock Exchange			
	in the last 20 trading days	on the last trading day		
	before the exercise date on which the subscription right exceeds the exercise price by at least			

	20%	10%
Fulfillment	The company has the option of fulfilling the obligation by issuing equity instruments or by cash settlement.	

All option programs are granted in two or more tranches.

Option program	Grant date by tranche	Number of options granted	Expiration date	Exercise price in EUR	Fair value at time of issue
2008	12/1/2008	200,000	11/30/2014	1.61	0.55
2008	5/26/2009	487,500	5/25/2015	1.29	0.48
2010	7/29/2010	360,000	7/28/2018	1.29	0.58
2010	11/17/2010	505,000	11/16/2018	1.17	0.50
2010	7/15/2011	481,600	7/14/2019	1.01	0.40
2010	11/15/2011	55,000	11/14/2019	1.00	0.39
2012	7/25/2012	65,000	7/24/2020	1.00	0.51
2012	11/28/2012	180,000	11/27/2020	1.30	0.63
2012	7/3/2013	65,000	7/2/2021	1.27	0.64
2012	11/25/2013	5,000	11/24/2021	1.78	1.02
2013	7/3/2013	165,000	7/2/2021	1.27	0.64
2013	11/25/2013	135,000	11/24/2021	1.78	1.02

The range of exercise prices for the stock options outstanding as of 12/31/2013 extended from EUR 1.00 to EUR 1.78 (previous year: EUR 1.00 to EUR 1.61).

The fair values were determined in the reporting year using a binomial model. The following parameters were taken into account in the measurement.

2012 Stock Option Program	**7/2013 Tranche**	**11/2013 Tranche**
Grant date	7/3/2013	11/25/2013
Performance target in EUR	1.40	1.96
Risk-free interest rate	0.68%	0.68%
Expected volatility	48.11%	45.31%
Expected dividend payment	EUR 0	EUR 0
Share price on the measurement date	1.35	2.12
Expected option term	5 years	5 years

2013 Stock Option Program	**7/2013 Tranche**	**11/2013 Tranche**
Grant date	7/3/2013	11/25/2013
Performance target in EUR	1.40	1.96
Risk-free interest rate	0.68%	0.68%
Expected volatility	48.11%	45.31%
Expected dividend payment	EUR 0	EUR 0

Share price on the measurement date	1.35	2.12
Expected option term	5 years	5 years

The Management Board's best judgment regarding the following factors entered into the determination of the expected option term: non-transferability, exercise restrictions, including the probability that the market conditions tied to the option are met, and assumptions regarding exercise behavior. Volatility was based on weekly yields. The share's expected volatility is based on the assumption that inferences can be drawn from historic volatilities as to future trends, with the share's actual volatility possibly deviating from the assumptions used. To take early exercise effects into consideration, it was assumed that employees would exercise their exercisable options if the share price corresponded to the 1.4 to 1.5-fold of the exercise price.

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

	2013		**2012**	
	Number	**GDAP in EUR**	**Number**	**GDAP in EUR**
Outstanding as of 1/1	2,114,100	1.22	2,055,600	1.22
granted	370,000	1.46	245,000	1.22
lapsed/renounced/forfeited	-35,000	1.10	-186,500	1.76
exercised	-61,875	1.29	0	--
Outstanding as of December 31	**2,387,225**	**1.25**		
Outstanding as of December 31			**2,114,100**	**1.22**
Thereof exercisable	**501,875**		**351,250**	

Stock options outstanding at the end of the financial year had a weighted average residual term of 4.8 years (previous year: 5.2 years).

Expenses recorded from share-based payments offset by equity instruments in the reporting period totaled EUR 201 thousand (previous year: EUR 208 thousand).

In the 2013 financial year, 61,875 stock options were exercised for the first time. The weighted average share price on the exercise date was EUR 1.98. The resulting share-based payment transactions involved cash settlement. The difference between the respective exercise prices on the grant date and the exercise date were recognized without effect on results in accordance with IFRS 2.43(a). The capital reserve was reduced by EUR 43 thousand.

14. Provisions

	Status as of 1/1/2013 TEUR	**Consumed TEUR**	**Released TEUR**	**Allocated TEUR**	**Status as of 12/31/2013 TEUR**	**RT* > 1 year TEUR**
Employee commitments	41	-1	-9	43	74	0
Storage costs	26	0	0	1	27	27

Other uncertain liabilities	29	0	0	0	29	0
Litigation costs and risks	70	0	-5	5	70	0
Other provisions	66	-9	0	0	57	0
Total	232	-10	-14	48	257	27

*RT = Residual term

15. Liabilities

The residual terms of liabilities are as follows:

		Residual term (RT)			
	12/31/2013 Total	**Up to 1 year**	**1-5 years**	**More than 5 years**	**Previous year**
	TEUR	TEUR	TEUR	TEUR	TEUR
Financial liabilities	4,712	2,568	2,144	0	6,486*
Advance payments	0	0	0	0	1,125
Development orders with balance due to customers	25	25	0	0	0
Trade liabilities	2,853	2,853	0	0	3,259
Shareholder liabilities	0	0	0	0	1,057
Other financial liabilities	1,681	1,491	190	0	2,141
Other liabilities	1,312	558	286	468	1,334
Liabilities to the discontinued operations	419	419	0	0	0
	11,272	7,914	2,620	468	15,402

*previous year adjusted by EUR 30 thousand for better presentation

Of the non-current liabilities (RT > 1 year) of EUR 3,088 thousand (previous year: EUR 2,589 thousand), EUR 2,334 thousand (previous year: EUR 2,389 thousand) was interest-bearing. Of the current liabilities (RT < 1 year) of EUR 7,495 thousand (previous year: EUR 12,813 thousand), EUR 2,634 thousand (previous year: EUR 5,589 thousand) was interest-bearing. The average interest burden was about 4.4% (previous year: 5.8%).

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

As of 12/31/2013, foreign currency liabilities were as follows:

	12/31/2013 total	Currency		Currency	
	TEUR	TEUR		TEUR	
Netted advances received	189	189	US $	0	CHF
Trade liabilities	34	7	US $	27	CHF

Other financial liabilities	0	0	US $	0	CHF
	223	196		27	

As of December 31, 2012, foreign currency liabilities were as follows:

	12/31/2012 total	Currency		Currency	
	TEUR	TEUR		TEUR	
Advances received	189	189	US $	0	
Trade liabilities	25	24	US $	1	CHF
Other financial liabilities	12	12	US $	0	
	226	225		1	

16. Gross amount due to customers for contract work

Order costs, including the corresponding earnings contributions that netted against advances lead to a debit balance, are stated in the reporting year under development orders with balance due to customers. As of the reporting date, liabilities arising from development orders totaled EUR 25 thousand (previous year: EUR 0 thousand).

	12/31/2013	12/31/2012
	TEUR	TEUR
Receivables from development orders	164	0
Netted against advances received	189	0
Development orders with balance due to customers	25	0

17. Other Financial Liabilities

		Residual term (RT)			
	12/31/2013 total	**Up to 1 year**	**1-5 years**	**More than 5 years**	**Previous year**
	TEUR	**TEUR**	**TEUR**	**TEUR**	**TEUR**
Liabilities to companies with which the company is linked by virtue of participating interests	111	111	0	0	0
Financial leasing commitments	255	65	190	0	529*
Other financial liabilities	1,315	1,315	0	0	1,612
	1,681	**1,491**	**190**	**0**	**2,141**

*previous year adjusted by EUR 30 thousand for better presentation

The remaining financial liabilities primarily involve employee bonuses and royalties of EUR 885 thousand (previous year: EUR 935 thousand), sales commissions and license payments of EUR 201 thousand (previous year: EUR 204 thousand) and liabilities for Supervisory Board remuneration of EUR 75 thousand (previous year: EUR 76 thousand).

The financial leasing liabilities consist of machinery and use the leased assets as collateral. The interest rate was agreed for the entire term of the leasing relationship and is about 3.7% on average (previous year: 5%).

18. Other Liabilities

	12/31/2013 total	Residual term (RT) Up to 1 year	1-5 years	More than 5 years	Previous year
	TEUR	TEUR	TEUR	TEUR	TEUR
Special item for investment grants	831	78	286	467	245
Personnel liabilities	234	234	0	0	287
Tax liabilities	186	186	0	0	731
Other liabilities	61	60	0	0	71
	1,312	558	286	467	1,334

The personnel liabilities consist mainly of holiday entitlements.

19. Other Financial Liabilities

Other financial liabilities break down as follows:

	12/31/2013	Repayments 2014	2015 to 2018	From 2019
	TEUR	TEUR	TEUR	TEUR
Future rent payments	2,474	1,004	1,470	0
Future payments from other operating lease contracts	1,037	572	465	0
Future payments from financing lease contracts	273	73	200	0
Future payments for non-current assets	276	276	0	0
Future payments from framework contracts	153	138	15	0
	4,212	**2,062**	**2,149**	**0**

	12/31/2012	Repayments 2013	2014 to 2017	From 2018
	TEUR	TEUR	TEUR	TEUR
Future rent payments	4,956	1,210	2,924	822
Future payments from other operating lease contracts	708	396	308	3
Future payments from other financing lease contracts	581	155	426	0
Future payments for non-current assets	0	0	0	0

Future payments from framework contracts	0	0	0	0
	6,245	**1,761**	**3,658**	**825**

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 EUR 1,360 thousand (previous year: EUR 905 thousand).

Future payments from financing lease contracts of EUR 273 thousand (previous year: EUR 581 thousand) include future interest payments of EUR 18 thousand (previous year: EUR 52 thousand). The stated book value amounts to EUR 255 thousand (previous year: EUR 529 thousand). The previous year's values relate primarily to the discontinued operations segment.

20. Contingent Liabilities

Contingent liabilities totaling EUR 48 thousand consist of public sector investment grants and allowances received. The financial assets must remain in the Berlin production facility for at least 5 years after the conclusion of the investment plan. In view of the operational circumstances, the Management Board assumes that the assets will remain at the Berlin production facility and that the other preconditions will be observed, so that recourse is unlikely.

In connection with the termination of a sales agreement, a former sales partner of the subsidiary *aap* Biomaterials GmbH asserted claims for damages and filed a suit for a payment of EUR 350 thousand on December 30, 2010. A settlement offer has been made for EUR 65 thousand. A corresponding provision has been formed. Thus the contingent liability is EUR 285 thousand.

In connection with the termination of a supply contract, an *aap* Implantate AG supplier has claimed EUR 83 thousand in damages plus interest and legal costs for alleged impermissible cancellation. The company won in the court of first instance. The other side has filed an appeal. Given currently available information, the advice of counsel and the decision by the court of first instance, the possibility of recourse is deemed to be unlikely.

G. Reporting on Financial Instruments

1. *Financial Instruments by Valuation Categories*

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

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

	IAS 39 balance valuation categories	**Book value as of 12/31/2013 TEUR**	**Amortized cost TEUR**	**Fair value without effect on results TEUR**	**Valuation according to IAS 17**	**Fair value 12/31/2013 TEUR**
Assets						
Financial assets	AfS	238		238		238
Trade receivables	LaR	7,036	7,036			7,036

Receivables from service orders		281			281
Other financial assets	LaR	1,405	1,405		1,405
Cash and bank balances	LaR	1,580	1,580		1,580
Financial assets held available for sale thereof					
Trade receivables	LaR	3,208	3,208		3,208
Cash and bank balances	LaR	925	925		925
Non-financial assets		18,801			
Liabilities					
Financial liabilities	FLAC	4,712	4,712		4,712
Trade liabilities	FLAC	2,853	2,853		2,853
Gross amount due to customers for contract work		25			25
Shareholder liabilities	FLAC	0	0		0
Financial leasing liabilities	-	255	-	255	-
Other financial liabilities	FLAC	1,426	1,426		1,426
Liabilities to the discontinued operations segment	FLAC	419	419		419
Liabilities related to financial assets held available for sale					
thereof					
Trade liabilities	FLAC	1,356	1,356		1,356
Other financial liabilities	FLAC	1,407	1,407		1,407
Non-financial liabilities	-	2,764	-		

Thereof aggregated by IAS 39 valuation categories for the continued operations segment:

	IAS 39 balance valuation categories	**Book value as of 12/31/2013 TEUR**	**Amortized cost TEUR**	**Fair value without effect on results TEUR**	**Fair value 12/31/2013 TEUR**
Financial assets held available for sale	AfS	238		238	238

Loans and receivables (incl. cash and bank balances)	LaR	14,154	14,154		14,154
Total financial assets		**14,392**	**14,154**	**238**	**14,392**
Liabilities held at amortized cost	FLAC	12,173	12,173		12,173
Total financial liabilities		**12,173**	**12,173**		**12,173**

	IAS 39 balance valuation categories	**Book value as of 12/31/2012 TEUR**	**Amortized cost TEUR**	**Fair valuewithout effect on results TEUR**	**Fair value 12/31/2012 TEUR**
Assets					
Financial assets	AfS	356		356	356
Trade receivables	LaR	4,226	4,226		4,226
Other financial assets	LaR	1,331	1,331		1,331
Cash and bank balances	LaR	3,698	3,698		3,698
Liabilities					
Financial liabilities	FLAC	6,516	6,516		6,516
Trade liabilities	FLAC	3,259	3,259		3,259
Shareholder liabilities	FLAC	1,057	1,057		1,057
Financial leasing liabilities	-	529	0	529	
Other financial liabilities	FLAC	1,612	1,612		1,612

Thereof aggregated by IAS 39 valuation categories for the continued operations segment:

	IAS 39 balance valuation categories	**Book value as of 12/31/2012 TEUR**	**Amortized cost TEUR**	**Fair value without effect on results TEUR**	**Fair value 12/31/2012 TEUR**
Financial assets held available for sale	AfS	356		356	356
Loans and receivables (incl. cash and bank	LaR	9,255	9,255		9,255

balances)

Total financial assets		**9,911**	**9,255**	**356**	**9,611**
Liabilities held at amortized cost	FLAC	12,444	12,444		12,444
Total financial liabilities		**12,444**	**12,444**		**12,444**

The financial assets held available for sale involve shares of AEQUOS Endoprothetik GmbH, which are measured at fair value without effect on results. The fair value was determined using the discounted cash flow method. The model is based on a pre-tax WACC of 5.9% and a post-tax WACC of 10.0%. The sales forecasts assume strong growth until 2029, particularly in Europe. The potential effects of alternative input parameters were tested. A 10% decline in net cash flow would reduce the fair value by EUR 21 thousand. In the financial year, a write-up in valuation of EUR 117 thousand, which was undertaken in previous years without effect on results, was annulled. This is disclosed in other comprehensive income.

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

	Loans and receivables (incl. cash and cash equivalents)		Liabilities held at amortized cost	
	2013 TEUR	**2012 TEUR**	**2013 TEUR**	**2012 TEUR**
Interest income	6	29	0	
Interest expense	0		-178	-504
Expenses from write-downs	-215	-131	0	0
Income from write-ups	59	78	26	0
Net result	**-150**	**-24**	**-152**	**-504**

Interest income from value adjusted assets totaled EUR 0 thousand in the financial year (previous year: EUR 28 thousand). The impairment losses involve valuation adjustments on receivables and effects from currency conversion.

3. *Write-downs of Financial Assets*

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.

The value adjustments are disclosed and explained under the respective balance sheet item.

4. *Management of Financial Risks*

Given its operational activities, the *aap* Group is subject to the following financial risks:

- Market risks
- Liquidity risks
- Credit risks

The Group's risk management is managed by the central finance division according to guidelines issued by the Management Board with the goal of minimizing potential negative effects on the Group's financial position. For this purpose, financial risks are identified, measured and hedged in close coordination with the Group's operating units.

Corresponding internal guidelines set mandatory frameworks of action, responsibilities and controls. The risks of the *aap* Group as well as the goals and processes of risk management are discussed in detail in the Management Report in the section "Risk Report" (cf. Section D).

Market Risks

Market risk refers to the risk that the fair value or future cash flows of a financial instrument fluctuate due to changes in the market prices. Market risks include interest rate risks, currency risks and other price risks, such as raw materials risks or share price risks.

Interest Rate Risks

Interest rate risks result from financial liabilities and monetary investments. The *aap* Group tries to optimize interest income and minimize interest rate risks. To do so, it carries out cash management across the Group and completes original financial transactions. Interest rate and price change risks are managed by mixing terms and taking up fixed and variable-rate positions. The use of derivative financial instruments is examined in individual cases. No such agreements were made in the reporting year.

Except for current account credit lines and the bank loan for EUR 2 million, the interest-bearing liabilities of the Group are fixed rate. As of 12/31/2013, about 30% (previous year: 19%) of the Group's borrowings were fixed rate. Market interest rate changes only affect financial instruments that must be stated at fair value. However, this is not the case.

Sensitivity analyses have been carried out for the variable-rate financial liabilities. A similar change in interest rates for all financial liabilities and all currencies was assumed. Accordingly, an interest rate change of one percentage point results in an increase in earnings before taxes of EUR 40 thousand (previous year: EUR 71 thousand) or a decrease of EUR 40 thousand (previous year: EUR 71 thousand).

Foreign Currency Risks

Risks can result for the company from the purchase and sale in foreign currency depending on the performance of the exchange rate.

The major part of the Group's business activity is conducted in the eurozone. Transactions initiated outside the eurozone were not suitable in terms of their nature or scope for general hedging through forward exchange contracts or similar hedging measures. Important foreign currencies for the Group are the US dollar, the Swiss franc and the British pound. Sensitivity analyses determined that the impact of other foreign currencies on the Group is insignificant. As of 12/31/2013, foreign currency receivables constituted about 2.20% (previous year: 16.34%) of trade receivables and exclusively involved receivables denominated in US dollars. Foreign currency liabilities amounted to 0.37%

(previous year: 1.27%) of the Group's borrowing. The share of US dollar liabilities was about 0.20% (previous year: 1.27%). If the exchange rate of the euro relative to the US dollar were to have changed by 10% and if all other variables were to have remained constant, earnings before taxes would have been EUR 9 thousand (previous year: EUR 23 thousand) higher or lower for the reporting period. This would have been primarily due to currency translation gains from trade receivables and trade liabilities based on the US dollar. Against this background and with cost-benefit considerations in mind, the Group has accordingly decided to dispense with hedging transactions.

Liquidity Risks

The liquidity risk of the *aap* Group consists of being potentially unable to meet its financial obligations in a timely manner due to the lack of available liquidity. For example, this risk involves the repayment of financial liabilities, payment for purchases and commitments arising from financial leasing. Lack of availability of sources of funding may result inter alia from failure to abide by financial covenants that must be observed in connection with loan agreements. If these financial covenants are not observed, the financing bank has the right to cancel the respective loans extraordinarily and call them due for immediate repayment. Under the terms of existing loan agreements, *aap* may not exceed or fall short of certain upper or lower limits regarding the equity ratio, the interest coverage ratio and the net leverage ratio. The financial covenants are continuously monitored. The covenant criteria had been observed as of the reporting date. The future risk of non-compliance is deemed minimal. In addition, *aap* pursues a very open and transparent communication policy with its financing banks in order to be able to identify possible threats at an early stage and to arrive jointly at solutions commensurate with the risks.

The Group also limits this risk through effective, centralized cash management and the arrangement of sufficient credit lines. As of 12/31/2013, the *aap* Group had at its disposal legally ensured credit lines of EUR 4.5 million (previous year adjusted: EUR 4.5 million), of which EUR 0.75 million had been utilized as of the reporting date. As of 12/31/2013, *aap* had usable liquidity (the total of cash and bank balances and freely available credit lines) of EUR 5.3 million (previous year: EUR 4.9 million).

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

	Book value as of 12/31/2013	Repayments			Interest payments		
		2014	2015 to 2018	From 2019	2014	2015 to 2018	From 2019
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Financial liabilities	4,712	2,568	2,144	0	94	86	0
Financial liabilities to shareholders	0	0	0	0	0	0	0
Financial leasing liabilities	255	65	190	0	8	10	0
Other financial liabilities	1,312	588	754	0	0	0	0
Total	6,279	3,221	3,088	0	102	96	0

	Book value as of 12/31/2012	Repayments			Interest payments		
		2013	2014 to 2017	From 2018	2013	2014 to 2017	From 2018
		TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Financial liabilities	6,487	4,487	2,000	0	156	135	0
Financial liabilities to shareholders	1,057	1,057	0	0	74	0	0
Financial leasing liabilities	528	140	388	0	17	42	0
Other financial liabilities	1,612	1,612	0	0	0	0	0
Total	9,684	7,296	2,388	0	247	177	0

Credit Risks

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

Credit risks primarily result from trade receivables. Credit risks with contracting partners are examined prior to concluding contracts and are monitored continuously. Credit risks remain since customers may not be able to meet their payment obligations. The *aap* Group limits this risk by routinely reviewing the creditworthiness of customers and conducting efficient receivables management. In addition, the receivables are secured by retention of title so that, in case of non-payment, the products can be recalled and sold to other customers of *aap* after testing and refurbishment. The default of financial receivables amounted to EUR 4 thousand (previous year: EUR 19 thousand) in the reporting year.

There were no indications of payment defaults for trade receivables which were not written down as of December 31, 2013.

5. *Capital Management*

aap manages its capital with the aim of ensuring the long-term development of the company, its short-term solvency and a sufficiently high degree of self-financing. This ensures that all Group companies can operate under a going-concern premise. An additional aim of capital management at *aap* is to ensure that inter alia a credit rating appropriate for credit agreements and a good equity ratio are maintained in order to support its business activities. The Group manages its capital structure and makes adjustments taking into account changes in economic conditions. *aap* monitors its capital using debt and interest coverage ratios and the net leverage (debt-equity) ratio. In the process, the Management Board of *aap* regards a debt coverage ratio less than 2.0 and an interest coverage ratio greater than 10 as strategically achievable targets.

Debt/Interest Coverage Ratio

	12/31/2013	12/31/2012*
	TEUR	TEUR
Interest-bearing liabilities (gross)	4,967	7,573
Credit line balances	-675	-2,872

Interest-bearing liabilities (net)	4,292	4,701
EBITDA	5,081	3,148
Debt coverage ratio	**0.9**	**1.5**

	12/31/2013	**12/31/2012***
	TEUR	**TEUR**
Interest expenses	-224	-476
EBITDA	5,081	3,148
Interest coverage ratio	**22.7**	**6.6**

* adjusted

Net Leverage Ratio

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

	12/31/2013	**12/31/2012***
	TEUR	**TEUR**
Interest-bearing liabilities	4,967	7,573
Cash and cash equivalents	-1,580	-3,213
Net liabilities	3,387	4,360
Shareholders' equity	48,451	50,866
Net debt-equity ratio	7%	9%

* adjusted

6. *Cash Flow Statement*

Cash inflows from operating activities include inter alia:

Interest income	EUR 6 thousand (previous year: EUR 0 thousand)
Interest expense	EUR 182 thousand (previous year: EUR 185 thousand)

In the reporting year, income taxes were neither paid (previous year: EUR 9 thousand) nor refunded (previous year: EUR 0 thousand).

H. Other Disclosures

1. *Related Party Disclosures*

Related party disclosures are presented by group.

12/31/2013	**Persons and companies with significant influence on the Group**	**Associated companies**	**Joint ventures**	**Key Group personnel**
	TEUR	**TEUR**	**TEUR**	**TEUR**
Income from the sale of goods and services	0	839	0	0
Purchases of goods and services	0	0	0	-178
Trade receivables/Other receivables	0	248	14	0

Trade payables/Other liabilities	0	111	0	127
Interest income	0	3	0	0
Loan and interest receivables	0	103	0	0
Interest expense	-24	0	0	0
Loan liabilities	0	0	0	0

12/31/2012	Persons and companies with significant influence on the Group	Associated companies	Joint ventures	Key Group personnel
	TEUR	TEUR	TEUR	TEUR
Income from the sale of goods and services	0	0	0	0
Purchases of goods and services	0	0	0	-285
Trade receivables/Other receivables	0	0	0	0
Trade payables/Other liabilities	0	0	0	177
Interest income	0	0	0	0
Loan receivables	0	0	0	0
Interest expense	-286	0	0	0
Loan liabilities	1,057	0	0	0

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

2. *Management Body, Supervisory Board*

Management Board members of the company in the reporting year were

Mr. Biense Visser, **Chief Executive Officer**, Utrecht, Netherlands

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

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

The total remuneration of the Management Board amounted to EUR 1,061 thousand (previous year: EUR 1,046 thousand). The principles of the remuneration system of the Management Board and Supervisory Board are presented in the Remuneration Report. It is part of the Management Report.

	Remuneration components			
	Non-performance-related	Performance-related	With long-term incentive effect	Total
	TEUR	TEUR	TEUR	TEUR
Biense Visser	285	75	24	384
Bruke Seyoum Alemu	306	75	21	402
Marek Hahn	210	50	15	275
	801	200	60	1,061

The company has taken out a D&O liability insurance policy for management. The fees in 2013 totaled EUR 27 thousand (previous year: EUR 27 thousand).

Of the members of the Management Board, only Mr. Visser holds Supervisory Board directorships. He holds the following directorships:

Biense Visser	HZPC Holland B.V.
	Kreatech Biotechnology B.V. (until 7/1/2013)

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

Mr. Rubino Di Girolamo (Chairman),

Delegate of the Administrative Board, Oberägeri bei Zug, Switzerland

Mr. Ronald Meersschaert (Deputy Chairman),

Private equity investor, Arnhem, Netherlands

Prof. Prof. h.c. Dr. Dr. Dr. h.c. Reinhard Schnettler,

Clinic Director, Giessen, Germany

The election of the Supervisory Board members applied in accordance with the company's articles of association to the full term until the end of the Shareholders' Meeting, which decides on their discharge for the 2013 financial year.

The remuneration of the Supervisory Board totaled EUR 90 thousand in the financial year (previous year: EUR 75 thousand). It is comprised as follows:

	2013	2012
	TEUR	TEUR
Mr. Rubino Di Girolamo	30	25
Mr. Ronald Meersschaert	30	25
Prof. Prof. h.c. Dr. Dr. Dr. h.c. Reinhard Schnettler	30	25
Total	90	75

Payments of EUR 70 thousand occurred in the reporting year (previous year: EUR 153 thousand). Of that amount, there were no payments to former Supervisory Board members (previous year: EUR 42 thousand).

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

Mr. Rubino Di Girolamo	Deepblue Holding AG, Zug (Switzerland), President of the Administrative Board
	Metalor Dental Holding AG, Zug (Switzerland), Administrative Board
Mr. Ronald Meersschaert	Toeca International Company B.V., Arnhem (Netherlands), Administrative Board
	Novum Bank Ltd., Malta, Administrative Board
Prof. Prof. h.c. Dr. Dr. Dr. h.c. Reinhard Schnettler	Clinics of the Main-Taunus-Kreis GmbH, Bad Soden/Frankfurt

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

	Shares		Options	
	2013	**2012**	**2013**	**2012**
Supervisory Board				
Rubino Di Girolamo	1,626,157	1,626,157	0	0
Ronald Meersschaert	0	0	0	0
Prof. Prof. h.c. Dr. Dr. Dr. h.c. Reinhard Schnettler	197,094	197,094	0	0
Management Board				
Biense Visser	395,000	390,000	400,000	400,000
Bruke Seyoum Alemu	70,000	70,000	350,000	350,000
Marek Hahn	30,000	20,000	175,000	175,000

The fair values of the options as of the grant date are between EUR 0.87 and EUR 0.39.

3. *Disclosures in Accordance with Section 160 (1) (8) AktG*

In accordance with Section 160 (1) (8) AKtG, the following communications received by *aap* in accordance with Section 21 (1) or (1a) of the WpHG are shown below at their respected reported stage. Those individuals are obligated to make these communications whose voting rights in *aap* Implantate AG directly or indirectly reach, exceed, or fall short of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, or 75% through purchase, sale, or other means.

2013:

Taaleritehdas ArvoRein Equity Fund, Helsinki, Finland notified us in accordance with Section 21 (1) WpHG that its voting rights share in *aap* Implantate AG, Berlin, Germany on 12/4/2013 exceeded the threshold of 3% of the voting rights and on this day amounted to 3.147% (this corresponds to 965,311 voting rights).

Taaleritehdas Fund Management Ltd., Helsinki, Finland notified us in accordance with Section 21 (1) WpHG that its voting rights share in *aap* Implantate AG, Berlin, Germany on 12/4/2013 exceeded the threshold of 3% of the voting rights and on this day amounted to 3.147% (this corresponds to 965,311 voting rights). In accordance with Section 22 (1) (1) (6) WpHG, 3.147% of the voting rights in the company (this corresponds to 965,311 voting rights) are attributable to the Taaleritehdas ArvoRein Equity Fund.

The Taaleritehdas Wealth Management Ltd., Helsinki, Finland notified us in accordance with Section 21 (1) WpHG that its voting rights share in *aap* Implantate AG, Berlin, Germany on 12/4/2013 exceeded the threshold of 3% of the voting rights and on this day amounted to 3.147% (this corresponds to 965,311 voting rights). In accordance with Section 22 (1) (1) (6) WpHG in connection with Section 22 (1) (2), 3.147% of the voting rights in the company (this corresponds to 965,311 voting rights) are attributable to Taaleritehdas ArvoRein Equity Fund.

Taaleritehdas Plc., Helsinki, Finland notified us in accordance with Section 21 (1) WpHG that its voting rights share in *aap* Implantate AG, Berlin, Germany on 12/4/2013 exceeded the threshold of 3% of the voting rights and on this day amounted to 3.147% (this corresponds to 965,311 voting rights). In accordance with Section 22 (1) (1) (6) WpHG in connection with Section 22 (1) (2), 3.147% of the voting rights in the company (this corresponds to 965,311 voting rights) are attributable to Taaleritehdas ArvoRein Equity Fund.

2011:

Elocin B.V., Arnhem, Netherlands notified us on 5/18/2011 in accordance with Section 21 (1) WpHG that its voting rights share in *aap* Implantate AG, Berlin, Germany ISIN: DE0005066609, securities id no.: 506660 on 5/16/2011 exceeded the threshold of 15% and 20% of the voting rights and on this day amounted to 20.89% (this corresponds to 6,405,722 voting rights).

Boekhoorn M & A B.V., Arnhem, Netherlands notified us on 5/26/2011 in accordance with Section 21 (1) WpHG that its voting rights share in *aap* Implantate AG, Berlin, Germany ISIN: DE0005066609, securities id no.: 506660 on 5/16/2011 exceeded the threshold of 15% and 20% of the voting rights and on this day amounted to 20.89% (this corresponds to 6,405,722 voting rights). In accordance with Section 22 (1) (1) (1) WpHG, 20.89 % of the voting rights in the company (this corresponds to 6,405,722 voting rights) are attributable to Elocin B.V.

Ramphastos Investments N.V., Arnhem, Netherlands notified us on 5/26/2011 in accordance with Section 21 (1) WpHG that its voting rights share in *aap* Implantate AG, Berlin, Germany ISIN: DE0005066609, securities id no.: 506660 on 5/16/2011 exceeded the threshold of 15% and 20% of the voting rights and on this day amounted to 20.89% (this corresponds to 6,405,722 voting rights). In accordance with Section 22 (1) (1) (1) WpHG, 20.89 % of the voting rights in the company (this corresponds to 6,405,722 voting rights) are attributable to Elocin B. V. via Boekhoorn M & A B.V.

Mr. Marcel Martinus Jacobus Johannes Boekhoorn, Netherlands notified us on 5/26/2011 in accordance with Section 21 (1) WpHG that his voting rights share in *aap* Implantate AG, Berlin, Germany ISIN: DE0005066609, securities id no.: 506660 on 5/16/2011 exceeded the threshold of 15% and 20% of the voting rights and on this day amounted to 20.89% (this corresponds to 6,405,722 voting rights). In accordance with Section 22 (1) (1) (1) WpHG, 20.89% of the voting rights in the company (this corresponds to 6,405,722 voting rights) are attributable to Mr. Boekhoorn of Elocin B.V. via Ramphastos Investments N.V. and Boekhoorn M & A B.V.

2010:

Mr. Jan Albert de Vries, Netherlands notified us on 10/19/2010 in accordance with Section 21 (1) WpHG that his voting rights share in *aap* Implantate AG, Berlin, Germany ISIN: DE0005066609, securities id no.: 506660 on 10/15/2010 fallen short of the threshold of 20% of the voting rights and on this day amounted to 19.60% (this corresponds to 5,465,924 voting rights). In accordance with Section 22 (1) (1) (1) WpHG, 19.60% of the voting rights in the company (this corresponds to 5,465,924 voting rights) are attributable to Mr. de Vries of Noes Beheer B.V.

Noes Beheer B.V., Nijmegen, Netherlands notified us on 10/19/2010 in accordance with Section 21 (1) WpHG that its voting rights share in *aap* Implantate AG, Berlin, Germany ISIN: DE0005066609, securities id no.: 506660 on 10/15/2010 exceeded the threshold of 20% of the voting rights and on this day amounted to 19.60% (this corresponds to 5,465,924 voting rights).

2009:

On January 13, 2009, Mr. Jürgen W. Krebs, Switzerland, fell short of the thresholds of 30, 25, 20 and 15%. On January 13, 2009, Mr. Krebs held 3,287,200 shares (12.35%), of which 346,000 shares (1.30%) were attributable to him in accordance with Section 22 (1) (1) (1) WpHG via Merval AG.

On January 13, 2009, Merval AG, Zug, Switzerland, fell short of the thresholds of 30, 25, 20, 15, 10, 5 and 3%. On January 13, 2009, Merval AG held 346,000 shares (1.30%).

On January 13, 2009, Mr. Rubino di Girolamo, Switzerland, fell short of the thresholds of 30, 25, 20, 15 and 10%. On January 13, 2009, Mr. Krebs held 1,530,000 shares (5.75%), of which 1,530,000 shares (5.75%) were attributable to him in accordance with Section 22 (1) (1) (1) WpHG via Deepblue Holding AG.

On January 13, 2009, Deepblue Holding, Zug, Switzerland, fell short of the thresholds of 30, 25, 20, 15 and 10%. On January 13, 2009, Deepblue Holding AG held 1,530,000 shares (5.75%).

2008:

DZ Bank AG, Frankfurt am Main, Germany notified us on 9/9/2008 in accordance with Section 21 (1) WpHG that its voting rights share in *aap* Implantate AG, Berlin, Germany ISIN: DE0005066609, securities ID no.: 506660 on 9/5/2008 fell short of the threshold of 5% of the voting rights and on this day amounted to 4.8% (this corresponds to 1,267,357 voting rights).

4. *Auditor's Fees*

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

a) for the financial statements (individual and consolidated financial statements) EUR 115 thousand (previous year: EUR 115 thousand)

b) other services EUR 32 thousand (previous year: EUR 26 thousand)

5. *Subsequent Events*

With notarial authentication as of 3/4/2014, 100% of the shares of European Medical Contract Manufacturing B.V. (EMCM) were sold to a private equity company. The purchase price totaled EUR 18 million in cash and will be paid by the end of April 2014 in three partial amounts. *aap* has already received a third of the purchase price.

6. *Declaration on the German Corporate Governance Code*

In accordance with Section 161 AktG, *aap* Implantate AG has issued the prescribed declaration to apply the German Corporate Governance Code and made it available to the shareholders on our website (www.*aap*.de/en/investors/corporate-governance/declaration-of-compliance).

7. *Publication*

These consolidated financial statements as of December 31, 2013 were released by the Management Board of the company on March 28, 2014.

Berlin, March 28, 2014

The Management Board

Biense Visser Management Board Chairman/CEO	Bruke Seyoum Alemu Management Board member/COO	Marek Hahn Management Board member/CFO

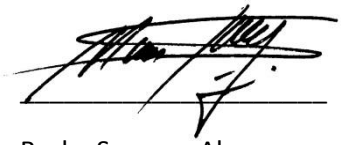
Responsibility Statement by the Legal Representatives pursuant to Section 37 (1) of the German Securities Trading Act (WpHG)

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

Berlin, March 28, 2014

The Management Board

Biense Visser
Management Board
Chairman/CEO



Bruke Seyoum Alemu
Management Board
member/COO

Marek Hahn
Management Board
member/CFO

Auditor's Audit Certificate

We have audited the annual financial statements, consisting of the balance sheet, the statement of comprehensive income, schedule of the movement in equity, cash flow statement, the notes as well as management report of *aap* Implantate AG for the business year from 1 January 2013 to 31 December 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law under section 315a (1) of the Handelsgesetzbuch (German Commercial Code, HGB) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB (German Commercial Code) and the generally accepted principles for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the asset, financial and earnings position of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the books and records, annual financial statements and the management report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the annual financial statements of those entities included in the consolidated financial statements, the determination of entities to be included in consolidation, the accounting and consolidation principles used, and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law under section 315a (1) of the HGB, and give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's positions and suitably presents the opportunities and risks of future development.

Berlin, March 28, 2014

RBS RoeverBroennerSusat GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Helmut Schuhmann
Auditor

Ralf Bierent
Auditor

Glossary

A	
Adhesion	The adherence, growing or sticking together of tissue and organs
Allograft	Bone replacement material or tissue of human origin for which donor and recipient are not one and the same person
Angle-stable	Angle-stable is the term generally used to describe a fixed and movement-free connection between the contact surfaces of two parts.
Associated company	A company in which the shareholder has a controlling interest but is neither a subsidiary nor a joint venture. Associated companies must be stated in the balance sheet on the basis of the equity method.
At-equity accounting	A procedure to take into account associated companies that are not included in the financial statements with all of their assets and liabilities on the basis of full consolidation. The book value of the associate is projected with regard to the development of the pro rata equity investment. This change is included in the holding company's profit and loss statement.

B	
Biomaterials	Generally speaking, synthetic or natural non-living materials that are used in medicine for therapeutic or diagnostic purposes and that come into direct contact with biological body tissue in the process are known as biomaterials, or sometimes as implant materials. In a narrower sense the term describes materials that remain inside the body as implants for long-term periods.
BRICS	„BRICS" are the initials for the five growth regions: Brazil, Russia, India, China und South Africa.

C	
Cash flow	Balance between inflow and outflow of funds with effect on payments; an indicator of self-financing capacity
Collagen	Collagen is a structural protein found in the connective tissue of human beings and animals. It is the organic component of bones and teeth and the essential component of cartilage, tendons, ligaments and skin. Collagen fibres have enormous tensile strength and are not stretchy.
Compliance	Abiding by laws and by external and internal guidelines or codes of behaviour
Corporate Governance Code	Compendium of statutory provisions governing the management and monitoring of listed German companies, contains nationally and internationally recognised standards of good and responsible business management

D	
Deferred taxes	Asset or liability items to offset the difference between the actual tax liability and the tax burden stated in the balance sheet on the basis of company law

Defined benefit plan	A retirement benefit plan that does not come under the definition of a contribution-oriented plan
Derivative financial instruments	Financial instruments the value of which is based on an underlying asset or index and that are to be paid for in the future and require only a relatively small initial investment or none at all
Diluted earnings per share	Dilution is a reduction in earnings per share or an increase in loss per share based on the assumption that convertible instruments will be converted, options will be exercised, or that ordinary shares may under certain circumstances be issued.
Discontinued operations	Business operations that have been sold or classified as available for sale and represent a separate, material business segment or geographical area of business, part of an agreed plan to dispose of a certain business segment or unit, or a subsidiary acquired with the sole intention of selling it on

E

EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortisation
Equity ratio	The ratio of equity to total capital, serves as a basis for assessing a company's financial stability and independence
Endoprostheses	Endoprostheses are implants that remain in the body permanently. They are now available for all joints (knee, shoulder, ankle, elbow, and finger). Chronic, painful, increasingly debilitating joint changes (arthrosis) are a frequent indication.
Earnings per share	Earnings per share are calculated by divided the consolidated result by the weighted average number of shares in accordance with IAS 33

F

Fair Value	See market value
Freshness Index	A measure of the company's innovation: the share in overall sales of products for which approval has been granted in the past three years
Free cash flow	An indicator of operational cash generation. *aap* defines free cash flow as the payment inflow/outflow from current business activities less the outflow of payments for investment in tangible and intangible assets.
Full consolidation	Procedure to include subsidiaries in the consolidated accounts if the parent company has a controlling interest in them (by virtue of a majority shareholding or for another reason)

G

Goodwill	The positive difference between the cost of acquisition of a company and the value of its net assets

H

HGB	Short for Handelsgesetzbuch, the German Commercial Code

I	
IFRS	Short for International Financial Reporting Standards, formerly International Accounting Standards (IAS)
Impairment tests	See value adjustment tests
Implant	An implant is a synthetic material implanted in the body an intended to remain there permanently, or at least for a long-term period.
IP	Short for intellectual property

J	
Joint venture	A contractual arrangement whereby two or more partners join forces in a commercial activity that is managed jointly

L	
Lavage system	A high-pressure system to prepare for implants in joint replacement surgery
Leasing	An arrangement by which the lessor transfers to the lessee in return for payment the right to use an asset for an agreed period

M	
Market value	Amount for which business partners who are knowledgeable, willing to do business and independent of each other might be prepared to exchange an asset or pay a debt
Minimally invasive	Minimally invasive surgical interventions that are as gentle and stress-free as possible, causing very little trauma (i. e. minimum injury to skin and soft tissue)

N	
Nanoparticles	Nanoparticles are a combination of a few up to several thousand atoms or molecules. The name comes from their size, typically a few nanometres (a nanometre is one billionth of a metre).
Net debt ratio	The ratio of net debt to EBITDA

O	
OEM	Short for Original Equipment Manufacturer, a maker of finished products who produces them in his own factories but does not market them himself
Orthopaedics	Orthopaedics (from the Greek for “upright” and “child-rearing”) is concerned with the origin, prevention, identification and treatment of congenital or acquired formal or functional defects in the support and mobility apparatus, that is bone, joints, muscles, and tendons, and with patient rehabitation.
Osteosynthesis	Osteosynthesis is the operative treatment of bone fractures and other bone injuries with implants, usually made of metal. The aim is to fix the fragments that belong together in as normal as possible a position with as mild a pressure as possible.

P	
Payment inflow/outflow	Inflows and outflows of payments (cash and sight deposits) and

	cash equivalents (highly liquid short-term financial investments). Payment inflows are listed in the consolidated cash flow statement.
Polymers	Chemical compounds consisting of several molecules that likewise consist of several similar units (so-called monomers)
Purchase price allocation	The purchase price allocation allocates the cost of acquisition (purchase price) of a company to the tangible and intangible assets and liabilities thereby acquired.

R

Resorbable	The ability of a substance to be absorbed and totally broken down by biological systems
Retrograde	Reverting to an earlier condition, having an opposite or previous effect
Reversible	Capable of being returned to an original condition
Risk management	A systematic approach to identifying and evaluating potential opportunities and risks and to choosing and implementing strategies in response to these opportunities and risks
R&D	Short for Research & Development

S

Segment	Reporting unit
Sensitivity analysis	Analysis of the effect of possible changes in assumptions, such as an analysis of how net pension expenses in a given period might change due to falling or rising discount factors
SMIT	„SMIT“ are the initials for the four growth regions: South Korea, Mexico, Indonesia und Turkey.
Subscribed capital	The part of the balance sheet equity to which the shareholders' liability is limited (or capital stock in the case of a listed company)

T

Trauma or traumatology	Trauma in medicine is damage, an injury or wound incurred by external force. Hence traumatology (from the Greek for “wound” and “science”) is the science of injuries and wounds and their origin and treatment. As accident surgery, it is a branch of surgery concerned with the treatment of patients who suffer accidental injury, and in some countries a branch of orthopaedics.
TÜV, DEKRA	TÜV (Technischer Überwachungs-Verein) and Dekra (Deutscher Kraftfahrzeug-Überwachungs-Verein) are organisations that undertake technical safety inspections, especially checks that are required by law or by official regulations.

U

Usable liquidity	Usage of credit lines minus balance on accounts under credit line and plus other bank balances

V

Value adjustment test	Test of an asset's impairment. The book value is compared with the recoverable amount. If the book value is higher than the recoverable, the difference must be stated as a value adjustment

	with effect on results.

W	
WACC	Weighted Average Cost of Capital, the minimum return a lender of capital expects to earn from a company to finance its assets
Working Capital	Sum of inventories and trade receivables less trade payables