

# Report by the Supervisory Board for the Financial Year 2016

## Supervision and Advice by Means of Regular Exchanges with the Management Board

The Supervisory Board performed in the reporting year the tasks with great care that are incumbent on by law and by the company's articles of association and rules of procedure. It advised the Management Board on the running of the company, monitoring its activities regularly and ensuring that everything was legal, orderly and fit for purpose. The Management Board fulfilled its obligation to inform the Supervisory Board and kept it informed regularly, comprehensively and in a timely manner in reports both written and oral on events and measures of relevance for the company. The reports included all relevant information regarding the strategy development, planning, sub-annual business developments, risks as well as compliance subjects. Furthermore, besides the Supervisory Board Chairman, also individual members of the Supervisory Board maintained a close and regular exchange of information between scheduled meetings with members of the Management Board. In this way the Supervisory Board was kept informed comprehensively and in a timely manner about the proposed business policy, corporate planning including financial, investment and personnel planning, the company's profitability, risk management and the course of business, along with the position of the group and matters of strategic corporate development. The Management Board also agreed the company's strategic alignment with the Supervisory Board. Important insights as well as deviations of the course of business from the plans as agreed were presented, explained and discussed latest on the following Supervisory Board meeting. The Supervisory Board discussed with the Management Board material business transactions and, especially, the group's further development. The Supervisory Board was involved in all decisions of fundamental importance for the company.

Members of the Supervisory Board checked proposed resolutions thoroughly and approved them at meetings or on the basis of written and oral information insofar as Supervisory Board approval of management decisions or measures was required by law, the articles of association or the company's rules of procedure. In 2016 the Supervisory Board held four regular meetings on January 29, April 15, November 14 and December 21. At two meetings one member participated via telephone in each case. In addition, conference calls were held on January 20, February 15, March 17, April 28 and August 11 in which all members of the Supervisory Board participated.

## Focal Points of Supervisory Board Deliberations

There were no committees in the financial year 2016 with the result that the Supervisory Board held discussions in its entirety. Next to the legally required reports, the following focal points were discussed intensively and examined:

- The annual and consolidated financial statements as of December 31, 2015
- Focus strategy on trauma: Divestment of *aap* Biomaterials GmbH and sale of remaining stake in *aap* Joints GmbH
- Adaption of the cost structure to the reduced company size
- Premature termination of a long-term license agreement with co-developer of LOQTEQ® technology
- Analysis and evaluation of options to let shareholders participate in the proceeds from the sale of *aap* Biomaterials GmbH
- Focus on established markets in course of the distribution of LOQTEQ® products
- Further market development in North America
- Activities around the aimed CE and FDA approval for the silver coating technology
- Evaluation of the options to unlock the inherent value of the product and technology base based on the results from the mandated corporate finance firm
- Activities with global partners
- Corporate Governance Code

- Analysis and planning of further measures to optimize operational efficiency to be implemented in financial year 2017
- Management Agenda and budget 2017
- Structuring of research & development activities

Sales, earnings and employment development at *aap* Implantate AG were the subject of regular deliberations, as was the financial position, the strategic perspectives, the further development of the group as well as the investment planning. The Management Board briefed the Supervisory Board regularly and comprehensively on corporate planning, the course of business and the group's current position.

The Supervisory Board dealt in detail with the economic situation, with the operational and strategic development and with the group's further development.

### **Corporate Governance**

During the financial year the Supervisory Board continuously maintained a watching brief on the implementation of the provisions of the German Corporate Governance Code and the development of Corporate Governance Standards. In January 2017 the Management Board and Supervisory Board issued an updated declaration of conformity as per Article 161 AktG and made it permanently available to shareholders on the company's website. Information about corporate governance in the company and a detailed report on the amount and structure of Supervisory Board and Management Board remuneration can be found in the Corporate Governance Statement pursuant to Art. 289a of the German Commercial Code (HGB) respectively in the Remuneration Report of the Consolidated Financial Statements 2016. Both documents are available for download on the corporate website of the company as well.

There was a change to *aap* Implantate AG's Supervisory Board in financial year 2016. Ms Jacqueline Rijdsdijk followed Mr Ronald Meersschaert, who resigned from his position on the Supervisory Board for personal reasons. His duties concluded on October 5, 2016. Ms Rijdsdijk had already been selected as substitute member for Mr Meersschaert at the 2014 annual general meeting. On October 6, 2016, the Supervisory Board unanimously elected her as its Vice Chairwoman. Consequently the proportion of women in the Supervisory Board stood at 33% at December 31, 2016.

### **Annual and Consolidated Financial Statements, Audit**

Roever Broenner Susat Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, appointed at the annual general meeting held on June 17, 2016, to be the external auditor for the financial statements 2016, audited the annual financial statements and the combined management report for the annual financial statements and the consolidated financial statements as well as the consolidated financial statements of *aap* Implantate AG to December 31, 2016 and issued an unqualified audit statement. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). The auditor has confirmed that the consolidated financial statements and the combined management report comply with IFRS as applicable in the European Union and with the additional commercial law provisions of Article 315 a (1) of the German Commercial Code (Handelsgesetzbuch/HGB). Focal points of the audit included sales realisation and revenue accrual, the valuation of receivables and inventory as well as the deconsolidation of *aap* Biomaterials GmbH. The Supervisory Board was supplied with the annual financial statements and the combined management report for the annual financial statements and the consolidated financial statements as well as the consolidated financial statements and the auditor's reports. The financial statement documents and the audit reports were discussed in detail at the Supervisory Board's accounts meeting on March 28, 2017. In this Supervisory Board meeting, the Management Board explained the financial statements for *aap* Implantate AG as well as the group. The auditor who signed the auditor's report attended the

Supervisory Board's and Management Board's discussion on the reports, outlined the principal audit findings and was available to answer questions.

After checking and discussing the annual financial statements and the consolidated financial statements as well as the combined management report for the annual financial statements and the consolidated financial statements the Supervisory Board approved the audit findings and signed off the annual financial statements and consolidated financial statements to December 31, 2016 prepared by the Management Board. The annual financial statements were thereby approved.

#### **Statements Pursuant to Articles 289 (4) and 315 (4) HGB**

The Supervisory Board discussed the statements and the report on the statements in the combined management report for the annual financial statements and the consolidated financial statements in accordance with Articles 289 (4) and 315 (4) HGB. It checked and approved the explanations given in the combined management report for the annual financial statements and the consolidated financial statements.

In the name of the Supervisory Board, I would like to thank the members of the Management Board and all of the employees for their personal commitment and the constructive cooperation in the eventful past months of our company.

The Supervisory Board



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**Biense Visser**  
Chairman