Consolidated Annual Financial Statement 2012

Table of Contents

Foreword by the Management Board

Ladies and Gentlemen,

Dear shareholders, employees and business partners,

over the last four years, we have successfully repositioned *aap* Implantate AG to deliver improved growth and enhanced financial performance. Our 2012 results demonstrate that we are beginning to benefit from the fundamental changes we made to our strategy, providing clear evidence that *aap* is positioned with a positive outlook that differentiates the Company from other competitors in the market.

Profit & Loss point of view				
in € million	**2008**	**2009**	**…**	**2012**
Product sales*	29.5	25.8		33.8
EBITDA (products)*	3.4	1.2		4.8 – 5.1
Cash-EBIT[1] (products)*	-6.6	-3.7		0.4 – 0.6

[1] Cash-EBIT: EBIT excluding capitalized development work and depreciation thereof

*Figures adjusted: 2008, 2009 & 2012 excluding effects of Analytics segment, project business and one-time effects

Strategy point of view : FOCUS on core business				
	2008	**2009**	**…**	**2012**
Dental	+			
Analytics	+			
Medical Aesthetics	+			
Recon	+	+		
Trauma	+	+		+
Biomaterials	+	+		+

Efficiency point of view				
	2008	**2009**	**…**	**2012**
Number of Sites	6	5		3
Operating Legal Entities (Parent and subsidiaries)	11	10		3
Employees (FTE*)	259	235		250
Sales (Products) /FTE*	€114k	€110k		€135k
EBITDA (Products) /FTE*	€13k	€5k		€16k
Freshness Index**	n.a.	14%		15%

*Full-time equivalents excluding Analytics business

** 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	**12/31/2008**	**12/31/2009**	**…**	**12/31/2012**
Equity ratio	62%	71%		74%
Net debt (interest bearing)	13.2	7.6		4.3
Working Capital-Ratio (Sales)	1.8	1.9		2.5
DCR rolling (last 4 quarters)	3.6	1.2		0.8
ICR rolling (last 4 quarters)	4.0	7.7		11.8

Shares*			
	2012	**2011**	**Change**
Share Volume (in millions)	30.70	30.70	0%
Closing price 31.12. (€)	1.34	0.70	91%
Market capitalization 31.12. (€ million)	41.10	21.50	91%
52 Week Average price (€)	1.02	0.99	3%
52 Week High (€)	1.45	1.17	24%
52 Week Low (€)	0.70	0.65	8%
Average Trading Volume / Day	29,029	8,443	244%

*XETRA Stock Exchange, 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 on 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.

During the year we introduced several new products, which contributed to strong sales growth and cash flow. We saw strong performances across all areas of our business, despite continued economic pressure and political instability in the EU and some emerging markets. In the USA, we are well positioned with our product pipeline and we expect to deliver improved performance. We also made significant progress in research and development, positioning the Company to continue bringing innovative new products to the market. Overall, we remain committed to our strategy to focus on the business to drive profitable growth, with an unwavering daily focus on providing excellent service to our customers, responsibly managing our operating expenses in order to continue generating cash.

Let us summarize the main achievements for 2012:

- Total sales growth of 25%, including 16% product sales growth
- Operative EBITDA growth of 50% to €6.1 million (EBITDA of €7.1 million minus impairment loss assets of €1.0 million)
- For the first time, positive Cash-EBIT
- Net debt reduced from €6.9 million to €4.5 million, shareholder loans were reduced by €2.3 million, partly replaced by lower interest bank loans
- Strong sales growth in the USA to €6.0 million (+79%) and in Asia to €7.2 million (+88%)
- Successful launch of LOQTEQ®, reaching sales of €2 million in its first full year
- Appointment of new Trauma distributors in large markets including Brazil and a pilotmarketing agreement for the US market with a global medtech company
- Closing of a license and supply agreement with a global medtech company for Ostim® and with a Chinese recon company for Vebroplast®, which generated sales totaling €2.6 million
- Freshness index improved year on year from 13% to 15%
- Good progress with several OEM development and supply projects with global medtech companies for various biomaterials

- Significant progress in the development of silver coating technology for trauma products
- Launch of $scCO_2$ (super critical carbon dioxide) technology for cleaning and sterilization of allograft bone at an international customer conference in Amsterdam, Netherlands
- Four major contracts signed with international companies from Japan, Israel, Germany and USA for contract manufacturing of new biomaterials

Evaluation of the management Agenda 2012

Customers		
Goals of the Management Agenda 2012	**Results of the Management Agenda 2012**	**Goal achieved**
LOQTEQ® sales in the financial year 2012 > €2.4 million	LOQTEQ® sales reached €2.0 million. Although below the target, we received orders for over €2.4 million which could not yet be fulfilled because of delays in registration processes in various countries.	Order volume achieved, sales delayed due to registration delays
After full FDA approval, appointment of a US distributor for LOQTEQ® in third quarter	We completed the registration of the LOQTEQ® plates in the USA. Signed a pilotmarketing agreement for the US market in the fourth quarter.	Yes, but slightly delayed
Appointing distributors in the UK, Spain, Italy and France, preferably before the end of the second quarter	We have appointed distributors in Spain and Italy, other EU distributors were appointed in Turkey, Czech Republic and Portugal. We continue to work towards appointing distributors in the UK and France. Outside the EU we were successful in appointing distributors in Egypt and in growth markets in the America´s, such as: Mexico, Argentina, Brazil, Colombia, Costa Rica and Puerto Rico.	Signed with many countries; continue to work on UK and France
Renew OEM contracts with existing customers	We have successfully extended supply agreements with a global medtech company for various biomaterials.	Yes
EMCM: Secure new customers for aseptic/sterile medical products	EMCM signed the following agreements: - with a leading US research institute - with a German based medtech company for the development/supply of sterile, flammable products - with a Japanese company for a sterile recombinant peptide product - with an Israeli company for a drug releasing medical device.	Yes

Innovation		
Goals of the Management Agenda 2012	**Results of the Management Agenda 2012**	**Goal achieved**
Silver coating technology Trauma/Orthopaedics: successful conclusion of animal tests in the fourth quarter	We made substantial progress with the development of our silver coating technology. The start of the in vivo studies was delayed until the first quarter of 2013 for reasons beyond our control. We have initiated consultations with the regulatory body for how to apply for a CE certificate for the novel product, a hybrid of a trauma- and a biomaterial product.	Progress achieved
Freshness Index >17%	The Freshness index ended at 15%, an improvement compared to 2010 and 2011 but our target of 17% was missed. With the planned growth of LOQTEQ® during 2013 we will show further improvement.	No
Finish clinical study of silver cement before end of second quarter	The clinical study for silver cement was completed in the first half of 2012. The results of the study are under evaluation, with potential next steps of filing for regulatory approval or conducting additional studies.	Yes
Sign a further development agreement on a bone cement and/or a cementing application	We have signed a development agreement for a biomaterial with a global medtech company. Closing of the agreement is subject to certain audit results.	Yes
EMCM: Launch a new treatment method for allografts and generate initial sales: B2B model with EU bone banks	EMCM has developed its scCO2 technology and has signed a supply agreement with the bone bank Sanquin from the Netherlands. Together with its US partners, EMCM has also hosted a scientific symposium around the subject of allograft and the scCO2 technology for cleaning and sterilization of human bone.	Yes

Finance		
Goals of the Management Agenda 2012	**Results of the Management Agenda 2012**	**Goal achieved**
10% sales growth	Sales growth was 25%, well above the target of 10%.	Yes
Cash EBIT: improve to at least €1.0 million	Cash-EBIT target of €1 million was delivered	Yes
DCR ≤ 2.5 and ICR ≥ 6 (basis: operative EBITDA)	DCR 0.8 (previous year: 1.7) ICR 11.8 (previous year: 6.8)	Yes
Stabilize company financing	Company financing was improved. Net debt was lowered from €6.9 million (2011) to €4.5 million (2012). High interest bearing shareholder loans were reduced by €2.4 million and partly replaced by bank loans with a much lower interest.	Yes
Continued profitable growth	EBITDA growth of 50% was well above the sales growth of 25%, delivering another year of profitable growth	Yes

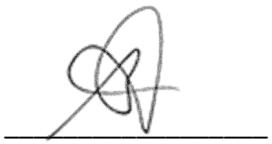
Organization/IT		
Goals of the Management Agenda 2012	**Results of the Management Agenda 2012**	**Goal achieved**
IT infrastructure: test outsourcing for risk and quality management	We studied various different outsourcing alternatives. At the moment we are of the opinion that there is no need, so we are not planning to outsource the IT infrastructure.	Yes
Adopt Code of Conduct	During the year, we have adopted and implemented respectively various projects, such as advanced Data protection measures, employee invention policies and procedures to improve the contract management. A full code of conduct has not been published yet.	Progress achieved

Overall, we continued to make good progress with our profitable growth strategy in 2012. We achieved many of our strategic objectives and are positioned to continue executing our plan.

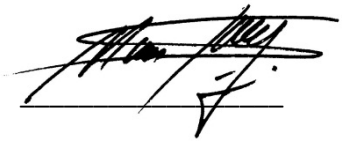
We have built a new Management Agenda for the year 2013, which will allow all our stakeholders to track our performance. In our quarterly reports we will provide updates on the progress in meeting the goals of the agenda and we will use our website to post presentations and press releases that are published during the year. With the launched of our Investor Relations app, we created another opportunity to access anytime the most current information about *aap*.

We would like to thank our employees for their engagement, creativity and cooperation, and commitment. We thank our customers for their business and are committed to striving to meet and exceed their needs in the years ahead.

We want to thank our shareholders for their confidence in the Company. We will do our utmost to make 2013 a better year than 2012 and look forward to further improvements in our financial performance such that we can issue a dividend.



Biense Visser
Management Board
Chairman/CEO



Bruke Seyoum Alemu
Management Board
member/COO

Marek Hahn
Management Board
member/CFO

Group Management Report for 2012

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 figures stated below, but these do not impair the overall information.

A) General Terms and Framework Conditions

1. Organisational and Legal Structure

aap Implantate AG is the *aap* Group's parent company. Presented commercially, the *aap* Group comprised the following active companies as of December 31, 2012: *aap* Implantate AG, *aap* Biomaterials GmbH and European Medical Contract Manufacturing (EMCM) B.V.

Operationally Active Subsidiaries

aap Biomaterials GmbH

All German development and manufacturing activities relating to medical biomaterials as well as cement and cementing techniques are subsumed in *aap* Biomaterials GmbH. The company is based in Dieburg, near Frankfurt am 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.

ADC Advanced Dental Care GmbH

On 23 March 2012 *aap* Implantate AG acquired from the minority shareholders all of the remaining shares in ADC Advanced Dental Care GmbH and thereby increased its equity holding in the subsidiary from 54% to 100%. Furthermore, it was agreed in a contract signed on 6 July 2012 to merge ADC Advanced Dental Care GmbH by absorption with *aap* Biomaterials GmbH with effect from 1 January 2012. The commercial register entry for the two companies was made on 30 August 2012.

In addition, *aap* Joints GmbH and *aap* BM productions GmbH were founded during the reporting year. From 2013, all orthopaedics activities (knee, hip and shoulder) are to be bundled in *aap* Joints GmbH. Manufacturing activities in the dental sector were merged in *aap* BM productions GmbH. For this purpose manufacturing equipment and know-how were transferred to *aap* BM productions GmbH and 50% of the company was sold to our exclusive distribution partner. In future, the company will operate as a joint venture run jointly by *aap* and our partner.

Associated Companies

AEQUOS Endoprothetik GmbH

aap Implantate AG holds a 4.57% shareholding in AEQUOS Endoprothetik GmbH, a company that until the end of 2010 distributed the innovative AEQUOS® knee system co-developed and manufactured by *aap* Implantate AG. As of 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 this connection 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, 60, is the Management Board Chairman (CEO) and is in charge of Corporate Development, Legal Affairs and Investor & Public Relations.

Mr. Bruke Seyoum Alemu, 47, is the Chief Operating Officer (COO) and is in charge of Research & Development, Production, and Sales & Marketing across the Group.

Mr. Marek Hahn, 38, is the Chief Financial Officer (CFO) and in addition to Finance is in charge of Human Resources, IT and Administration.

Supervisory Board

The Supervisory Board of *aap* Implantate AG consists of three members. Mr. Rubino Di Girolamo is its chairman and Mr. Ronald Meersschaert as its deputy chairman.

2. Segments

The *aap* Group is managed both internally and externally as a company without separate segments. This approach is reflected in the Group's management and reporting structure.

3. Important Products and Business Processes

In Germany, *aap* has two manufacturing sites: Berlin and Dieburg. In Berlin, *aap* Implantate AG manufactures osteosynthesis and endoprosthetic products. In Dieburg, *aap* has one of the world's most efficient and state-of-the-art bone cement production facilities. Dieburg is also the site of the development and production capacity for medical biomaterials and bone cement and cementing

techniques. In the Netherlands, *aap* has in Nijmegen a modern biomaterials production facility where products are manufactured in clean room conditions and in accordance with Good Manufacturing Practice (GMP) standards. In addition, there is in Nijmegen a logistics centre and a distribution warehouse for international distributors.

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

In keeping with our strategic focus since 2009 the focal point of our development and sales activities is on the trauma and biomaterials product areas. A highlight of the 2012 financial year was the FDA go-ahead for the first six systems in our innovative LOQTEQ® product line. Our focus in 2013 and the following years will be on continuous expansion of the LOQTEQ® portfolio to cover further indication areas, the corresponding CE and US approvals and further development of the entire trauma portfolio, but especially of innovations in silver coating and resorbable magnesium implants.

At the end of October we held in Amsterdam an important conference for *aap* at which we presented the latest innovations in cleaning and sterilising human bone material. At this event we demonstrated our competences in this area to European and international bone and tissue banks. With this kick-off event we will now be involved in three areas at our center of excellence in contract manufacturing in Nijmegen. Along with our existing competences in sterile filling of flammable materials, gels and liquids we will in future also be able to cleanse and sterilise human bone material by means of our supercritical carbon dioxide ($scCO_2$) method.

4. Important Sales Markets and Competitive Positions

aap has three distribution channels. Direct sales to hospitals, buying syndicates and clinic groups in the German-speaking countries account for nearly 11% of sales (previous year: 13%). Sales are also handled by an international network of distributors in over 40 countries and by means of OEM partnerships with national and international customers. Distribution channels for existing and new products are developed consistently. International distribution activities are focused on key countries and regions such as the United States, the EU, Eastern Europe, 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 *aap*'s sales consists of developing and manufacturing products for leading orthopaedics 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 are planned in 2013 in the bone cement and cementing techniques technology areas and in the biomaterials sector in particular.

Analysis the existing intellectual property portfolio identified products and technologies that by virtue of their unique selling proposition can contribute toward strengthening the Group's competitive position and thereby toward boosting its enterprise value. That is why continuous development of the strategic IP portfolio remains a cornerstone of the development of *aap* into an innovation and product leader.

In 2012 *aap* presented its range of products at leading international trade fairs such as Arab Health in Dubai and the A.A.O.S. (American Academy of Orthopaedic Surgeons) in San Francisco. To mark the market launch of LOQTEQ® in various countries, in May a major event for distributors was held in Berlin. Over 100 participants, comprising distributors and physicians from more than 20 countries, attended the two-day event. In addition to product training for doctors, attendees were able on a guided tour of the company to gain an idea of the Berlin production facility. One result of the event was the conclusion of an exclusive distribution agreement for Colombia that, provided timely product approval is granted, will generate sales of around €0.5 million in the first quarter of 2013. In Berlin, *aap* presented itself and its products at the 13th EFORT Congress and in the Netherlands at Spineweek in Amsterdam. At the 31st Annual Meeting of the European Bone and Joint Infection Society (EBJIS) in Montreux, Switzerland, the main focus was on infection care. A special highlight was the presentation of initial findings of a study on the use of PerOssal® to treat spondylodiscitis (inflammation of one or more vertebrae and intervertebral disc spaces) that is currently under way at the University Orthopaedic Clinic in Frankfurt am Main.

At the beginning of September the first of a new series of events for distributors and users in Spanish-speaking countries was held in Berlin. Over 30 distributors and surgeons from Spain, Puerto Rico, Costa Rica and Mexico attended the two-day LOQTEQ® product training event. The highly positive attendee feedback and enthusiasm reflected the high quality of the event and its strong practical focus.

In Germany, *aap* was represented inter alia at Medica 2012 in Düsseldorf, the 21st Thuringian Symposium on Accident and Orthopaedic Surgery (VLOU) in Suhl, the annual congress of the German Association for Shoulder and Elbow Surgery (DVSE) in Berlin, the annual conference of the German Society for Biomaterials (DGBM) in Hamburg and the German Congress for Orthopaedic and Accident Surgery (DKOU) in Berlin. In the course of the financial year various products gained approval or were registered in international growth markets. The first plate systems in the innovative LOQTEQ® product line received FDA approval at the end of 2012. In Peru *aap* was granted approval of its Jason® and Jason G® collagen fleece, and CE approval was gained for a bone cement that is used in artificial joint replacement.

5. Fundamental Legal and Economic Influencing Factors

Official registration and approval are a precondition for marketing medical products in every market in the world. As the basic aim is to market *aap* products all over the world, the quality management system is based on the requirements of harmonised international standards and European regulations. The *aap* Group is regularly audited and certified accordingly so that its products can be CE-marked and marketed. Furthermore, production is undertaken at *aap*'s Dutch subsidiary EMCM in conformity with FDA requirements and according to Good Manufacturing Practice (GMP).

All of the Group's companies are certified according to relevant, currently valid EN ISO 13485:2003 standard for manufacturers of medical devices, and all of the companies except for EMCM are also certified in accordance with the European Medical Products Directive 93/42/EEC. In addition, all of the Group's companies have undergone voluntary EN ISO 9001:2008 certification. In the course of their business activities all relevant environmental protection regulations are observed. 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

Medical technology is a dynamic and highly innovative industry. Germany is second in the world to the United States in terms of its world trade share and number of patents. German medical technology manufacturers earn about a third of their sales from products that are less 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 a particularly important role for medical technology companies as an innovation and research location.

The proportion of companies engaged in research in medical technology is 17%, or slightly below the industry average of 20%, which is attributable to less research work being undertaken by many small companies (with up to 100 employees). Research and development is not limited to large enterprises, however. Small firms with fewer than 100 employees achieve research and development intensities that are well above the average for small firms in, say, manufacturing industry.

a) Trends in Medical Technology

Developments in medical technology are highly dynamic. Evident trends include the following:

- Modern medical technology processes are making operating procedures increasingly gentle and access more and more minimally invasive
- Surgeons are receiving support from computer-assisted navigation
- Medical technology and IT are growing ever closer together
- Nanotechnologies are just as much on the advance as biotechnologies.

According to the experts, the medical devices industry's "most promoted research areas" are orthopaedics (mainly spinal surgery and biomaterials), cardiology (mainly coating processes for medical devices and minimally invasive procedures) and internal medicine (mainly endoscopy and diabetes).

International developments in medical technology are characterised inter alia by progressive miniaturisation, minimally invasive surgery, increased use of IT-based technologies, the development of new biomaterials with improved tolerance and integration of biotech procedures. Only developments that also make a quantifiable contribution toward greater efficiency or cost-effectiveness in the healthcare system will provide sustainable opportunities for new products. Recognising this efficiency at an early stage will require special procedures in product development.

Many experts anticipate that medical technology for regenerative medicine will become significantly more important. One reason for this expectation is that cell and tissue technologies will be able to make the leap from basic research to application in the years ahead. The development of new functional biomaterials must also be taken into consideration. They are to have improved biomimetic properties (i. e. imitating natural conditions) to facilitate easier cell colonisation and integration in the body.

Implants are to be equipped with additional functionalities by way of "regeneration of biological functions". Research groups in many parts of the world are already hard at work developing and applying nanoparticles for drug delivery.

In all areas of medical technology the United States is considered to be the global technology leader. In Europe, Germany and the UK are frequently seen as leaders. Clinical experts see information and communication technology, cell and biotechnology, microsystems technology and nanotechnology as the four most important key technologies for medical technology.

b) Research and Development Activities

aap continued to invest substantially in research and development in the financial year under review. In 2012, 24% of the company's employees worked in Research & Development, Clinical Affairs, Regulatory and Quality Management (previous year: 23%), and *aap* invested about 8% of its sales in the development of new products (previous year: 12%). Along with its own R&D activities, *aap* cooperates with a large number of academic institutions (research institutes, university hospitals) on new and further developments and clinical studies. In addition, during 2012 *aap* identified further projects that could prove extremely interesting for the world's leading companies in the context of global technological competition in orthopaedics and traumatology. *aap*'s aim in this connection is to cooperate with the market leaders at an early stage and to secure technologies. It intends with this model to set up another promising basis for achieving sales and earnings.

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

Platform Technology	Derivative Products	
Cement and Cement Mixing Technologies	PMMA-Cements HA-PMMA-Cements Vertebroplasty Cements Vacuum Mixing Systems	Prepack Mixing Systems Disposable Mixing Systems Disposable Mixing and Transfer Systems Articles for modern Cementing Techniques
Silver-Technology	Ag-Coating	Ag-Cement
Hydroxylapatite(HA) and Calciumphosphate (CaP) Technology	PerOssal® Ostim® Granulate Nano-HA-Coating	OsteoCem® (CaP-Cement) Synthetic HA/CaP Ceramics Synthetic non-resorbable HA-Ceramic
Magnesium-Technology	Small Plates, Screws and Pins	Interference Screws
Locking Compression Fixation Technology	Anatomical Plates Radius, Humerus	LOQTEQ® Tibia & Femur & Humerus & Elbow & Clavicula & Osteotomy
Shoulder System Technology	Trauma Shoulder System	
Collagen Technology	Jason®	Jason® G

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

In the Trauma sector the focus was on further development of the LOQTEQ® product family. To extend the indication areas, R&D worked on new plate designs and prototypes. Further development of six additional plate systems is going ahead as planned so that in 2013 the entire system will be available in the CE approval market area with an approximately 80% indication coverage. Jointly with our clinical trauma experts we held several workshops to optimise and verify the different plate

systems, validating the product design on human preparations. Approval-relevant mechanical tests were commenced and have already been completed with, for the most part, very good results.

In Biomaterials the following developments took place. A clinical study for our pH-neutral collagen fleece Jason® was completed successfully. The statistical findings confirmed a significantly better ease of use than that of competing products combined with the same high level of efficiency and compatibility. Furthermore, work began on a clinical study of infectious spinal diseases for the bone replacement material PerOssal®. Material progress was also made in the silver coating project, with two production-related coating systems in the qualification phase. Our longstanding partner Dr. Amir Eliezer won the US-based corrosion company NACE's 2013 H. H. Uhlig Award for his corrosion research. The start of approval-relevant animal tests was delayed until the first quarter of 2013 for reasons for which we were not responsible. At the same time development work was successfully extended to other products in the trauma portfolio. The magnesium alloy project in cooperation with Giessen University Hospital is making headway and *aap* has started practical work on the international EU-funded MagnIM (Tailored Biodegradable Magnesium Implant Materials) project.

7. Overall Economic and Industry-Specific Framework Conditions

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

a) Overall Economic Conditions

In the course of 2012 the global economy developed weakly. After global gross domestic product growth declined to 3.3% in 2011, in 2012 it is likely to have slowed down further to less than 3%. The industrial nations were chiefly affected; their economic growth rate was a mere 1.3% in 2012.

Economic development in the euro zone in particular has been disappointing and failed to live up to expectations of a year ago. Overall economic output is likely to have fallen by 0.6% in 2012, with recession especially marked in Southern European countries in the wake of the continuing debt crisis. The German economy, in contrast, continued to grow, albeit less strongly than in the previous year. Rising private consumption in the course of positive labour market development along with high exports will probably have led to German GDP growth of 0.8% in 2012.

Cyclical development in the United States was moderate in 2012, with the economy burdened by a slow improvement in the labour market and by consolidation constraints on public sector budgets. Growth at 2.1% was sustained in part by a slight increase in consumer spending and by heavy corporate investment. In Japan the economy staged a recovery after previous dips so that GDP is likely to have increased by 1.6% in spite of disaster-related reconstruction.

In the threshold countries, in contrast, the pace of hitherto strong growth declined slightly. Due in part to the economic slowdown in Europe, GDP growth in these countries fell to 5.0% overall. Growth in China and India especially, however, remained relatively strong at 7.9% and 5.6% respectively.

b) Industry Framework Conditions

The medical technology industry is a global growth market and will continue to be one due to factors that include the following:

- Progress in medical technology enables clinical pictures to be treated for which no treatment was available 10 or 20 years ago. Using innovative, gentler techniques, more and more operations can be undertaken on increasingly older patients.
- Demographic development: There are more and more older people in Germany and many of them suffer from a number of diseases at the same time.
- The concept of health extended toward a better quality of life: Patients are increasingly calling for health-related services and are prepared to pay more for better quality and additional services.

As a consequence of all these factors, demand for healthcare services will continue to grow.

The growth industry medical technology achieves annual global growth rates of about 5% (cf. the German Economic Affairs Ministry's 2011 Innovation Impulses in the Healthcare Industry study).

In 2011 the global market for medical technologies was worth about €212 billion in manufacturers' prices, according to ESPICOM Business Intelligence Data 2011. The US share of the world market was €83 billion, or 39%. The European market is estimated to amount to €59 billion, or 28%, of which Germany's share is €17 billion, corresponding to 29% of the European and about 8% of the world market. That makes the German market the world's third-largest medtech market after the United States and Japan (€21.2 billion). ESPICOM estimated the Chinese medtech market in 2011 as being worth €5.3 billion.

Within Europe (market volume: €59 billion) the largest markets after Germany (€17 billion, 29%) are France (€9.5 billion, 16%), Italy and the UK (€6.5 billion or 11% each) and Spain €3.5 billion, 6%).

According to an October 2012 Ernst & Young study, 2011 medtech sales in Europe and the United States rose jointly by 6% to USD 331.7 billion. US companies boosted sales by 4% to USD 204 billion and net profits by 19% to USD 13.7 billion. European medtech enterprises, by comparison, improved their sales by 8% to USD 127.4 billion in 2011 and their profits by just 5% (for details of the study's findings visit ey.com/medtechdata).

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

B) Earnings, Financial and Assets Position

Signing or Termination of Cooperation Agreements and Other Important Contracts

In the first quarter of 2012, *aap* subsidiary *aap* Biomaterials GmbH signed an exclusive license and supply agreement with a leading global medical technology company. The license was for using the injectable bone matrix product Ostim® in orthopaedic procedures and is valid worldwide except in the United States. In return *aap* receives a one-time license fee of €2.2 million (approx. USD 2.8 million). In the United States, where the product is already approved for use in the dental sector, *aap* retains the marketing rights. *aap* also remains the sole manufacturer of the product.

In the first quarter the center of excellence for contract manufacturing in Nijmegen signed a contract on processing human tissue material with the Dutch Sanquin bone and tissue bank. EMCM will cleanse and sterilise skull bone using a new supercritical carbon dioxide ($scCO_2$ technology) process so that it can be reused in parts of the body. On the basis of this contract *aap* is able to offer the same service to other interested parties in Europe.

In the second quarter of 2012, *aap* Biomaterials GmbH signed a development contract with a globally active medtech company for a biomaterial. The contract is subject to the condition precedent of achieving pre-defined test results.

In the course of the third quarter of 2012, our *aap* subsidiary EMCM signed a development agreement with a leading US research institute on a flammable sterile product, an agreement with a medtech company based in Germany on the development and supply of sterile flammable products, and an agreement with a Japanese company on the manufacture and filling of a sterile recombinant peptide product.

Since the beginning of December 2012 all plates in the first six systems of the innovative LOQTEQ® product family have secured FDA market approval in the United States. As a result *aap* Implantate AG was able in the fourth quarter of 2012 to sign a contract for a marketing pilot project with a large US orthopaedic company for both standard trauma products and the LOQTEQ® product portfolio. If the pilot project is a success a distribution contract for the US market will be finalised.

Also in the fourth quarter, EMCM signed with a Chinese partner an exclusive license and distribution contract for our spinal column cement Vebroplast®. The license is for manufacturing and marketing the cement in China, Hong Kong and Macau and resulted in a sales effect of €0.4 million.

In the course of our focus on the trauma and biomaterials sectors we transferred global sales of dental products to an exclusive partner at the beginning of 2009 and are now, via *aap* Biomaterials GmbH, merely a contract manufacturer. At the end of 2012, as a token of further decoupling from this area we transferred the plant, machinery and know-how for the manufacture of dental products to a separate company and sold 50% of the shares in *aap* BM productions GmbH to our sales partner. *aap* earned a sale price of €1.0 million and now runs the company jointly with our partner. All existing business relations between *aap* and our sales partner continue to be mapped entirely via *aap* Biomaterials GmbH.

In the course of 2012 LOQTEQ® distribution agreements were also concluded in countries such as Brazil, Argentina, Mexico, Colombia, Italy, Spain, Portugal, Turkey and Egypt.

At the end of December 2012 *aap* Implantate AG signed two new loan agreements, each for €1.0 million. The two tranches run for terms of two and three years with repayment on maturity. Interest is variable and based on the 3-month EURIBOR rate. An interest cap was agreed as a hedge against possible interest rate fluctuation.

Earnings Position

(1) Description of Development by Results/Results Structure

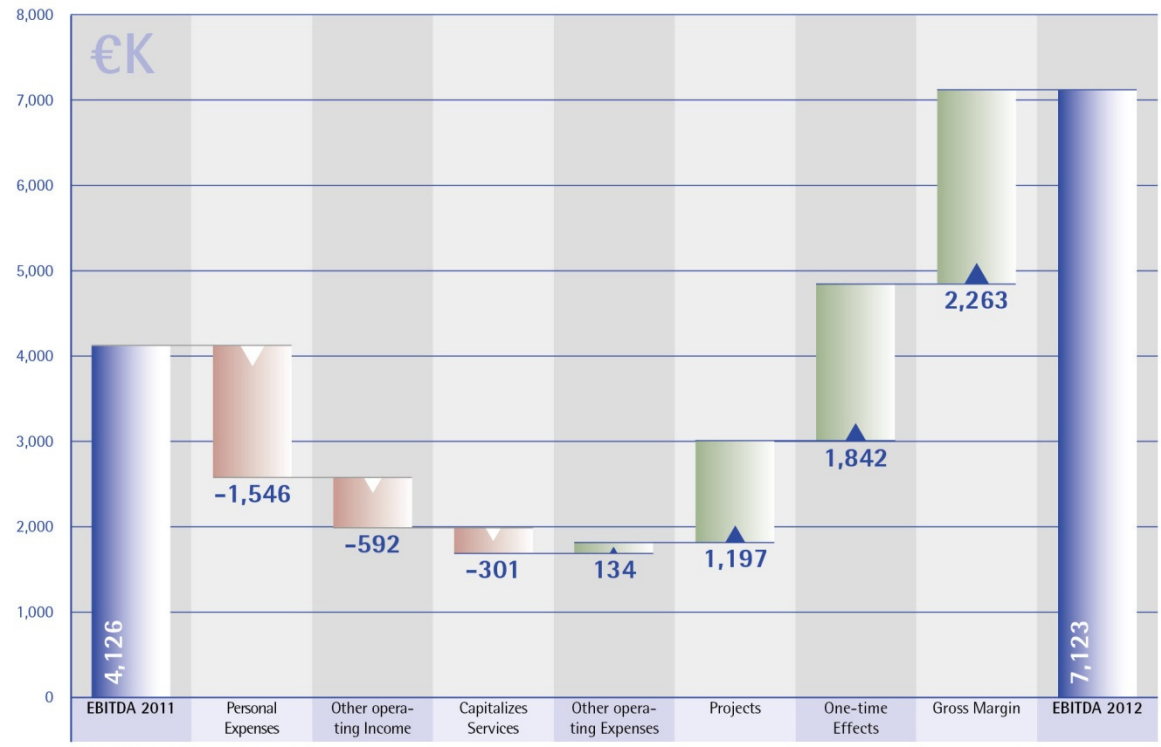
In the financial year 2012, total operating output (the sum of sales, inventory changes and capitalised own and development costs) rose by 19% as a result of a strong increase in sales along with a lower

increase in inventories and a reduction in capitalised own and development costs from €33.0 million to €39.3 million.

In accordance with IFRS, *aap* as a development-intensive company capitalises not only internally produced capital goods but also spending on development projects that are highly likely to secure approval and achieve commercial marketing success (2012: €2.7 million; 2011: €3.0 million). After market launch these capitalised development costs are depreciated over the products' useful life. The continued high level of development cost capitalisation, albeit lower than in the previous year, clearly reflects for one the strategy of focussing on trauma and biomaterials and for another the development of *aap* into an innovation driver for medical implants and biomaterials.

Other operating income increased significantly to €3.3 million (previous year: €1.9 million) and consisted mainly of income from asset write-ups, from the disposal of financial assets and from grants toward the cost of research and development projects.

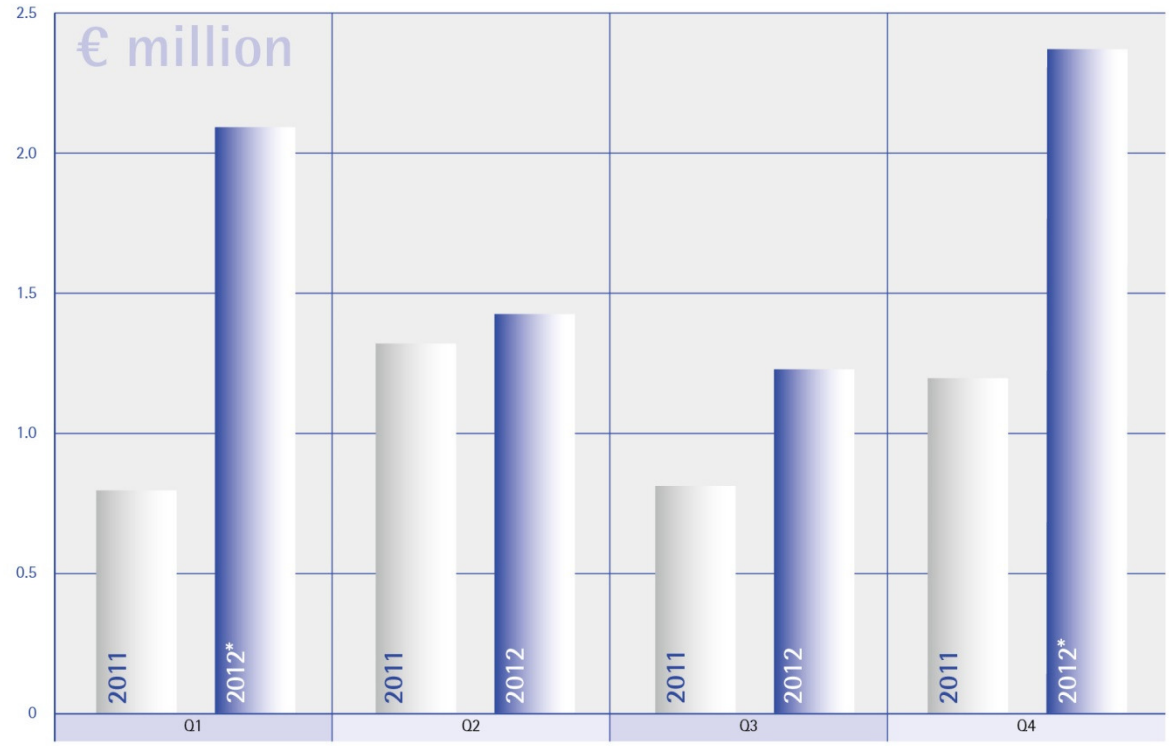
In analysing the different cost categories the following can be stated. The cost of materials rose sharply as a result of the higher volume of sales from €8.1 million to €10.8 million and personnel expenses also increased to €13.5 million (previous year: €11.9 million). Depreciation increased as a result of unscheduled impairment of development projects from €3.0 million to €3.9 million while other operating expenses rose only slightly from €10.8 million to €11.2 million.



EBITDA 2011 versus 2012

EBITDA rose by 73% from €4.1 million to €7.1 million. EBIT, or operating result, improved from €1.2 million to €3,2 million. This sharp increase was due mainly to sales expansion and to the two license and supply agreements signed in the first and fourth quarters with an EBITDA/EBIT effect of €1,2 million, to the €0.8 million effect of the disposal of 50% of the equity in *aap* BM productions GmbH, newly founded in the financial year, and to the €1.0 million write-up of assets stated under other

operating income. Disregarding the effect of the write-up and the unscheduled depreciation of development projects, operating EBITDA for 2012 was €6.1 million and operating EBIT €3.0 million.



* First and fourth quarter contain effects from project sales.

EBITDA 2011 versus 2012 by Quarters

As in the previous year, no income was earned from investments.

The financial result was unchanged on the previous year at -€0.5 million.

Income tax stated at €311K was the result of actual tax expenditure of €396K and the €85K balance of changes in deferred tax income and expenses. For the development of deferred taxes see the information in the Notes.

Earnings after taxes thus improved significantly to €2.4 million (previous year: €0.4 million).

(2) 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 orthopaedics enterprises and developing innovative products as its primary performance indicators. In addition, in the course of the ongoing focus on the trauma and bone cement and cementing techniques segments and the transformation of the *aap* Group, there was a focus on customers, costs and cash and liquid funds.

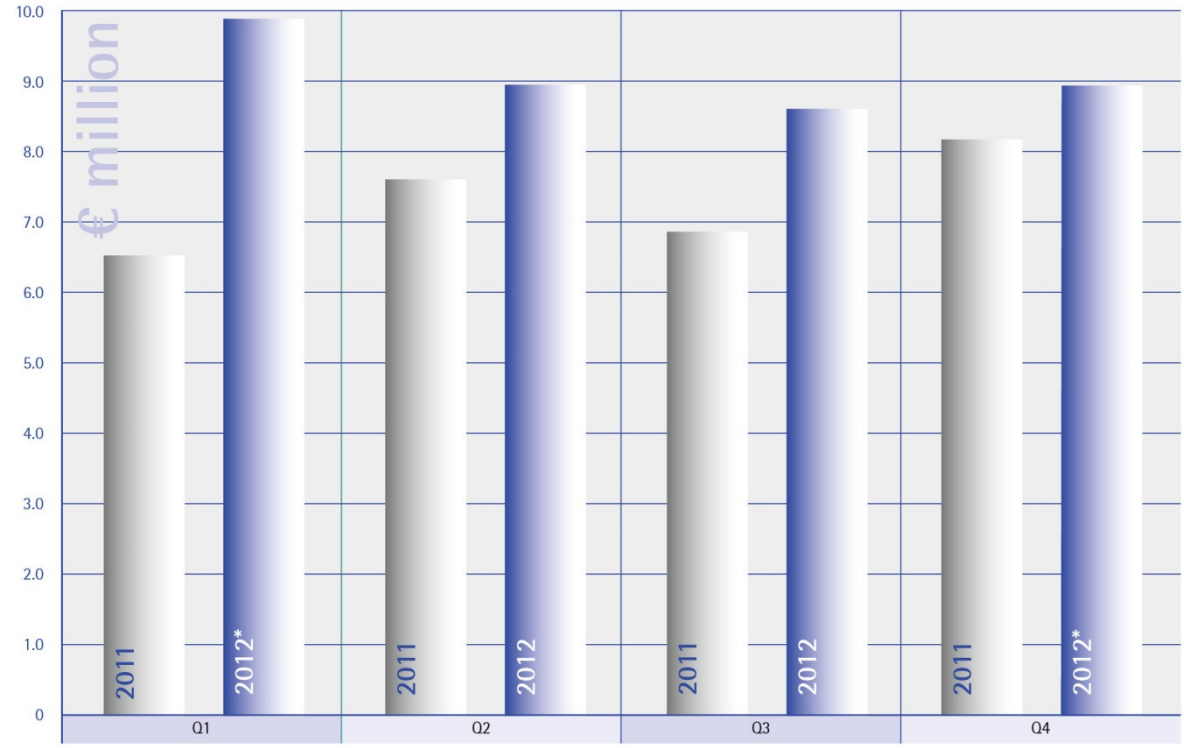
Committed and well-trained employees are the key to corporate success at *aap*. Their professional expertise enables the company to develop and manufacture innovative medical products that meet market requirements. That is why it is important for *aap* to recruit qualified, talented employees, to retain their services and to create a work environment in which all of them can contribute their full potential. To ensure that it is able to do so, *aap* positions itself as an attractive employer. The cornerstones of personnel work at *aap* are support for in-service training, performance-based

remuneration, a positive working atmosphere and measures to enable employees to reconcile work and the family.

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

Decisive success factors in sustainable development at *aap* have been and, increasingly, continue to be close ties with customers and a sound knowledge of international markets. To make sure of these, *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, such as BVMed.

(3) Development of Sales and Orders



* First and fourth quarter contain effects from project sales.

Sales 2011 versus 2012 by Quarters

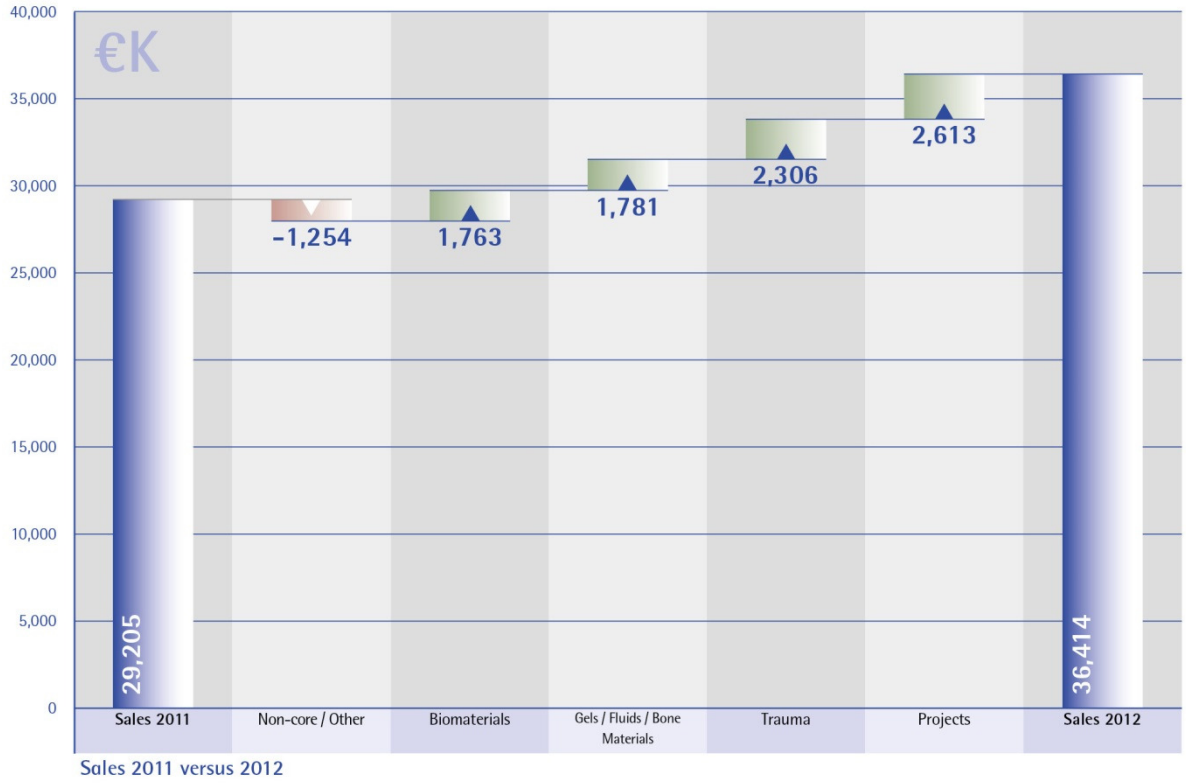
The *aap* Group earns its overall sales in two ways: for one from sales of biomaterials and implant products sold under its own label or manufactured for OEM partners and for another from project sales and outlicensing.

In the financial year 2012 total sales were up by 25% on ther previous year from €29.2 million to €36.4 million and consisted of sales of products and services and the two license agreements signed in the financial year. After adjustment for license sales, like-for-like 2012 sales at product level were €33.8 million, or 16% higher than in the previous year.

So the 10% year-on-year sales increase forecast for 2012 made at the beginning of the financial year was achieved.

The different effects mentioned above can be summarised as follows:

	2012 € million	2011 € million	Change in € million	Change in %
Product sales	33.8	29.2	+4.6	+16%
Project business	2.6	0.0	+2.6	>+100%
Total sales	36.4	29.2	+7.2	+25%



Sales 2011 versus 2012

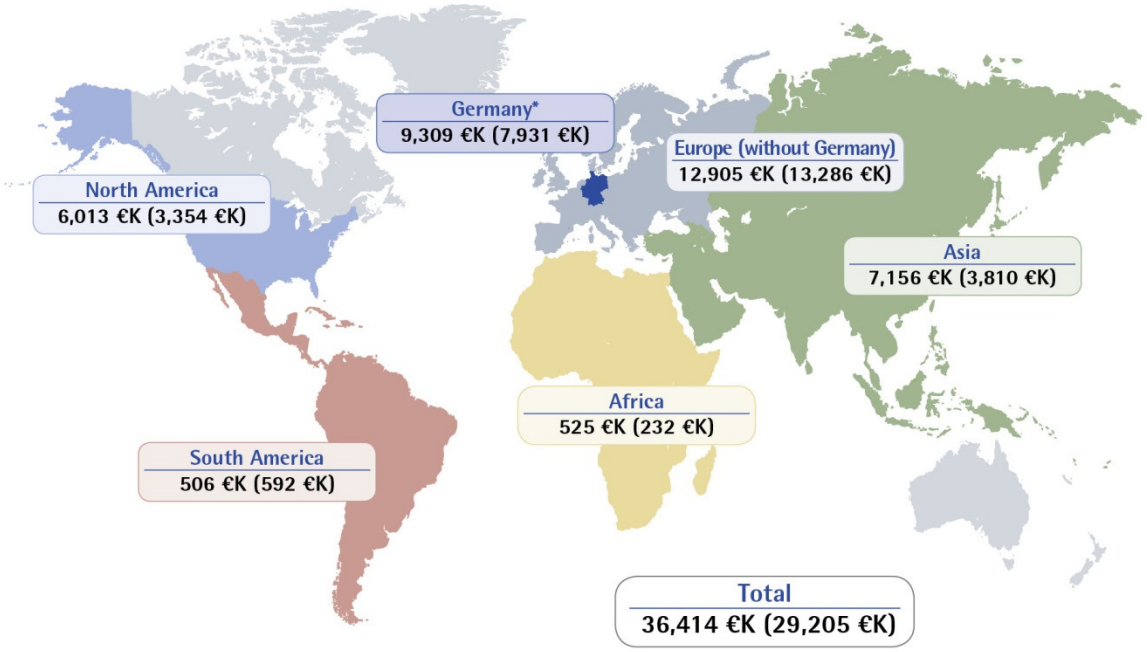
The €4.6 million year-on-year increase in sales at product level was due mainly to higher sales in the core trauma and biomaterials competence areas, especially of bone cements and cementing techniques. Contract manufacturing for aseptic filling of liquids, gels and fluids and processing of tissue material at our Dutch site also contributed toward growth.

The trauma product area consists of fracture healing products for all major skeletal regions. In 2012, sales in this area rose by 58% to €6.3 million (previous year: €4.0 million). Sales growth in this product area was due mainly to successful marketing of our innovative patented LOQTEQ® system with sales totalling €2.0 million in the first full year (previous year: €0.4 million). In our Management Agenda for 2012 we set ourselves a €2.4 million sales target for LOQTEQ® in 2012. We did not quite achieve this target despite over €2.4 million in orders received. Delays in registration led to not all orders being delivered in some countries. But the sales trend for our standard trauma products, especially *aap*'s cannulated screws, made a positive €0.6 million contribution to sales growth.

In biomaterials with its core product areas bone cement and cementing techniques, infection therapy and bone and tissue regeneration along with contract manufacturing for the dental sector, for aseptic filling of liquids, gels and fluids and for processing of tissue material, sales increased to €28.5 million (previous year: €22.3 million). The financial year included two special effects. In 2012, *aap* earned a total of €2.6 million from outlicensing a bone regeneration product to a world-leading medtech company (€2.2 million) and a vertebral column cement to a Chinese partner (€0.4 million).

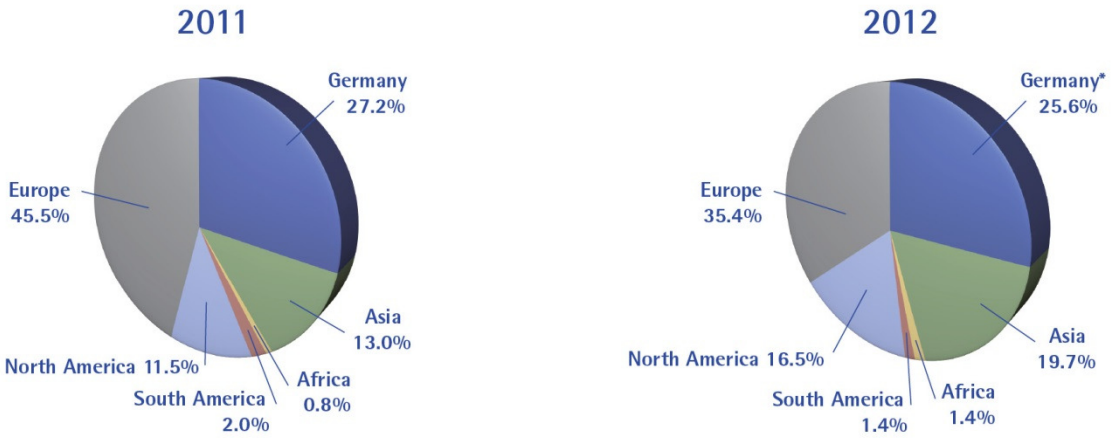
After adjustment for this overall effect, product sales in 2012 totalled €25.8 million, or adjusted growth of 15% on the previous year. Sales growth in 2012 was based mainly on the bone cement and cementing techniques product area and on contract manufacturing of medical aesthetic and dental products.

Our orthopaedics product area (hip, knee and shoulder) contributed €1.5 million toward total sales in 2012 (previous year: €2.2 million). As announced during the financial year, *aap* is evaluating various alternatives for this product area and is currently engaged in non-binding talks. Different business models are under discussion, ranging from selling off all the assets held in this area to a joint venture with a partner company.



Figures in brackets refer to last years' results.

Sales 2011 versus 2012 by Region



* 2012 contains effects from project sales.

Total Sales 2011 versus 2012 by Region

Analysis of the geographic distribution of sales reveals the following:

- Sales in Germany rose by €1.4 million from €7.9 million to €9.3 million due mainly to higher sales to large customers in the bone cement and cementing techniques area and to contract manufacturing for the dental sector and other contract manufacturing.
- The significant €3.3 million increase in sales in Asia was due to a sharp increase in the volume of sales to a Chinese customer in contract manufacturing of medical aesthetic products and to license sales from a Chinese partner for a vertebral column.
- There was also a sharp €2.2 million sales increase in North America as a result of license sales of a bone regeneration product in the first quarter of 2012 and of higher sales to new and existing customers of LOQTEQ® and standard trauma products and bone cement and cementing techniques.
- Sales in Europe, Asia and Africa were either almost unchanged or changed only insignificantly on the previous year.

Due to the expansion of international business (with OEM customers and local distribution partners in both product areas), 89% of *aap*'s sales (2011: 87%) is now no longer earned in direct sales in Germany, thereby further limiting the consequences of cost pressure and structural change in the German healthcare system.

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

Total operating output (the sum of sales, changes in inventories of finished goods and work in progress, and capitalised internally produced assets and development work) rose with a lower increase in inventories and less activation of capitalised internally produced assets and development work from €33.0 million to €39.3 million, due mainly to higher overall sales. The stated increase in inventories was due mainly to bone cement and cementing techniques orders by large customers completed or nearly completed as of the reporting date and to contract manufacturing for aseptic filling of liquids, gels and fluids. The inventory increase in both areas is a direct result of the sharp increase in production in 2012. An increase in inventories is to be expected in 2013 too, due mainly to our objective of boosting LOQTEQ® sales to over €5.0 million.

Other operating income at €3.3 million (previous year: €1.9 million) increased significantly due to two special effects. One was a €1.0 million write-up of an asset for which an unscheduled depreciation was included in the consolidated financial statements for 2008. At that time legal uncertainties in connection with negotiations that had yet to be concluded led to an unscheduled value adjustment requirement of €1.4 million. The facts that led to the write-down no longer apply, and that is why, as per IAS 36, a write-up to the achievable amount must be undertaken. Furthermore the proceeds from the disposal of 50% of the shares in *aap* BM productions GmbH, a company newly founded in the reporting years, amounted to €0.9 million. Adjusted for these two effects, other operating income consists mainly of income from government or European grants, from the retransfer of provisions and obligations and from private use of company cars.

The adjusted cost of materials ratio, excluding the effect of licensing business (€2.6 million in sales and €0.9 million in cost of materials) was 27% (previous year: 25%). This increase was due mainly to a change in product mix and sales structure with higher cost of materials ratios.

The cost of personnel ratio fell due to a sharp increase in total operating output and a marked increase in absolute personnel expenses from 36% to 34%. In absolute terms, personnel costs rose from €11.9 million to €13.5 million.

As of December 31, 2012, the *aap* Group had 264 employees, including 212 full-time and 52 part-time staff (previous year: 266, including 221 full-time and 45 part-time staff). To ensure long-term production capabilities, *aap* Implantate AG continues to train its own skilled employees. The increase in personnel costs on the previous year was due mainly to higher average employee numbers as a result of targeted recruitment, especially in the fourth quarter of 2011, in sales, marketing and production. A further increase in personnel costs is to be expected in 2013 if we are to achieve our ambitious sales targets in the trauma sector.

Other operating expenses rose only slightly, from €10.8 million to €11.2 million, with a significant increase in total operating output. The other operating expenses ratio fell accordingly from 33% to 28%. The rise was due to increased marketing expenditure in the course of the international market rollout of our new LOQTEQ® plate system, to the one-time cost of creating a new company website, higher personal procurement costs, higher consulting expenses in connection with our $scCO_2$ technology and the evaluation of different business models for the orthopaedics sector, higher delivery costs as a result of higher sales, and the one-time effects of the licensing agreements concluded during the financial year.

Scheduled depreciation of intangible and tangible assets rose from €3.0 million to €3.1 million due mainly to scheduled depreciation of development projects completed in the financial year that are now being actively marketed. The depreciation ratio fell slightly from 9% to 8%. In addition, unscheduled depreciation totalled €0.8 million for three development projects that are no longer pursued and are outside the scope of our core competences. Our development activities are reviewed regularly for conformity to our strategy of focussing on trauma and biomaterials or for their economic potential (cost/anticipated benefit, approval, etc.). Further depreciation may be required in the future if development projects no long comply with the strict requirements of IAS 38.

Financial Position

The *aap* Group's operating cash flow increased significantly in the financial year by €3.9 million to €7.1 million (previous year: €3.2 million). This very positive development was mainly influenced by the profitable sales growth (including license business) achieved in the financial year, by improved working capital management reflected inter alia by a €1.3 million reduction in trade receivables, and by advance customer payments for orders placed (mapped in the €1.3 million increase in liabilities). 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 totalling -€3.9 million (previous year: -€3.7 million) consisted mainly of investments in development projects, technical plant and machinery, office furniture and equipment.

The €3.4 million reduction to -€1.6 million (previous year: €1.8 million) in cash flow from financing activities was due mainly to scheduled loan repayments in the financial year (-€1.2 million), to a significant reduction in high-interest shareholder loans (-€2.4 million) and to raising loans at much lower interest rates (+€2.0 million), partly to repay the shareholder loans. Furthermore, all of the remaining shares in ADC Advanced Dental Care GmbH were acquired from the minority shareholders

for €0.1 million, taking the equity holding in the subsidiary from 54% to 100%. The funds raised in the financial year 2012 serve to financial further corporate growth and to strengthen *aap*'s financial base.

Net indebtedness (the sum of all liabilities on which interest is paid less cash and cash equivalents held at banks) was down due to the increase in cash and cash equivalents held along with almost unchanged recourse to credit lines, to scheduled loan repayments in the financial year, to unscheduled repayments of shareholder loans and to reducing long-term loans totalling €6.9 million as of 31.12.2011 to €4.3 million.

On the basis of its 2011 balance sheet figures, *aap* was able to improve its Moody's rating by two steps to Baa3 (investment grade equivalent). Based on this development and the further positive course of business in 2012, *aap* was able at the end of April to negotiate a €1.0 million extension of its credit lines. The extended credit lines are intended to cover possible financing peaks in the course of planned sales growth. At the same time our financing banks released the shareholders' loan notes, thereby enabling the unscheduled repayments to go ahead in the financial year.

The Group's liquid assets amounted to €3.7 million as of December 31, 2012 (previous year: €2.2 million). This increase on the end of 2011 is due mainly to the strong operating cash flow that even after deduction of investments and financing shows a positive balance of €1.5 million. *aap*'s stated aim for 2013 is to further reduce net indebtedness by means of continued profitable sales growth along with a scheduled reduction in loans outstanding and less recourse to lines of credit.

As of December 31, 2012, the *aap* Group had at its disposal contractually guaranteed credit lines totalling €5.8 million, of which €4.5 million had been taken up as of the balance sheet date. As of December 31, 2012, *aap* had at its disposal €4.9 million (previous year: €2.5 million) in freely available liquidity (the sum of cash and cash equivalents held and freely available lines of credit).

In € million	31.12.2012	31.12.2011
Gross take-up of credit lines	-4.5	-4.4
Credit available on credit lines	3.3	1.9
Net take-up of credit lines	-1.2	-2.5

Until further notice the *aap* Group has at its disposal in 2013 credit lines totalling €5.8 million. Based on the budget for 2013, the company's liquidity position should show a further improvement in 2013. *aap* expects to end 2013 with another positive cash flow. The possibility that short-term funding of working capital may prove necessary to ensure sales growth in 2013 cannot, however, be ruled out.

The debt coverage ratio and interest coverage ratio, strategically important key financial figures for *aap,* continue to develop pleasingly. The rolling debt coverage ratio, based on the past four quarters, was 0.8 (31.12.2011: 1.7) and the rolling interest coverage ratio, based on the past four quarters, was 11.8 (31.12.2011: 6.8). 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 the *aap* Group's ongoing profitable growth. The strict targets of a debt coverage ratio of less than 2.0 and an interest coverage ratio of more than 10, each in relation to the rolling operating EBITDA, continue to apply in 2013. For further information about liquidity management please see the Notes (under the heading Capital management).

Assets Position

The *aap* Group's balance sheet picture did not change materially on the previous year. Its balance sheet total increased by 3.7% from €66.2 million to €68,6 million due mainly to high inventories of capitalised internally produced assets and development work, higher current assets and the increase in capital stock.

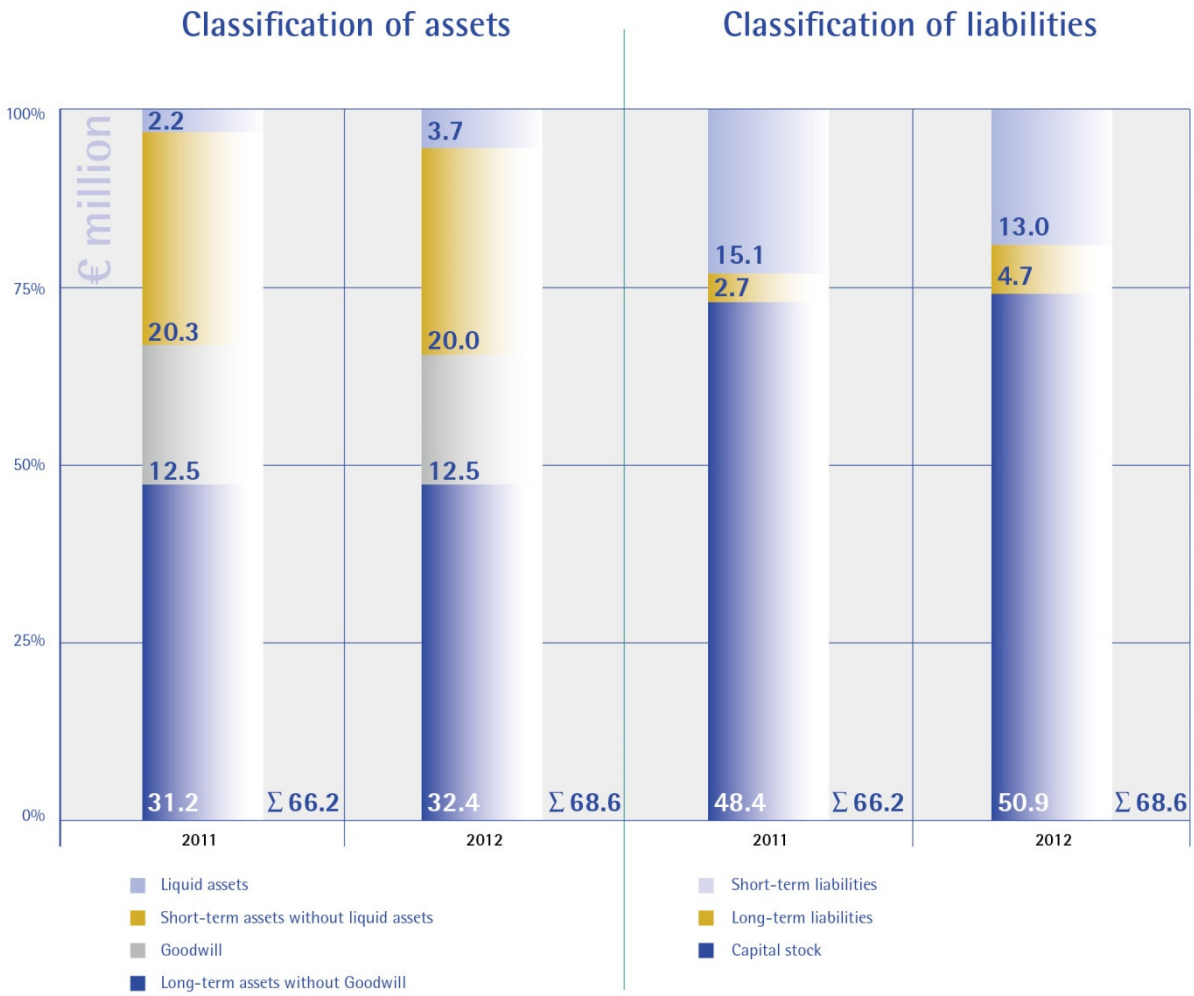
The €1.2 million increase in non-current intangible assets from €38.2 million to €39.4 million was due primarily to €1.6 million in net additions to the Group's capitalised development costs.

The €1.2 million increase in current assets to €23.7 million (previous year: €22.5 million) resulted in particular from the €1,5 million increase in cash and cash equivalents and the €1.0 million increase in other assets along with a €1.3 million decrease in trade payables. Overall, this makes it clear yet again that we have been able despite the higher volume of sales to achieve by means of improved management a reduction in our working capital (inventories and trade receivables).

The Group's equity capital rose as a result of the positive result for the period and the previous year's result from €48.4 million to €50.9 million. The equity ratio rose from 73% to 74% due almost entirely to the increase in balance sheet total as a result of the change in equity. The adjusted equity ratio (after deduction of goodwill, capitalised development work and other intangible assets) also rose – from 42% to 44%. After offsetting the net profit for the year against the loss carryover, €21.9 million was transferred from the capital reserve, reducing the balance sheet loss to nil, thereby laying the groundwork for paying a dividend to *aap* shareholders provided that the company, its subsidiaries and investments maintain their positive trend and earn net profits in years to come.

The level of capitalised deferred taxes continues to be stated at nil. In accordance with IFRS, *aap* has since 2008 capitalised deferred tax assets on the basis of past results only insofar as they are covered as of the balance sheet date by deferred tax liabilities arising from temporary differences even if the tax carryovers have a higher potential use.

The development of important items in the consolidated balance sheet to December 31, 2012 compared with the previous year is summarised in the following chart:



C) Supplementary Report

aap subsidiary EMCM B.V. signed on 20 March 2013 an exclusive license agreement with the american BiosCompass, Inc. of Rochester, Minnesota. EMCM granted the US company an exclusive license to the intellectual property of Adcon®, a product previously classified as not part of the *aap* Group's focus area, but continues to manufacture the product. The exclusive license relates to all intellectual property such as patents, brand names, design rights and manufacturing know-how, etc. and is valid worldwide. As part of the deal *aap* receives a one-time license fee of €1.7 million. The transaction was undertaken at book values and thus has no effect on the net result for the year.

In the second quarter of 2012 a subsidiary signed an agreement with a globally active medtech company on the development of a biomaterial. The effectiveness of the agreement is subject to the condition precedent that certain test results are achieved. They were not yet achieved by the time the annual financial statements were published.

D) Risk 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 ensure adequately by undertaking checks that the financial statements drawn up in accordance with the regulations. *aap* Implantate AG as the parent company prepares the annual financial statements for the *aap* Group.

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

At *aap,* the Finance department controls the accounting and reporting procedures used. Laws, accounting standards and other rules are continuously analysed for their relevance to and effects on the Group's financial statements. Relevant requirements are communicated and, together with the group-wide reporting calendar, form the basis of the procedure for preparing reports.

In the organisation 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. They are:

- Accounting rules for especially relevant accounting standards both at the group level and at individual group companies
- Involvement of third-party experts insofar as their services may be required
- Use of suitable, largely uniform IT financial systems and of detailed authorisation concept to ensure that powers correspond to the tasks in question
- Division of tasks between entry of transactions and review and approval of them
- 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 reports where this is required by existing accounting regulations
- Strict powers disposal in the course of authorising contracts, credit notes and the like as well as consistent implementation of the "four-eyes principle"
- Allocation instructions for material transactions
- Clear instructions on the process of stocktaking and capitalisation 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 the persons in charge of debt management. Furthermore, *aap* operates an active benchmarking process based on examples of best practice in other companied. Any scope for improvement that is identified is implemented in a targeted manner.

2) Risk Management System

By the nature of its operative business, the *aap* Group is of course exposed to a large number of risks that are inherent in entrepreneurial activity.

The risk management system at *aap* is a fixed component of the corporate management strategy and is based on three main elements:

- Certified quality management system: Clearly structured and explicitly documented processes in the course of the quality management system and quality control are a prerequisite for the authorisation 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 informs the Management Board, the Supervisory Board and decision makers at *aap* regularly and in good time using summaries of sales, 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 to enable the company to take appropriate counter-measures, *aap* has developed a risk management system. An important element of this system is regular recording, categorisation 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 market for medical technology in general and the market for orthopaedic and biological implants in particular is expected to continue to increase. Thus there is a risk that *aap* may be slower than its competitors to respond to market developments with new products or with improvements 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 healthcare system could have a negative effect on the Group's sales and earnings. *aap* counters this risk by means of progressive internationalisation of its sales and by intensive monitoring of the German healthcare 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 that affects *aap*'s customers. *aap* is responding to this industry consolidation by cooperating with a large number of companies and is constantly building new partnerships.

b) Capitalisation of Development Costs

As a development-intensive medtech company, in addition to internally produced fixed assets *aap* capitalises, expenditure incurred in internal and development projects. Based on our own experience and on industry analysis the average development cycle for a new medical device ranges from 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 capitalised 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 2012, for example, *aap* wrote down three development projects that were not being pursued further as a result of the strategy to focus on trauma and biomaterials. Two of these projects, which between them largely account for the entire impairment amount, relate to the development of a biomaterials product for use in wound drainage, which is an area outside of our core competences.

On completion and first-time use, capitalised development projects are subject to scheduled depreciation over useful lives that currently range from 5 to 15 years. The Management evaluates continuously whether this depreciation scheduled correspond to the likely service life or adjustments, such as short depreciation periods, are required. The development of depreciation of intangible assets, especially capitalised 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 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 medical specialists on, for example, 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 capitalised development projects can be inferred from the objective of a further improvement in our Freshness Index in 2014/15, especially by means of rising sales of LOQTEQ® and new biomaterials. Our clear understanding is that in future the effect of the result of capitalised development projects must be balanced out for the period of development until the end of the economic service life.

c) Approval of Products

Medical technology and healthcare 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.

To recognise such developments at an early stage and enable us to react appropriately, the company monitors developments in this area very closely and supervises approval procedures in great detail in implementing its quality management system.

Approval requirements for *aap* products are growing stricter. For implants that remain in the patient's body (endoprostheses, bone cement, resorbable regeneration materials), clinical trials are required in some cases as a prerequisite for approval. *aap* has responded to this by expanding its Regulatory and Clinical Affairs divisions and by making sales more and more international so that higher production volumes can cover increased costs.

Increasingly, demands are made in the public debate for authorisation requirements for medical devices to be brought to the same level as those for medicinal products, which are much stricter. To do justice to the medical technology sector, the differences between it and the pharmaceuticals industry must be understood and taken into consideration:

- In 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 “efficiency” 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 the 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 additional, clinical effects of medical devices are generally dependent on the skills, knowledge and experience of the user.

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

d) Dependence on Customers and Suppliers

In addition to products developed and manufactured by *aap* itself, the company supplements its product portfolio with commercial products such as instruments, lavage systems and parts of the Genius® knee system. Various *aap* products such as injection-moulding, polymers and collagen are manufactured by third-party suppliers if *aap* itself does not have the production competence Partnerships of this kind entail a higher degree of dependence on the quality and readiness to supply of these suppliers. *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 for the job.

In 2012, *aap* achieved 38% (previous year: 36%) of its sales, including project sales realised with the respective customers, with the company’s three largest customers. OEM sales are set to increase further in the years ahead. Short-term withdrawal 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 organisation, by means of further internationalisation and by acquiring additional major clients (stability, sales power, financial power).

e) 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 circumstance, 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. In addition, we have since 2011 implemented guidelines on how to deal with employee inventions in order to encourage our employees’ innovative ability while at the same time protecting their and our intellectual property.

f) Product Liability Risks

aap products are intended for insertion into and, in some cases, permanent placement in the human body. Due to variations in healing as well as the varying experience of the physicians using the products, it is not possible to rule out a malfunction of the products entirely. No compensation claims of any significance have yet been asserted against *aap* under product liability rules, 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 that is customary in the industry. There is, of course, a residual risk that the existing insurance cover might not be sufficient for potential claims, especially in the United States.

g) Legal Risks

In the course of termination of a distribution agreement, a former distribution partner of *aap* Biomaterials GmbH asserted compensation claims, filing on December 30, 2010, a claim for €350K in damages. The management of *aap* Biomaterials GmbH considers the provision made for this case in 2009 and totalling €70K as of December 31, 2012, to be appropriate. This sum takes into account legal fees associated with the case.

In connection with the termination of a supply contract a supplier to *aap* Implantate AG claimed €83K in damages for alleged invalid termination of contract, plus interest and legal costs. 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. In our view the contract terms do not oblige us to take delivery of the order as originally planned. As matters stand and on the basis of legal advice we therefore see no current risk of enforcement of a possible claim against *aap*.

h) Data Protection

Companies from a certain size upward 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. In 2012 *aap* Implantate AG's external data protection officer was also employed at the *aap* Biomaterials GmbH site in Dieburg

At Dieburg an initial review as also undertaken, leading to a status report. As at *aap* Implantate AG the finding was that at the time the status report was drawn up a high level of data protection was already in place at *aap* Biomaterials GmbH. By implementing further measures the high level of data protection will continue to be maintained or optimised.

A large number of employees at both *aap* Implantate AG and *aap* Biomaterials GmbH have received instruction in data protection so that an effective commitment to data secrecy as per Section 5 of the Federal Data Protection Act (BDSG) is ensured This process is continued on a permanent basis in order to maintain a constant high level of data protection.

4) Further Disclosures Required by Section 315 (2) 2 of the German Commercial Code (HGB)

Price change risks cannot be ruled out entirely. *aap* counters them by shifting sales to products that it has developed itself and to innovative products with higher profit margins.

Possible default risks in respect of trade receivables are minimised by an active system of receivables management. Moreover, *aap* sets aside sufficient risk cover for this purpose in the form of individual

and general debt provisions (2012: €301K; previous year: €340K). Overall, however, the risk can be regarded as limited because write-offs of receivables in the reporting year amounted to just €20K or 0.05% of sales.

The financing position of the Group and of *aap* Implantate AG can be considered adequate in view of the cash and cash equivalents or open credit lines available as of the reporting date. As of December 31, 2012, the *aap* Group had at its disposal contractually assured credit lines totalling €5.8 million, of which €4.5 million gross had been taken up as of the reporting date. As of December 31, 2012, *aap* had at its disposal free and open liquidity (the sum total of cash and cash equivalents held and freely available lines of credit) totalling €4.9 million.

In € million	31.12.2012	31.12.2011
Gross take-up of lines of credit	-4.5	-4.4
Balance of lines of credit	3.3	1.9
Net take-up of lines of credit	-1.2	-2.5

For 2013 the *aap* Group has until further notice credit lines totalling €5.8 million at its disposal. On the basis of the budget for 2013 the company's liquidity situation should show further improvement in the course of the year. *aap* expects to end 2013 with a positive cash flow, but the possibility of short-term funding proving necessary to ensure sales growth in 2013 cannot, however, be ruled out.

Another pleasing trend continues in what, for *aap*, are the strategically important key financial indicators debt coverage ratio and interest coverage ratio. The rolling debt coverage ratio, based on the past four quarters, was 0.8 (31.12.2011: 1.7) and the rolling interest coverage ratio, based on the past four quarters, was 11.8 (31.12.2011: 6.8). 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 the *aap* Group's further profitable growth. The strict targets of a debt coverage ratio of less than 2.0 and an interest coverage ratio of more than 10, each in relation to the rolling EBITDA, continue to apply in 2013.

Interest rate risks result from financial debts and investments. The *aap* Group tries to optimise the interest result and minimise interest rate risks. To do so it operates a Group-wide cash management system and enters into original financial transactions. Interest rate and price change risks are managed by means of a mixture of terms to maturity and of fixed and floating interest rates. Except for current account credit lines and the €2.0 million in loans taken out in 2012, all of the Group's debts on which interest is payable are subject to interest at fixed rates. As of December 31, 2012, about 19% (previous year: 30%) of the Group's borrowing was at fixed rates of interest. Market interest rate changes only affect financial instruments that must be stated at fair value, but that is not the case here. Sensitivity analyses have been carried out for financial liabilities to which floating interest rates apply. A similar change in interest rates for all financial liabilities and all currencies was assumed. A 1% change in interest rate was found to lead to an increase or decrease in earnings before taxes of €71K (previous year: €41K).

Liquidity risks result inter alia from a lack of availability of sources of funding due, amongst other things, to a failure to observe so-called financial covenants agreed by the terms of loan agreements. If these financial covenants are not observed, the financing bank has the right to terminate the loans in question and require immediate repayment. By the terms of existing long-term loan agreements or those that expired in 2012, *aap* must not, for example, fall below a certain minimum Moody's

rating or must comply with certain maximum or minimum levels of own funds ratio, indebtedness or burden of borrowing. *aap* considers the risk of failure to observe the financial covenants that could result from downgrading by the financing bank to be low. 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.

Furthermore, *aap* was able to maintain in 2012 the shorter periods allowed for payment agreed with various large global customers in 2009. *aap* is not subject to any material payment flow fluctuations.

In the financial year 2012, *aap* for the most part only entered into internal foreign currency hedging transactions because the foreign currency risk was low and payable and receivables denominated in US dollars largely balanced each other out. In future, however, *aap* plans to take external hedging precautions for significant sales denominated in US dollars.

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

aap Implantate AG continues to have a significant opportunity as an innovator and share gainer in the global medical technology market. The Company expects to drive continued growth in 2013, despite a challenging macro economic environment for medical technology companies in Europe and the USA, where the combination of the global economic crisis and the Euro crisis has impacted the healthcare markets. Governments worldwide are committed to reduce budget deficits and debts. As a consequence, governments decrease their contribution to health care costs. In many countries, this leads to increased co-payment by patients, bundled payment schemes, payers, such as health care insurers start to involve themselves in the performance of doctors when supervising the outcome of treatments while comparing them to promised outcomes, consolidation of hospitals and the creation of buying groups. Payors and providers are requiring companies to demonstrate the comparative effectiveness of their products in order to secure reimbursement and market adoption. Real innovation will continue to be rewarded, although only with marginal improvements in price. One may feel tempted sometimes to make a comparison between the seismic changes that currently affect the medtech industry and the development in the pharmaceutical industry where similar developments resulted in the creation of a global generics industry and reshaped innovative pharmaceutical companies into "science led global healthcare companies providing medicines and consumer products".

The impact on the medtech sector may be best illustrated by showing the historic sales and earnings growth trends between 2008 and 2012:

- Sales growth: reduced from 7% to 3%
- Earnings growth: reduced from 12.5% to 6%

Companies have been able to offset some of the impact to earnings growth by implementing cost cutting programs and other efficiencies measures. In the USA, as of January 2013, the government

has introduced a medical device tax of 2.3% on sales. According to industry groups, this will cost the industry approximately €125 million per month.

Outside of Europe and the USA, the medical technology market is growing double digits in emerging markets like China and the other BRIC and SMIT countries. The Chinese healthcare market has more than doubled from 2006 to 2011 from $156 billion to $357 billion, and the forecast is that the Chinese healthcare market will reach $1 trillion by the year 2020. In India, the government has announced in its five year plan for the period from 2012 to 2017 that it expects to double GDP spending on healthcare from 1.2% in 2011 to 2.5% in 2017. Further growth to 3% in 2022 is projected, still far below the average in the USA and Russia, indicating additional future growth potential.

This increase in spending directly affects the industry, as demonstrated by recent acquisitions of medical technology companies in China:

- Medtronic acquired China Kanghui Holdings for $816 million (14.5 times sales)
- Stryker acquired China Trauson Holdings for $764 million (12.7 times sales)

In addition, many of the global medical technology companies have set up manufacturing and R&D centers in Brazil, India and China.

aap's portfolio of products meets the requirements of many of these emerging markets. This is evident from our sales growth during 2012 in Asia: an increase of 88% to €7.2 million. *aap* has filed for regulatory approval of its trauma portfolio in China, Brazil, Russia, Mexico, Turkey and other high growth markets. The trauma market is growing in these countries because of two main reasons: an increasing number of traffic accidents and labor injuries. Further expansion into these new markets is high on the Company's agenda.

aap's trauma portfolio is attractive for the US market because it combines superior features, such as locking compression, with attractive pricing. *aap* increased its sales to the USA in 2012 by 79% to €6.0 million. Near the end of 2012, we closed a pilot marketing contract for *aap*'s LOQTEQ® trauma portfolio with a US based global medtech company, which we believe will drive further sales growth in 2013. In addition, in early 2013, we signed a license and supply agreement for our standard trauma products.

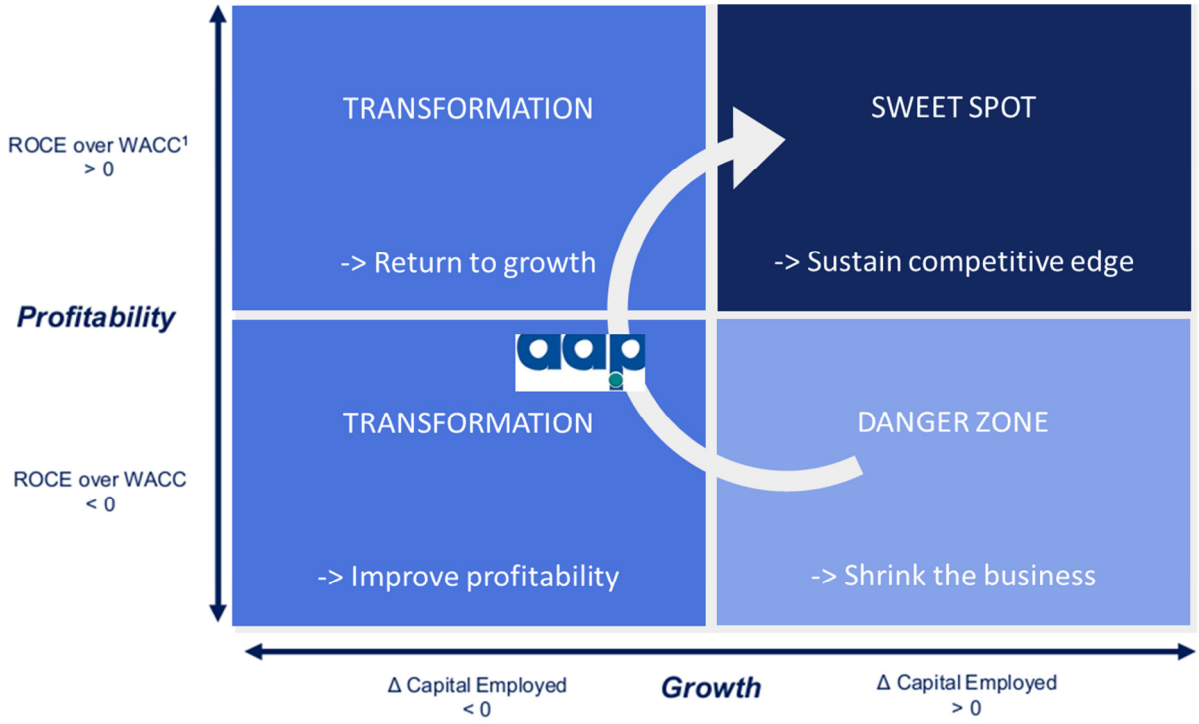
The Company is also focused on expanding its product portfolio with new, innovative products. We are making good progress in these efforts and thus far we have not observed any burdensome regulatory delays. We are developing silver coated trauma products that address the need for infection control, which is a growing problem with trauma implantations due to the inconvenience for the patients (infections) and the additional healthcare cost. Products that contribute to improvements in infection control can help solve both of these issues! If our development continues on track, a first market introduction of a silver coated product may occur as early as 2015.

aap is developing trauma products made from magnesium, a resorbable material that can potentially eliminate the need for an explantation operation. This technology has the potential to improve general trauma procedures and also in the specific area of pediatrics, where the fit of an implant may be compromised by the growth of a young child. If successfully, this resorbable magnesium has the potential to reduce healthcare costs significantly and improve clinical outcomes.

Long Term Outlook

Given the attractiveness of *aap*'s product portfolio in core markets (USA, BRIC and SMIT countries), along with pending new product launches, we believe that a sales growth-CAGR[1] of 10% is achievable, with a corresponding Cash-EBIT-CAGR of at least 15%. This level of growth is well above our sector average. Our goal is to meet these targets on an annual basis, with some quarterly fluctuation in growth and profitability due to the mix of product and project sales, with the project sales occurring on a less predictable basis from one quarter to the next.

Strategy implementation



aap´s route to value (from 2008 till today and further)

The principal objective of *aap* is to create value for the company and its shareholders. Value creation is defined as positive economic profit (EP), meaning that the return of the invested capital of the operating activities (Return on Capital Employed – ROCE) generate a better return than the assumed cost of capital (EP>0 = ROCE[2]-WACC[3]) x Capital Employed. As illustrated in the figures on the pages 5 and 6, *aap* has improved its performance over the last several years, but has not yet arrived at delivering a positive EP. We expect this to happen in 2013.

The Management has identified Trauma as the core business area with the highest potential to create value for our shareholders. The support for this vision comes from:

- A robust sales and operational growth forecast of the global trauma market, esp. in the BRIC- and SMIT-countries
- IP-protection of LOQTEQ® and the *aap* R&D trauma pipeline
- Broad portfolio of registrations from FDA (USA), SFDA (China), CE (EU) to ANVISA (Brazil) etc.

[1] Compound annual growth rate (CAGR) is an average growth rate over a period of several years
[2] 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.
[3] 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.

We have outlined our strategic goals for the areas Customer, Innovation, Financials and Organization in the management agenda 2013. Our overall strategy, in combination with the tactical goals for each year, provides the necessary coordination to deliver the team results.

Goals for the Management Agenda 2013

Customer
Grow Trauma sales to >€10 million (+60%) of which LOQTEQ® >€5 million (+140%)
Appoint distributors in seven of the nine BRICS- and MIST-countries (2012: four)
Expand LOQTEQ® portfolio to twelve plates (2012: six)
Supply allograft $scCO_2$ products to bone banks in at least in four EU countries, preferably including Germany

Innovation
Freshness index of at least 20% (industry benchmark)
Develop new instrument sets for LOQTEQ®
Initiation of new Trauma portfolio “Polyaxial”
Preparation of application file for first silver coated trauma product

Financials
Profitable growth: sales +10% and EBITDA +15%
Working capital ratio to sales > 2.2
Positive Economic Profit (ROCE > WACC)
DCR < 2 and ICR > 10 (Basis: operative EBITDA)

Organization/IT
Further optimization of supply chain by implementing more ERP functionality
Study feasibility of outsourcing predefined products
Divestment/ out licensing non-core products and IP

Forecast for 2013

We expect sales growth to be driven by LOQTEQ® and related trauma products. Sales growth will be further supported by sales of biomaterials including cement, xenograft bone and collagen containing products. Project sales are expected to show growth over a successful year in 2012, driver will be the closing of a development project for a biomaterial product with a global medtech company. Contract manufacturing will contribute to the growth by higher sales of Adcon®, flammable sterile products and scCO2 products like allograft. As a result of this development we expect *aap* labeled products to grow faster and account for over 40% of total sales compared to 33% in 2012. We further expect that the sales growth will result in greater customer diversification: The top 10 customers are predicted to account for slightly less than 50% of total sales in 2013, compared to nearly 60% in 2012. Gross margin is forecasted to be flat, a result of improved margins in the *aap* labeled segment and decreased margins in the OEM segment.

During the year *aap* will invest to increase our manufacturing capacity, upgrade our ERP system, initiate outsourcing of manufacturing and to increase customer service levels. However, we expect these expenses to grow slightly lower than the sales increase.

Like in earlier years we will look for license and/or supply deals for non-core products such as hips and knees, Adcon®, and also cements and mixing devices.

R&D will concentrate on the development of additional LOQTEQ® systems and silver coated trauma products. For the development of resorbable magnesium trauma products we are looking for partners that can contribute funding and core scientific competences and technologies.

Our financial goals may be summarized as:

- positive economic profit
- improved working capital ratio (>2.2)
- good liquidity
- low DCR (<2.0) and high ICR (>10)

The company capitalizes its development cost. After the successful completion, these costs will be depreciated over the economic useful life. The company has the objective that as of 2013 the scheduled depreciation will be higher than the amount of capitalized development cost for the first time, resulting in gradually reduction of this immaterial asset.

We recognize that *aap* has three different businesses with Trauma, Biomaterials and Contract Manufacturing; however, the businesses have substantial sales synergies. Global medtech companies can be OEM customers and Contact manufacturing customers, and eventually also become LOQTEQ® customers. It is our clear objective to increase our trauma footprint as fast as possible through organic growth or by M&A activities.

F) Other Disclosures

1. Composition of Subscribed Capital

As of December 31, 2012, the company's share capital amounted to €30,670,056 consisting of 30,670,056 fully paid-up individual share certificates. Each share entitles the holder to one vote at the company's General Meeting. None but the statutory voting restrictions exist. There are no differences in voting rights.

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

Management Board Remuneration

Remuneration of Management Board members is in accordance with the statutory provisions of the German Stock Corporation Act (Aktiengesetz/AktG) and, as far Management Board contracts newly concluded in 2010 is concerned, with the recommendations of the German Corporate Governance Code, which are to apply to all new contracts in the future. In particular, the remuneration structure as per the Act on the Appropriateness of Management Board Compensation (VorstAG; Section 87 (1) AktG) for contracts newly concluded in 2010 is aimed at sustainable corporate development.

Two kinds of Management Board contract were in force in the reporting year. The following remarks deal first with the provisions of the contract that enjoys protection and then with the provisions of the old contract with one member of the Management Board and then with those of the two new contracts agreed in 2010. All Management Board contracts ran until December 31, 2012 and were renewed during the reporting year.

By the terms of the old contract the total cash remuneration consists of a fixed and a variable, performance-related component with the variable component limited in amount to that of the fixed component. The yardstick for the variable component is EBIT as stated in the IFRS consolidated financial statements. In the event of extraordinarily large positive profit changes on the previous year the Supervisory Board may, at its discretion, award the Management Board a further appropriate extraordinary profit participation. Management Board members' remuneration also includes benefits in kind and other payments such as, primarily, the value as per tax guidelines of the use of a company car, accident insurance premiums and pension contributions. If *aap* acquires another company or is merged with one that accounts for more than 50% of sales earned by the Traumatology & Orthopaedics or Biomaterials segment in 2008 (dependent on the segment to which the company acquired belongs), the Management Board will receive in compensation for the effort and expense involved a further 75,000 *aap* Implantate AG stock options that on closure of the transaction can be taken up, in accordance with the terms of the stock options resolution adopted by the 2008 General Meeting, on the next possible issue date insofar as a sufficient number of options is available for the Management Board by the terms of the relevant resolution adopted by the General Meeting. If a sufficient number of options from the 2008 stock options program is no longer available, the remaining options will be shared.

What follows is an outline of the two Management Board contracts newly concluded in March 2010. 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 company's interest and in keeping with the duties of a prudent businessman without having to depend on merely short-term performance targets. The variable components, in contrast, being partly dependent on the company's economic results, ensures a long-term incentive effect.

In the reporting year, Management Board members received fixed remuneration totalling €709K (previous year: €653K). The fixed remuneration included benefits in kind and other payments such as, primarily, the value as per tax guidelines of the use of a company car and accident insurance premiums. The tax due on benefits in kind was paid by *aap* AG.

Variable remuneration is based on achieving both qualitative and quantitative targets. It is limited to a maximum and by the company's future development over a three-year period. Qualitative targets are determined in advance by the Supervisory Board on the basis of the Management Agenda as part of their approval of the annual budget and make up 25% of the variable remuneration component.

Quantitative targets account for 75% and are based on the following year's budget as approved by the Supervisory Board. The yardsticks for the quantitative variable remuneration component are EBITDA (part bonus 1, weighting 2/3) and sales (part bonus 2, weighting 1/3). Bonus are graduated on the basis of target performance and limited to an absolute amount.

Payment of the qualitative bonus is made in full on achievement of the target after the following year's general meeting, whereas only 25% of the quantitative bonus is paid at the same time. Half of the remaining 75% is paid after the annual general meetings in the second and third years after the bonus year.

If quantitative targets for the year after the bonus year or the year after that are only 85% fulfilled or less, the quantitative bonus for the bonus year will be reduced by 37.5%. The budget bonus for 2010 could be reduced if the budget targets are not met in 2012 and 2013, and the budget bonus for 2011

could be reduced if the budget targets for 2013 and 2014 are not met, with part bonus 1 and part bonus 2 being weighted equally.

If a contract begins or ends in the course of a financial year, the bonus is paid pro rata with 100% target achievement being assumed.

In determining the remuneration basis the Supervisory Board is entitled to eliminate extraordinary business developments that have led to one-time additional sales that is not due to an increase in operative business.

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

For the consequences of takeover bids in relation to Management Board remuneration, see 7 (below).

In addition, Management Board members receive stock options from the company's stock option programs. Stock options are a remuneration component with a long-term incentive effect.

Management Board remuneration in the financial year 2012 was as follows:

	Remuneration components in €K				
	Performance -unrelated	Performance -related	With long-term incentive effect	Total (2012)	Total (2011)
Biense Visser	213	95	38	346	265
Bruke Seyoum Alemu	305	95	31	431	344
Marek Hahn	191	60	18	269	200
				1,046	809

The Supervisory Board resolved on September 26, 2012 to renew the terms of office of all Management Board members, which were due to expire on December 31, 2012, for a further three years until December 31, 2015. On October 8, 2012 the new 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 apply from January 1, 2013:

The total cash remuneration consists of a fixed and a variable, performance-related 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 fulfil his obligations with the due care and diligence of a prudent businessman without becoming dependent on the

attainment of 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 (part bonus 1 – weighting 1/3) and cash flow target achievement (part 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 Annual General 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 AGM and half after the AGM 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. A change of control entitling Board members to a special right of termination can occur in one of three ways. Either a current shareholder or a third party acquires at least 50% of the voting rights and thereby triggers the automatic requirement to make an offer for the company according to Germany's Stock Corporation Takeover Act (WpÜG) or the company concludes an affiliation agreement as a controlled enterprise or it is merged with another company.

Supervisory Board Remuneration

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

2008 Stock Option Program

By resolution of the general meeting of September 29, 2008, the Management Board and – provided members of the company's management are entitled – the Supervisory Board is authorised to issue stock option programs by September 28, 2013 for members of the company's Management Board,

selected executives of the company and 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 in 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 too only the entitled persons may exercise the options. The fulfilment of exercised option rights may be effected at the company's discretion either by recourse to contingent capital 2008/I or through own shares in the company.

For further details please see the Notes, Section (24) 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 is authorised to issue by December 19, 2011 a stock option program (the "2010 Stock Option Program") for employees and Board members of the company and for employees and Board members of affiliated enterprises and to grant up to 1,486,000 stock options with subscription rights to one share in the company ("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 too only the entitled persons may exercise the options. The fulfilment of exercised option rights may be effected at the company's discretion either by recourse to contingent capital or through own shares in the company.

For further details please see the Notes, Section (24) Equity.

2012 Stock Option Program

The Management Board of the company is authorised to issue by December 19, 2014 a stock option program (the "2012 Stock Option Program") for employees of the company and of affiliated enterprises and to grant up to 300,000 stock options with subscription rights to one share in the company ("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 too only the entitled persons may exercise the options. The fulfilment of exercised option rights may be effected at the company's discretion either by recourse to contingent capital or through own shares in the company.

For further details please see the Notes, Section (24) 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 totalling €30,670,056 were held as of December 31, 2012:

Name	Voting rights in %
1. Elocin B.V.	20.89
2. Noes Beheer B.V.	17.82
3. Jürgen W. Krebs	11.99

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. By the terms of 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 their period in office for an additional five years is also permissible. The Supervisory Board can revoke the appointment of a Management Board member before his term of office expires for good cause, such as a gross breach of duty, inability to properly perform management duties or if the general meeting passes a vote of no confidence in the Management Board member unless the vote of no confidence was passed for obviously improper 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. By the terms of the company's articles of association the Supervisory Board is entitled to make amendments to the articles that affect only the wording thereof.

5. *Management Board Powers to Issue and Repurchase Shares*

The Management Board is authorised, with the Supervisory Board's consent, to increase the company's share capital until August 26, 2012, on one or more occasions by up to €2,988,935 against cash or contributions in kind (approved capital 2007/I) and to lay down the terms and conditions of the share issue, again subject to the Supervisory Board's consent. Subject to Supervisory Board consent, subscription rights for shareholders may be ruled out. After partial use, this approved capital now amounts to only €1,721,578.

The Management Board is authorised, with the Supervisory Board's consent, to increase the company's share capital until August 6, 2014 on one or more occasions by up to €8,026,571 against cash or contributions in kind (approved capital 2009/I) and to lay down the terms and conditions of the share issue, again subject to the Supervisory Board's consent. Subject to Supervisory Board consent, subscription rights for shareholders may be ruled out. After partial utilisation the authorised capital now amounts to €5,238,385.

The Management Board is authorised, with the Supervisory Board's consent, to increase the company's share capital until July 15, 2015 on one or more occasions by up to €4,192,786 against cash or contributions in kind (approved capital 2010/I) and to lay down the terms and conditions of the share issue, again subject to the Supervisory Board's consent. Subject to Supervisory Board consent, subscription rights for shareholders may be ruled out.

The Management Board is authorised, with the Supervisory Board's consent, to increase the company's share capital until July 5, 2017 on one or more occasions by up to €4,182,279 against cash or contributions in kind (approved capital 2012/I) and to lay down the terms and conditions of the share issue, again subject to the Supervisory Board's consent. Subject to Supervisory Board consent, subscription rights for shareholders may be ruled out.

The August 7, 2009 general meeting of shareholders authorised the company to buy and use own shares in accordance with Section 71 (1) 8 of the German Stock Corporation Act (AktG) and to rule out subscription rights. It may purchase own shares up to a notional €1,000,000 share of the capital stock. The authorised agreed by the general meeting on August 7, 2009 expired on February 4, 2011. By the terms of Section 71 (1) 8 AktG as amended by the July 30, 2009 Act implementing the European Directive on Shareholders' Rights (ARUG), this authorisation may now be granted for a period of up to five years. The July 16, 2010 general meeting accordingly authorised the company to buy and use own shares in accordance with Section 71 (1) 8 of the German Stock Corporation Act (AktG) and to rule out subscription rights. It may purchase own shares up to a notional €1,000,000 share of the capital stock. Shares purchased, together with own shares already held by the company or attributable to it by the terms of Sections 71 a ff. AktG, must at no time exceed 10% of the share capital. The authorisation may not be used for trading in the company's shares.

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

Shares may be purchased at the Management Board's discretion either on the stock market or 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 the 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, following publication of a public offer or the public tender there are substantial variations in price, 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 proportionately. 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 authorised to use the shares in the company purchased on the basis of this authorisation for all legally permissible purposes, in particular for the following:

I. The shares can be called in without this requiring another resolution of the general 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 share capital. Calling in can be limited to only part of the shares purchased. The authorisation 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 authorised 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 grant of this authorisation 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 of the resolution adopted by the general 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 connection with the German Conversions 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 so-called 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 fulfil conversion rights under convertible bonds or bonds with warrants issued on the basis of the authorisation granted by the June 30, 2006 general meeting (deed roll No. M 211/2006 of the Berlin notary Klaus Mock). The key points of the conditions of the authorisation dated June 30, 2006 are set forth in the notarial record of the June 30, 2006 general meeting and as such can be inspected at the commercial register of the Charlottenburg district court in Berlin.

IX. The shares can be used to fulfil option rights resulting from stock options issued on the basis of the authorisation granted by the June 30, 2006 general meeting (deed roll No. M 211/2006 of the Berlin notary Klaus Mock). The key points of the conditions of the authorisation dated June 30, 2006 are set forth in the notarial record of the June 30, 2006 general meeting and as such can be inspected at the commercial register of the Charlottenburg district court in Berlin.

X. The shares can be used to fulfil option rights resulting from stock options issued on the basis of the authorisation granted by the September 29, 2008 general meeting (deed roll No. M 334/2008 of the Berlin notary Klaus Mock). The key points of the conditions of the authorisation dated September 29, 2008 are set forth in the notarial record of the September 29, 2008 general meeting (deed roll 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 can be used, subject to authorisation by the July 16, 2010 general meeting, to fulfil option rights issued on the basis of the authorisation agreed by the July 16, 2010 general meeting. The key points of the conditions of the July 16, 2010 authorisation are

outlined in the resolution by the July 16, 2010 general meeting. If the meeting approves the proposal submitted by the Management Board and Supervisory, the key points of the conditions of this authorisation are set forth in the proposal by the Management Board and Supervisory Board as Agenda Item 5 that is included with this invitation to attend the general meeting.

Authorisations specified in II. to XI. Above also apply to the use of shares in the company acquired on the basis of Section 71d (5) of the German Stock Corporation Act (AktG).

Authorisations may be used on one or several occasions, in full or in part, individually or jointly, while authorisations as per II. to XI. above 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 realisation, at which shares in the company are sold or issued in accordance with an authorisation as per II. to VII. Above 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 realisation, at which shares in the company are used in accordance with the authorisation as per VIII. above 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 realisation, at which shares in the company are used in accordance with the authorisation as per IX. above 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 10 trading days before the day on which the option agreement signed by the company on the basis of the authorisation to grant stock options agreed by the June 30, 2006 general meeting (deed roll 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 authorisation to grant stock options can provide 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 own shares, the issue of bonds with conversion and/or option rights to shares in the company) to make adjustments to the exercise price and/or subscription relationship. There is no reduction on the basis of the above-mentioned June 30, 2006 authorisation to grant stock options if the entitled person is granted a direct or indirect subscription right to the new shares or own shares or new conversion 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 authorisation 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 conversion or shares or of bonuses and extraordinary disbursements in cash and/or kind in accordance with usage on German and international futures exchanges.

The price, excluding ancillary costs of realisation, at which shares in the company are used in accordance with the authorisation as per X. above 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 authorisation to grant stock options agreed by the September 29, 2008 general meeting (deed roll 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 authorisation to grant stock options can provide 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 own shares, the issue of bonds with conversion and/or option rights to shares in the company) to make adjustments to the exercise price and/or subscription relationship. There is no reduction on the basis of the above-mentioned September 29, 2008 authorisation to grant stock options if the entitled person is granted a direct or indirect subscription right to the new shares or own shares or new conversion 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 authorisation 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 conversion or shares or of bonuses and extraordinary disbursements in cash and/or kind in accordance with usage on German and international futures exchanges.

The price, excluding ancillary costs of realisation, at which shares in the company are used in accordance with the authorisation as per XI. above 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 issues 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 offered 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 stock split or reverse stock 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 own shares is ruled out insofar as the shares are used in accordance with the above authorisation as per II. to XI. above.

The Supervisory Board can decide that the Management Board may only take measures on the basis of this general 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*

In March 2009 the company secure a €2.0 million loan by the terms of a loan commitment. As of December 31, 2012 the shareholder loan had a nominal value of €0.75 million. It is due for immediate repayment in the event of a takeover. Takeover here means the day on which it is publicly announced that more than 50% of *aap* shares has been acquired by a person or company, or by various persons or companies acting in concert, as defined in Section 30 (2) of the German Securities and Takeover Act (WpÜG).

There is a service agreement between two *aap* subsidiaries and an external company on the provision of certain services 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 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 an *aap* subsidiary and another external company for certain products of the subsidiary's 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 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, gaining control over the company in one or more transactions or acquiring assets that individually or jointly play a material role in delivering performance by 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 in the Event of Takeover Bids

If there is a takeover of the company, stock options not yet granted will be issued to a member of the Management Board.

In the event of a change of control members of the Management Board will be entitled to a special right of termination and will receive a payment equivalent to 90% of their capitalised total annual remuneration for the remaining term of their contracts up to a maximum of their total annual remuneration for three years.

Consolidated Statement of Comprehensive Income according to IFRS for the period January 1 to December 31, 2012

		Note	2012	Previous Year
			€K	€K
1.	Sales	(1)	36,414	29,205
2.	Changes in inventories of finished and		179	753
3.	Capitalised own work	(2)	2,744	3,045
4.	Other operating income	(3)	3,264	1,913
5.	Material expenses	(4)	-10,776	-8,078
6.	Personnel expenses	(5)	-13,493	-11,946
7.	Depreciation	(6)	-3,910	-2,961
8.	Other operating expenses	(7)	-11,210	-10,766
9.	Operating income (EBIT)		*3,212*	*1,165*
10.	Financial income		28	58
11.	Financial expenses		-520	-605
12.	Financial result	(8)	*-492*	*-547*
13.	*Result before taxes*	*(9)*	*2,720*	*618*
14.	Taxes	*(9)*	-310	-223
15.	Result after taxes/Total comprehensive income		*2,410*	*395*
	thereof: Non-controlling interests		*0*	*-3*
	thereof: Net result/Result of shareholders in aap AG		*2,410*	*392*
16.	Earnings per share in euro	(10)		
	Undiluted		0.079	0.013
	Diluted		0.078	0.013

Consolidated Balance Sheet according to IFRS as of December 31, 2012

ASSETS

		Note	2012 T€		2011 T€
A.	**Non-current assets**				
	Intangible assets	(11)			
	Goodwill	(12)	12,490		12,490
	Capitalised development costs	(13)	21,858		20,286
	Other intangible assets	(14)	5,055		5,472
	Tangible assets	(15)	5,107		5,071
	Investments stated at At-equity	(16)	55		0
	Financial assets	(17)	356		356
	Deferred taxes	(9)	0		0
				44,921	(43,675)
B.	**Current assets**				
	Inventories	(18)	13,943		13,991
	Accounts receivable	(19)	4,226		5,508
	Other financial assets	(20)	1,331		331
	Other assets	(21)	471		494
	Accounts receivable due from taxes on income	(22)	0		0
	Cash and cash equivalents	(23)	3,698		2,152
				23,669	(22,476)
Total				68,590	66,151

LIABILITIES

		Note	2012 T€		2011 T€
A.	**Capital stock**	(24)			
	Subscribed capital		30,670		30,670
	Capital reserve		18,611		40,422
	Revenue reserve		228		228
	Other reserve		608		608
	Consolidated balance sheet result		749		-23,575
	Non-controlling interests		0		-3
				50,866	(48,350)
B.	**Non-current liabilities (over 1 year)**	(26)			
	Financial liabilities	(27)	2,019		74
	Other financial liabilities	(29)	369		150
	Deferred taxes	(9)	2,090		2,176
	Provisions	(26)	27		35
	Other liabilities	(30)	201		240
				4,706	(2,675)
C.	**Current liabilities (up to 1 year)**				
	Financial liabilities	(27)	4,497		5,479
	Advances from customers	(27)	1,125		337
	Development orders with a net debit balance toward customers	(28)	0		32
	Accounts payable	(27)	3,259		3,120
	Shareholder liabilities	(27)	1,057		3,522
	Other financial liabilities	(29)	1,742		1,626
	Provisions	(26)	205		186
	Other liabilities	(30)	1,133		824
				13,018	(15,126)
Total				68,590	66,151

Consolidated Cash Flow Statement according to IFRS

		2012	2011
		€K	€K
1.	Result after taxes/Total comprehensive income	2,410	395
2.	Stock options without effect on payments	208	210
		2,618	605
3.	Depreciation	3,100	2,961
4.	Unscheduled depreciation on intangible assets	811	0
5.	Change in deferred taxes	-86	2
6.	Increase in provisions	11	0
7.	Profit from outflow of subsidiaries (minus disposed net financial capital)	-945	0
8.	Loss from disposal of long-term assets	11	4
9.	Loss from Investments stated at At-equity	1	0
10.	Additions to intangible assets	-999	0
11.	Increase in inventories, accounts receivable and other assets	1,353	-497
12.	Increase/Decrease in trade accounts payable and other liabilities	1,269	198
13.	Income from retransfer of special item for investment	-56	-60
14.	Outflow/Inflow of funds from current business activity	7,088	3,213
15.	Payments for investment in intangible and tangible assets	-3,902	-3,986
16.	Payments for acquisition of subsidiaries minus acquired net financial capital	-2	0
17.	Payments to financial capital from disposal of subsidiaries	-25	0
18.	Inpayments from investment grants	9	266
19.	Outflow of funds from investment activity	-3,920	-3,720
20.	Inpayments from capital increases and shareholder grants	0	3,039
21.	Payments to increase ownership shares in subsidiaries	-101	0
22.	Equity procurement transaction costs	0	-11
23.	Distribution of profits to other shareholders	0	-34
24.	Inpayments from take-up of loans	2,963	44
25.	Inpayments from take-up of shareholder grants	0	0
26.	Payments to redeem shareholder grants	-2,395	-35
27.	Payments to redeem loans	-2,001	-1,155
28.	Payments for financial leasing agreements	-88	-98
29.	Payments for the purchase of Treasury stock	0	0
30.	Inflow of funds from financing activity	-1,622	1,750
31.	Cash and cash equivalents at start of period	2,152	909
32.	Cash and cash equivalents at end of period	3,698	2,152

Consolidated Schedule of Changes in Equity

			Revenue reserves		Changes in equity that do not affect net income							
	Subscribed capital	Capital reserve	Statutory revenue reserve	Other revenue reserves	Revaluation reserve	Financial assets held for disposal	Financial derivatives	Total	Consolidated balance sheet result	Group share	Non-controlling interests	Shareholder equity
	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K
Status as of 01.01.2011	27,882	39,968	42	186	608	0	0	608	-23,967	44,719	133	44,852
Status as of 01.01.2010	2,788	251	0	0	0	0	0	0	0	3,039	0	3,039
Stock options	0	210	0	0	0	0	0	0	0	210	0	210
Transaction costs	0	-7	0	0	0	0	0	0	0	-7	0	-7
Distribution of profits/Repayment of contributions	0	0	0	0	0	0	0	0	0	0	-139	-139
Result after taxes	0	0	0	0	0	0	0	0	392	392	3	395
Status as of 31.12.2011/01.01.2012	30,670	40,422	42	186	608	0	0	608	-23,575	48,353	-3	48,350
Status as of 01.01.2010	0	0	0	0	0	0	0	0	0	0	0	0
Stock options	0	208	0	0	0	0	0	0	0	208	0	208
Settlement of the additional paid-in capital with balance sheet loss	0	-21,914	0	0	0	0	0	0	21,914	0	0	0
increases in its ownership interest in subsidiaries	0	-105	0	0	0	0	0	0	0	-105	3	-102
Result after taxes	0	0	0	0	0	0	0	0	2,410	2,410	0	2,410
Status as of 31.12.2012	30,670	18,611	42	186	608	0	0	608	749	50,866	0	50,866

Notes to the Consolidated Annual Financial Statements to December 31, 2012 according to IFRS

A. Company Data

Company Name, Domicile

aap Implantate AG, Berlin, Germany

Head Office

Lorenzweg 5, 12099 Berlin

Commercial Register

The company is registered at the Berlin-Charlottenburg district court as HR B 64083 and was entered into the court's commercial register on September 10, 1997.

Stock Market Listing

aap Implantate AG was listed on the regulated market from May 10, 1999 and traded in the Frankfurt Stock Exchange's Neuer Markt segment 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.

Incorporation by Modifying Conversion

The company was incorporated by mans of modifying conversion of *aap* Ahrens, Ahrens & Partner GmbH & Co. Betriebs KG on January 1, 1997.

Nature of Business

aap Implantate AG is a medical sector enterprise. The Group's business activity consists of research, development, manufacture and sale of implants, medical instruments, bone cements and replacement materials. The company's production facilities are in Germany and the Netherlands. Its principal sales areas are the European Union, Asia and the United States.

B. General Information

1. Basic Principles

aap Implantate AG, with its registered head office in Berlin, Germany, is the parent company of the *aap* Group, hereinafter also referred to as *aap* or the Group. The consolidated financial statements of *aap* Implantate AG to December 31, 2012 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. Figures for the previous year are drawn up on the basis of the same principles.

The consolidated financial statements of *aap* Implantate AG to December, 2012 consist of the consolidated balance sheet, the consolidated income statement, the schedule of comprehensive income, the cash flow statement, the statement of changes in equity and the Notes.

The consolidated balance sheet and the consolidated income statement are structured in accordance with IFRS. The consolidated income statement was drawn up using the total cost method. The balance sheet is structured according to whether assets and liabilities are current or non-current. The consolidated financial statements are denominated in euros (€). Unless otherwise specified, all amounts are stated in thousands of euros (€K) rounded up or down in accordance with commercial principles.

The consolidated financial statements of *aap* Implantate AG were drawn up on the basis of historic cost of acquisition or manufacture with the exception of assets available for sale, which are stated at market value, and financial assets and liabilities, which are stated at fair value with an effect on net income. In general, historic cost of acquisition and manufacture are based on the fair value of the financial consideration given in return for the asset. The essential accounting and valuation principles are outlined at D (below). The methods described were applied consistently to the reporting periods unless stated otherwise.

aap Implantate AG's Management Board is responsible for the preparation, completeness and accuracy of the consolidated financial statements and the group management report.

2. Cash Flow Statement

The consolidated cash flow statement was prepared in accordance with IAS 7 using the indirect method. It is arranged by payment flows from commercial, investment and financing activity. Total cash and cash equivalents shown in the cash flow statement correspond to the total shown in the balance sheet. Cash and cash equivalents consist of cash in hand and at banks.

No restraints on disposal exist. The effects of exchange rate changes are stated separately. Inflows and outflows of funds from the sale of a disposal group are stated separately.

3. Segment Reporting

The *aap* Group is managed both internally and externally as a company without separate segments. This approach is reflected in the management and reporting structure. So reporting by business segment as defined in IFRS 8 does not apply.

C. Consolidation Principles

1. 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.

Consolidated Subsidiaries:

	2012	2011
	Shareholding	Shareholding
aap Biomaterials GmbH, Dieburg	100%	100%
OSARTIS Verwaltungs-GmbH, Dieburg	100%	100%
European Medical Contract Manufacturing B.V.	100%	100%
ADC Advanced Dental Care GmbH, Dieburg	-	54%
aap Joints GmbH, Berlin	100%	0%

aap Implantate AG acquired on March 23, 2012 from the minority shareholders all of the remaining shares in ADC Advanced Dental Care GmbH and thereby increased its holding in the subsidiary from 54% to 100%. By the terms of a merger agreement and resolutions approved by the shareholders' meeting held on July 6, 2012, ADC Advanced Dental Care GmbH transferred all its assets, rights and obligations to *aap* Biomaterials GmbH with effect from January 1, 2012 (merger by absorption). The commercial register entry for the two companies was made on August 30, 2012.

aap Joints GmbH was set up by the terms of articles of association dated November 8, 2012 with *aap* Implantate AG as its sole shareholder. The company was entered in the commercial register on December 6, 2012.

For the preparation of its management report and disclosure and audit of its annual financial statements the consolidated subsidiary *aap* Biomaterials GmbH made use of the exemption provision of Section 264 (3) HGB.

2. Reporting Date of the Consolidated Financial Statements

These consolidated financial statements cover the financial year 2012 on the basis of a reporting period from January 1 to December 31. The consolidated companies also use the calendar year as their reporting year.

3. 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.

The consolidated companies prepare their financial statements in their national currency, the euro (€), as the functional currency in which they do most of their business.

All intra-group business transactions, balances and interim results are eliminated in the course of consolidation insofar as they are of minor importance. Shareholdings in subsidiaries in which the Group does not hold a controlling influence are stated separately under shareholders' equity. The overall result of the subsidiaries is allocated to the shareholdings in companies in which a controlling influence is not held according to the percentage (of shares) held – even if that leads to a negative balance for the holdings in question.

4. Capital Consolidation

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 subsidiaries acquired.
Subsidiaries' allowable assets, debts and contingent liabilities are stated at their full market value irrespective of minority interest. Intangible assets are shown separately from goodwill insofar as they can be separated from the company and result from a contractual or other right. No initial restructuring reserves are created in the course of purchase price allocation. Positive differential amounts are capitalised as goodwill. Negative differential amounts arising from initial consolidation are reviewed and retransferred with effect on results.

Capitalised goodwill is not depreciated according to schedule but subjected to an impairment test at least once a year. Cash-generating units to which a part of the goodwill is allocated are impairment-tested annually or more frequently whenever there are indications of an impairment of value. If a cash-generating unit's recoverable amount is less than its book value, the impairment charge must first be allocated at the book value of all goodwill allocated to the unit and then pro rata to the other assets on the basis of the book values of each asset within the unit. An impairment charge on goodwill may not be recovered in a future period. On the disposal of a subsidiary, its share of goodwill is taken into account in determining the net proceeds of disposal. Income and expenses of the companies acquired are included in the consolidated financial statements from the time of acquisition.

5. Debt Consolidation

Intra-group receivables and liabilities are offset against each other. Any balancing differences that arose in the reporting period were recorded with effect on earnings.

6. Consolidation of Earnings

In the context of earnings consolidation, internal sales and intra-group income and expenses are offset against each other. Interim results are eliminated insofar as they are of minor significance.

7. Currency Translation

In their individual financial statements companies translate business transactions denominated in foreign currencies at the exchange rates on the transaction date. Gains and losses arising by the balance sheet date from the valuation of monetary balance sheet items in a foreign currency are stated with an effect on results under other operating income or expenses.

8. Holdings in Joint Ventures

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.

Joint venture agreements that provide for setting up a single enterprise in which each partner holds a stake are described in IAS 31 as jointly controlled entities.

By the terms of a purchase contract dated December 21, 2012 *aap* Implantate AG acquired all shares in *aap* BM productions GmbH (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.

The Group reports on its holdings in jointly controlled entities by applying the equity method unless the shares are classified as available for sale. The equity method requires shares in joint ventures to be stated at the time and cost of acquisition. On first-time inclusion of participating interests stated at equity a difference is drawn between the cost of acquisition of the interest and its Group share of the joint venture's identifiable assets, debts 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 carrying amount of the participating interest. In that case the difference between the carrying 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 in the joint venture'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 consolidation principles stated above apply analogously to transactions between the Group and jointly controlled entitles.

The financial statements of the participating interest included by applying the equity method are prepared on the basis of uniform accounting and valuation methods.

D. Accounting and Valuation Methods

Intangible assets are stated at amortised cost of acquisition or manufacture. All intangible assets except goodwill have an ascertainable useful life and are therefore depreciated according to schedule. Industrial property rights and similar rights and values stated under **other intangible assets** are amortised over a useful life of between three and twelve and a half years. Customer relationships identified in the course of purchase price allocation are amortised over a period of 15 years.

Development costs are capitalised as intangible assets if a newly developed product or process can be demarcated clearly, is technically realisable and if the company plans to use it itself or to market it. Further preconditions for capitalisation are the likelihood of deriving future economic benefit and a reliable valuation of the assets. Capitalised development costs also include costs of borrowing. They are depreciated according to schedule in a straight line over their useful life, as a rule between five 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 capitalised development costs undergo annual **impairment tests**. Assets are written up if the reason for a previous unscheduled depreciation no longer applies. The resulting increase in book value may not exceed the ongoing cost of acquisition or production. Goodwill is not written up. Write-downs and write-ups are in principle recorded with an effect on results 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. Residual values, useful lives and methods of depreciation used for non-current assets are reviewed at the end of each financial year and adjusted if an adjustment is felt to be required.

Tangible fixed assets are valued at cost of acquisition or manufacture and, where depreciable, taking scheduled depreciation into account. The manufacturing costs of tangible fixed assets are the full costs. Costs of borrowing are capitalised as part of acquisition or manufacturing costs insofar as they related to the purchase, construction or manufacture of a qualified asset. Fixed assets that are leased by way of financial leasing are capitalised at the lesser of either their market value or the cash value of the leasing instalments and depreciated in a straight line over their likely useful life.

Useful lives are:	Years
Land and buildings	50
Technical plant and machinery	10–15
Other plant, office and factory equipment	3–10

Fixed assets are written off either on disposal or if no further benefit is expected from the further use or the disposal of the asset. The resulting profit or loss arising from writing an asset off is established as the difference between the net proceeds of the sale and the residual carrying amount, is recorded with an effect on results in the reporting period during which the asset is written off and is stated as other operating income or expenses.

Intangible assets and tangible fixed assets are depreciated off schedule if the amount recoverable from the asset is less than the carrying amount.

Participating interests stated at equity are first stated at cost of acquisition and thereafter at their ongoing pro rata net asset value. Carrying amounts are increased or decreased annually by the pro rata results, distributions and any other changes in equity. Goodwill is not stated separately but included in the valuation of the interest. There is no scheduled depreciation of goodwill. Participating interests stated at equity are depreciated off scheduled if the recoverable amount is lower than the carrying amount.

Other holdings listed under **financial investments** come in the "available for disposal" category. They are valued both on first inclusion in the balance sheet and in subsequent periods at market value insofar as the market value can be ascertained reliably. Initial valuation is on the day of fulfilment. Unrealised 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.

Income tax expenses in the reporting period consist of current and deferred taxes. Taxes are included in the overall result unless they related to items recorded directly under equity or other comprehensive income, in which cases the taxes are also recorded under equity or other comprehensive income.

Current tax expense is calculated on the basis of the tax regulations of the countries in which the subsidiaries do business and earn taxable income that is due on the balance sheet date or shortly thereafter. The management 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 carrying amounts in the IFRS financial statements (the so-called liabilities method). But if, in connection with a transaction that is not a corporate merger, a deferred tax arises from the first-time statement 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 the first statement or thereafter. Deferred taxes are assessed on the basis of the tax rates (and tax regulations) that are either in force on the balance sheet 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 carryovers are capitalised insofar as a taxable result is likely to be available for it 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 carryovers 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 balance sheet date by deferred tax liabilities arising from temporary differences even if the tax carryovers seem likelier to be used.

The book value of deferred tax entitlements is reviewed as on every balance sheet 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. Unrecognised deferred tax entitlements are reviewed on every balance sheet 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 realised.

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 payables 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 fulfil 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.

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 capitalised as part of the costs of acquisition or production. Valuation is based on the FIFO assumed sequence of consumption. Inventory risks resulting from reduced usability are taken into account by means of appropriate write-downs, with lower values being stated as of the balance sheet date due to a decline in net selling prices. 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 that related to qualified assets are capitalised. For the *aap* Group this means capitalised development costs. All other borrowing costs are stated as expenses in the period in which they were incurred.

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 as per IFRS 7 is at I (33).

Receivables and other assets are shown in the balance sheet at cost of acquisition less essential value adjustments in line with the actual risk of default. Interest-free receivables with a term of more than one year are reported at cash value. Foreign currency receivables are converted at the rates valid on the transaction date. As of the balance sheet date, foreign currency receivables are translated at the exchange rate on the reporting date. Translation differences are stated with effect on results.

Cash and cash equivalents are cash at hand or with banks. They are valued at ongoing cost of acquisition.

Assets held for sale are assets that can be sold in their present condition and are very likely to be sold. They can be individual non-current assets, disposal groups or discontinued operations. Non-current assets held for sale are no longer written down. They are stated at current market value less cost of disposal if this is less than their book value. Liabilities are included as part of the disposal group if they are to be transferred with the disposal. Until final disposal, profits and losses from assets held for sale and from disposal groups are stated under results of continuing operations.

Transaction costs directly attributable to an issue of new shares or options are stated under equity net after taxes as a deduction from the issue proceeds.

If the Group acquires **own shares** or **Treasury stock**, the value of the consideration paid, including directly attributable additional costs after taxes, is deducted from equity until the shares are either called in or reissued. Buying, selling, issuing or calling in own shares is stated with no effect on results. If these shares are reissued, the consideration received is therefore also stated under equity less directly attributable transaction costs and income taxes. The Group may not exercise the voting rights that go with own shares and is not entitled to dividend payments.

The **revaluation reserve** consists of unrealised profits and losses from changes in the market value of financial assets that are available for disposal. These profits or losses do not affect results.

Company stock option programs are shown in the balance sheet as **stock-based remuneration** by means of equity capital instruments. Stock options granted to employees and executives are stated as personnel expenses on the one hand and at market 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 market value of stock options granted is calculated on their grant date by means of an option price model. See H (24) and H (25) for details.

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 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.

Provisions are created if a liability to a third party arising from a past event exists, 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.

Liabilities are stated at market value on first mention. In subsequent years they are valued using the effective yield rate at their net book value. Liabilities from financial leasing agreements are carried as liabilities at their market value. If the cash value of minimum leasing payments is lower than the market value, the cash value will count. Foreign currency liabilities are translated at the exchange rates valid on the transaction date. As of the balance sheet date foreign currency liabilities are translated at the exchange rate on the reporting date. Translation differences are reported with effect on results.

Leasing transactions are classified as either finance leases or operating leases. They are treated as finance leases if the Group as the lessee bears all the opportunities and risks arising from the use of the leasing item, which therefore counts as its economic property. In this case the leasing item and the corresponding liability are stated in the balance sheet. The leasing item is stated at its market 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 state in the financial result with effect on expenses. Other leasing transactions are shown in the balance sheet as operating leases. In these cases the leasing item is capitalised as an asset by the lessor and the leasing payments made by the **aap** Group are stated as expenses at the time when they occurred.

Contingent liabilities are possible or existing liabilities based on past events that are not likely to involve an outflow of funds. They are not recorded in the balance sheet. The amounts stated as contingent liabilities correspond to the extent of liability on the balance sheet date.

Group sales consist of product sales, license fees and services. **Sales** is realised when due delivery or performance has been rendered or the terms of the contract have been fulfilled. In the case of deliveries this is in principle the case after physical handover of the goods and the transfer of ownership risk to the purchaser. Furthermore, the economic benefit must be sufficiently probable and the costs incurred must be reliably

ascertainable. Contracts count as having been fulfilled when all performance undertakings have essentially been fulfilled and the customer has accepted the goods or services as being in accordance with the contract.

In the case of **long-term contract development**, sales are realised by the percentage of completion insofar as the conditions for applying the percentage of completion method as per IAS 11 are fulfilled. If the result of a development contract can be assessed reliably, income and expenses for the contract are stated in accordance with the degree of completion on the balance sheet date on the basis of either the ratio of costs already incurred to the estimated total costs (the cost-to-cost method) or in accordance with contractually agreed milestones. If the result of a development contract cannot be assessed reliably, income is only stated to the amount of costs incurred that are likely to be covered. Contract costs are then stated as expenses in the period in which they are incurred. If the entire cost of the contract is likely to exceed income earned from it, the anticipated loss is recognised 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 realised profits that exceeds payments received is stated separately as a contract development receivable.

License fees are earned and accrued the reporting period in accordance with the economic content of the relevant agreement unless they are immediately realisable sales proceeds because rights are licensed with no time limits and with no further obligations on the part of the licensor. Insofar as earnings are subject to further uncertain future conditions such as exceeding certain delivery targets or the purchaser holding rights of rescission the likelihood of which being exercised the *aap* Group is unable to assess, these earnings are only realised when the condition is fulfilled. Customer discounts and returns are taken into account in accordance with the reporting period and the underlying sales.

Interest income is earned pro rata taking into account the capital outstanding the interest rate in force.

E. Material Discretionary Decisions, Estimates and Assumptions

In applying accounting and valuation methods, **discretionary decisions** must be made. They apply, for example, to non-current assets for disposal. A decision must be reached on whether the assets can be disposed of in their present state and whether their disposal is very likely. In this case the assets and, if applicable, attendant debts must be stated and valued as available-for-sale assets or debts. Financial assets must be classified under the headings financial investments held to maturity, loans and receivables, financial assets held for sale and financial assets measured at fair value through profit or loss (I (32)). Liabilities arising from original financial instruments can be stated either at amortised cost or at fair value through profit or loss. In principle, *aap* values all financial liabilities at amortised cost.

For some items, preparing consolidated financial statements requires **estimates and assumptions** that influence the stated assets, debts and contingent liabilities and the income and expenses as shown and in their amount. These estimates and assumptions entail complex and subjective assessments based on circumstances that are by nature uncertain and may over time be subject to material changes outside the Group's sphere of influence. The actual amounts can therefore also differ substantially from these estimates. The estimates and assumptions made by the management in preparing the consolidated financial statements run a considerable risk of requiring a material adjustment to the book values of assets and liabilities and are outlined as follows:

First-time capitalisation of **development costs** is based on he management's estimate that technical and economic feasibility is a proven fact. In determining the amounts to capitalised 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, 2011 the book value of capitalised development costs was € 21,858K (2011: € 20,286K). Due to the Group's focus on the Trauma and Bone Cement & Cementing Techniques core areas that has led to concentration on essential development projects, projects are classified as successfully realisable. 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 capitalised 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 December 31, 2012 the book value of the Group's goodwill was €12,490,000 (2011: €12,490,000) and was allocated to the cash-generating unit Biomaterials.

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.

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 realisation 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 realisability of deferred tax assets may, however, differ significantly from the assessments at the time when the deferred taxes were capitalised.

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

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 states assets and debts is to be expected for the 2012 financial year.

F. Changes in Accounting and Valuation Methods

Accounting Regulations Applied for the First Time in the Reporting Year

The International Accounting Standards Board (IASB) has both approved amendments to existing International Financial Reporting Standards (IFRS) and issued new IFRS standards and interpretations. First-time application of the following mandatory standards for the 2012 financial year had no material influence on the presentation of the *aap* Group's assets, financial and earnings situation or on consolidated earnings per share. No adjustment of previous year's figures was deemed necessary for reasons of materiality.

Amendments to IFRS 7	Financial Instruments: Disclosures
Amendment to IFRS 1 (2010)	First-time Adoption of International Financial Reporting Standards

Amendment to IAS 12 (2010)	Income Taxes

Accounting Regulations Published but not yet in Force

aap Implantate AG did not yet apply in the reporting year the following standards and interpretations published but not yet adopted by the EU or not yet in force. The effects of the following standards on *aap*'s consolidated financial statements are currently under review.

IFRS 9 (2011)	Financial Instruments

The new standard replaces the previous provisions of IAS 39 on the classification and valuation of financial instruments and includes minor amendments on the valuation of financial liabilities. Mandatory first-time application of IFRS 9 (2011) applies to financial years beginning on or after January 1, 2015. *aap* anticipates that the first-time adoption of IFRS 9 (2011) will influence the presentation of financial assets and liabilities, but the possible effects can only be reasonably assessed after detailed analysis.

IFRS 10 (2011)	Consolidated Financial Statements
IFRS 11 (2011)	Joint Operations
IFRS 12 (2011)	Disclosure of Interests in Other Entities

In May 2011 the IASB published improvements to accounting and disclosure regulations on consolidation, off balance sheet activities and joint arrangements in its standards IFRS 10 (2011), Consolidated Financial Statements, IFRS 11 (2011), Joint Arrangements, and IFRS 12 (2011), Disclosure of Interests in Other Entities, amendments to IAS 27 (2011), Consolidated and Separate Financial Statements, and IAS 28 (2011), Investments in Associates and Joint Ventures. The five new standards are to apply to financial years beginning on or after January 1, 2014.

IFRS 10 (2011) replaces the provisions on consolidated financial statements in IAS 27 Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. The standard regulates by means of a comprehensive concept of control which companies must be included in the consolidated financial statements and lays down extensive guidelines on interpreting the concept of control in cases of doubt. One company is said to control another if by virtue of its participating interest it shares in variable results and is able to influence the business activities of the enterprise in which a participating interest is held that are of fundamental importance for its commercial success.

Changes to the existing legal situation may arise for constellations in which a possibility of determining business activities exists but a majority of voting rights is not held.

IFRS 11 (2011) 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.

IFRS 12 (2011) 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 hitherto and 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.

aap assumes that first-time adoption of the standard will lead to additional disclosures. No material influence on valuations is expected, however, because *aap* already applies the equity reporting method to joint ventures (C. 8). But detailed effects cannot be assessed until after a specific examination.

IFRS 13 (2011)	Fair Value Measurement

This standard defines the concept of fair value measurement and standardises disclosure requirements for valuations at fair value. It applies to both financial and non-financial items. IFRS 13 (2011) is to be applied for financial years beginning on or after January 1, 2013. First-time adoption of IFRS 13 (2011) may as *aap* sees it influence valuations in the consolidated financial statements and is likely to lead to extensive information required in the Notes.

IAS 1 (2011)	Presentation of Financial Statements

The amended standard provides for additional disclosures under other comprehensive income. Items that in certain circumstances can be reclassified in the income statement must be stated separately, as must items that still do not have to be stated as affecting profit or loss. Income taxes must accordingly be allocated to other comprehensive income items. These IAS amendments apply to financial years beginning on or after July 1, 2012. *aap*'s consolidated financial statements will therefore include from financial year 2013 a statement of income and expenses in these two categories.

Amendment to IAS 19 (2011)	Employee Benefits

The revised IAS 19 (2011) changes the treatment of defined benefit pension plans and benefits arising from termination of employment. Changes to defined benefit plans and the fair value of plan assets must be stated as soon as they occur. The "corridor" approach permitted by IAS 19 has been abolished. Furthermore, unrecognised past service costs must be stated sooner. All actuarial profits and losses must be stated in the overall result in the year in which they arise. The net pension liability or asset thus shows the full shortfall or excess cover in the balance sheet.

The amended IAS 19 (2011) applies to financial years beginning on or after January 1, 2013. The amendments will have no effect on *aap*'s consolidated financial statements because *aap* currently has no pension obligations to employees.

Amendment to IAS 32 (2011)	Financial Instruments: Netting Out Financial Assets and Liabilities
Amendment to IFRS 7 (2011)	Financial Instruments: Disclosures on Netting Out Financial Assets and Liabilities

The amendments to IAS 32 (2011) and IFRS 7 (2011) deal with netting out financial assets and financial liabilities and the disclosures required in the Notes in this connection. While the fundamental provisions with regard to netting out are retained, inconsistencies on an addition to the application guidelines are eliminated. Furthermore, the scope of the disclosures required in the Notes is extended significantly. Application of the amendments to IFRS 7 (2011) is mandatory for financial years beginning on or after January 1, 2013 and of the amendments to IAS 32 (2011) for financial years beginning on or after January 1, 2014. The effects on *aap*'s consolidated financial statements are currently under review.

The following standards and interpretations or amendments will have no material effect on *aap*'s consolidated financial statements:

Amendments to IFRS 1 (2012)	Government Loans
Amendments to IFRS 10, IFRS 11 and IFRS 12 (2012)	Transition Guidance/Clarification and Relief on First-time Adoption of these Standards
Amendments to IFRS 10, IFRS 12 and IAS 27 (2012)	Investment Entities
Annual improvements to IFRS 2009-2011 (2012)	Statement, Valuation, and Presentation of Business Transactions

G. Notes on the Statement of Comprehensive Income

(1) Sales

	2012 €K	2011 €K
By category		
Sales from		
• The sale of products	35,854	28,339
• The provision of services	63	25
• Order development	328	189
• Usage fees	169	652
Total	36,414	29,205
By region[1]		
Germany	9,309	7,931
Other Europe	12,905	13,286
Asia	7,156	3,810
North America	6,013	3,354
South America	506	592
Africa	525	232
Total	36,414	29,205
By product group		
Biomaterials	28,558	23,905
Traumatology & Orthopaedics	7,856	6,842
Reconciliation/Consolidation	0	-1,542
Total	36,414	29,205

[1] By geographical location of the external customer's business operation

Sales under the heading Order development includes €112K from long-term order developed as defined in IAS 18 or IAS 11 and therefore realised in accordance with the percentage of completion method (cf. H (28)).

In the financial year 2012, three of the company's principal customers accounted for €13.886 million (previous year: €10.446 million) in sales.

(2) Capitalised own work

The capitalised cost of self-constructed assets totalling €2.744 million (previous year: €3.045 million) consists mainly of assets capitalised in connection with development projects.

(3) Other Operating Income

	2012 €K	2011 €K
Grants	632	961
Income from the disposal of subsidiaries	944	0
Income from the release of provisions and obligations	281	308
Out-of-period income	73	306
Private use of company cars	163	135
Insurance compensation	0	63
Release of special item for investment grants and allowances	41	43
Income from written-off receivables	31	27

Currency differences	33	24
Proceeds of reversal of asset impairment	1,015	0
Other	51	46
Total	3,264	1,913

Of the proceeds of reversal of asset impairment €999K relates to capitalised development costs (H. (11) and H. (13)).

(4) Cost of Materials

	2012	2011
	€K	€K
Cost of raw materials, consumables, supplies and purchased goods	7,916	5,996
Cost of purchased services	2,860	2,082
Total	10,776	8,078

(5) Personnel Expenses

	2012	2011
	€K	€K
Wages and salaries	11,351	9,990
Social security contributions	1,066	966
Contribution-oriented pension provisions	867	780
Stock options granted to employees	208	210
Total	13,492	11,946

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

Average annual employee numbers	2012	2011
Production	140	138
Research & Development	27	31
Quality Management	33	30
Sales	35	28
Administration	26	25
Total	261	252

Salary earners	144	138
Wage earners	117	114
Total	261	252

(6) Depreciation

Scheduled depreciation of fixed assets amounted to €1.073 million (previous year: €1.054 million) and of intangible assets to €2.027 million (previous year: €1.901 million). Extraordinary project write-downs in the financial year 2012 totalled €811K (previous year: €6K).

(7) Other Operating Expenses

	2012	2011

	€K	€K
Consulting costs	2,214	1,902
Premises costs	1,567	1,539
Advertising and travel expenses	1,320	1,124
Costs of research, analysis, sampling and sterilisation	1,147	1,105
Outgoing packaging, freight and merchandise transfer costs	658	514
Repairs and maintenance	592	513
Vehicle costs	477	446
Insurance, contributions, duties	470	468
Patent and other fees	416	450
Office costs, phone, fax, postage	400	385
Out-of-period expenses	349	831
Sales commission	335	51
Leasing (excluding vehicle leasing)	178	200
Recruitment costs	170	73
Further training costs	111	87
Losses and impairment of receivables	104	106
Supervisory Board remuneration	75	85
Personnel leasing	65	34
Currency differences	39	135
Other costs	523	718
Total	11,210	10,766

(8) Financial Result

	2012 €K	2011 €K
Other interest and similar income	29	58
Other interest and similar expenditure		
- Interest on long-term loans	-74	-99
- Interest on short-term loans	-130	-286
Other interest and similar expenses for other current liabilities	-316	-220
Total	-491	-547

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

	2012 €K	2011 €K
Income from exchange rate differences	33	26
Cost of exchange rate differences	-39	-137
Total	-6	-111

(9) Taxes on Income

Income tax expenses stated break down as follows:

Income tax expenses by origin	2012 €K	2011 €K
Taxes on income paid or owed in		
- Germany	9	5
- Other countries	387	216

	396	221
Tax accruals and deferrals		
- From acquisitions	117	-133
- From time differences	245	771
- From loss carryovers	-447	-639
- From equity transactions	0	3
	- 85	2
Total	311	223

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 January 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.

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

Deferred tax assets and liabilities	31.12.2012		31.12.2011	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	€K	€K	€K	€K
Intangible assets	0	505	0	544
Development costs	0	5,990	0	5,520
Fixed assets	0	113	0	117
Inventories	-25	76	0	73
Receivables from development orders	-9	2	0	38
Provisions	-13	0	-15	0
Loss carryovers	-4,548	0	- 4,101	0
	-4,595	6,687	- 4,116	6,292
Adjustments	4,595	-4,595	4,116	-4,116
Total	0	2,091	0	2,176

Deferred tax liabilities totalling €1.446 million (previous year: €1.329 million) were due to the first-time consolidation of the Dutch sub-group. A €999K write-up (H. (11)) of intangible assets led to deferred tax liabilities totalling €250K. Scheduled depreciation of undisclosed acquisition reserves uncovered in the course of the purchase price allocation led to deferred tax assets of €133K (previous year: €133K). Netted out against each other, the income tax effect amounts to €117K (previous year: €133K).

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

	31.12.2012		31.12.2011	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	€K	€K	€K	€K
From the use of existing tax carryovers	-4,548	0	-4,101	0
From consolidation	-34	0	0	25

From first-time consolidation of Dutch sub-group	0	1,446	0	1,329
From temporary differences	-13	5,240	- 15	4,938
	-4,595	6,686	4,116	6,292
Adjustments	4,595	-4,595	4,116	-4,116
Total	0	2,091	0	2,176

As of the end of the reporting year the sum total of corporation tax or trade tax loss carryovers for which no deferred tax entitlements were capitalised was about €6.8 million and €9.5 million respectively (previous year: €8.1 million and €10.9 million).

These tax carryovers 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 carryovers 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%).

Reconciliation of income tax expenses as per IFRS with theoretical tax expenses is as follows.

	2012 €K	2011 €K
Earnings before taxes	2,720	618
Theoretical tax expense/(income) 30.2% (previous year: 30.2%)	-821	-184
Tax effects on		
- Non-usable loss carryovers or utilisation of off-balance sheet loss carryovers and depreciation of loss carryovers	150	-65
- Tax rate differences within the Group	190	128
- Permanent differences	-95	-77
- Non-deductible expenses and applicable trade tax	-41	-46
- Tax-free income	307	21
Total adjustments	511	-39
Income tax expenses according to IFRS	310	-223
Effective tax rate in %	11%	37%

(10) Earnings per Share as per IAS 33

Undiluted earnings per share are calculated by dividing earnings by the shares for the period by the average weighted number of shares.

	2012	2011
Earnings after taxes (in €K)	2,410	392
Number of shares (in '000)	30,670	29,639
Earnings per share (in €)	0.079	0.013

Diluted earnings per share take into account stock options granted between 2006 and 2012.

	2012	2011
Earnings after taxes (in €K)	2,410	392
Number of shares (in '000)	30,883	29,639
Earnings per share (in €)	0.078	0.013

H. Notes on the Consolidated Balance Sheet

(11) Intangible Assets

Intangible assets	Goodwill	Develop-ment costs	Concessions, industrial property and similar rights and assets and licenses thereto	Customer relations and similar assets	Advance payments received	Total
	€K	€K	€K	€K	€K	€K
Cost of acquisition or manufacture						
As at 01.01.2012	16,508	32,377	15,562	3,661	170	68,278
Additions/disposals due to consolidation changes	0	0	0	0	0	0
Additions	0	2,738	257	0	0	2,995
Transfers	0	0	20	0	-20	0
Disposals	0	0	0	0	0	0
As at 31.12.2012	16,508	35,115	15,839	3,661	150	71,273
Accumulated depreciation						
As at 01.01.2012	4,018	12,092	12,904	1,017	0	30,031
Additions/disposals due to consolidation changes	0	0	0	0	0	0
Depreciation in the reporting year						
- Scheduled	0	1,353	429	244	0	2,026
- Unscheduled	0	811	0	0	0	811
Write-up	0	-999	0	0	0	-999
Transfers	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
As at 31.12.2012	4,018	13,257	13,333	1,261	0	32,869
Book value						
As at 31.12.2012	**12,490**	**21,858**	**2,506**	**2,400**	**150**	**39,403**

Intangible assets	Goodwill	Develop-ment costs	Concessions, industrial property and similar rights and assets	Customer relations and similar assets	Advance payments received	Total

			and licenses thereto			
	€K	€K	€K	€K	€K	€K
Cost of acquisition or manufacture						
As at 01.01.2011	16,508	29,332	15,456	3,661	170	65,127
Additions/disposals due to consolidation changes	0	0	0	0	0	0
Additions	0	3,045	109	0	0	3,154
Transfers	0	0	0	0	0	0
Disposals	0	0	-3	0	0	-3
As at 31.12.2011	16,508	32,377	15,562	3,661	170	68,278
Accumulated depreciation						
As at 01.01.2011	4,018	10,880	12,454	773	0	28,125
Additions/disposals due to consolidation changes	0	0	0	0	0	0
Depreciation in the reporting year						
- Scheduled	0	1,205	452	244	0	1,901
- Unscheduled	0	6	0	0	0	6
Write-ups	0	0	0	0	0	0
Transfers	0	0	0	0	0	0
Disposals	0	0	-2	0	0	-2
As at 31.12.2011	4,018	12,091	12,904	1,017	0	30,030
Book value						
As at 31.12.2011	**12,490**	**20,286**	**2,658**	**2,644**	**170**	**38,248**

Of the additions reported for the financial year, capitalised development costs accounted for €2.738 million (previous year: €3.045 million).

Long-term intangible assets excluding goodwill amount to €16.808 million (previous year: €15.346 million) in Germany and €10.105 million (previous year: €10.411 million) in the Netherlands.

(12) Goodwill

Allocation of Goodwill to Cash-Generating Units

The cash-generating units identified below were determined on the basis of the smallest group of assets identifiable by the *aap* Group in accordance with IAS 36.6 that generates inflows of funds from ongoing use and that is largely independent of inflows of funds from other assets or groups of assets. The goodwill was allocated to the Biomaterials cash-generating unit for the purpose of an impairment test.

	31.12.2012	31.12.2011
	€K	€K
Biomaterials	12,490	12,490

The goodwill results from the acquisition of the former *aap* bio implants Netherlands B.V., merged with its subsidiary European Medical Contract Manufacturing B.V. (EMCM) as of 01.01.2011, of Osartis GmbH & Co. KG

and of the majority shareholding in the former ADC Advanced Dental Care GmbH & Co. KG (since 01.07.2008: ADC Advanced Dental Care GmbH).

Annual Impairment Test

Irrespective of specific indications, the *aap* Group carries out annual impairment tests. Goodwill was found to be unimpaired so, as in the previous year, no write-downs were undertaken.

The amount achievable by the cash-generating unit 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. It is determined internally.

Impairment of the cash-generating unit's goodwill 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 11.2% (previous year: 11.62%). The discount rate after taxes was 7.9% (previous year: 8.92%). In determining the perpetuity a growth discount of 1.5% (previous year: 1.5%) of weighted average capital costs (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.

(13) Development Costs

Development costs totalling €2.738 million (previous year: €3.045 million) were capitalised in the reporting period. They included €505K (previous year: €580K) in directly attributable borrowing costs based on the average group financing cost rate of 5.75% (previous year: 6.32%). Development costs related for the most part to the following projects:

- Magnesium alloys as resorbable implant materials
- High-viscose arthoplasty bone cement with gentamicin and special monomer
- Silver coating of osteosynthesis products for treating fractures
- Anatomic osteosynthesis system for treating clavicular fractures and AC joint injuries
- Demineralised bone matrix
- Anti-adhesive to prevent post-operative adhesions
- Trauma prosthesis for treating acute fractions of the head of the humerus
- Anatomic implant system for an artificial knee joint
- Anatomic osteosynthesis system for treating corrective osteotomies in cases of varus/valgus malpositioning of the tibia and the femur

In addition, research and other development costs totalling €270K (previous year: €567K) were capitalised as expenses. Write-downs in the reporting period totalled €1.354 million (previous year: €1.211 million).

Irrespective of specific indications, the *aap* Group carries out annual impairments tests of 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. Determination of

useful value is based on cash flow planning approved by the Management Board and valid at the time when the impairment test is carried out. In principle it covers a period of four years.

The discount rates used were derived from market data and the project-specific risk run by the underlying development project and amount to between 13.1% and 18.8% p.a. (previous year: between 11.3% and 14.1%) before and between 7.9% and 9.4% p.a. (previous year: between 8.9% and 10.7%) after taxes. There was an unscheduled depreciation requirement of €811K (previous year: €6K).

Impairment of the cash-generating unit's goodwill 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 11.2% (previous year: 11.62%). The discount rate after taxes was 7.9% (previous year: 8.92%). In determining the perpetuity a growth discount of 1.5% (previous year: 1.5%) of weighted average capital costs (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.

(14) Other Intangible Assets

The other intangible assets are customer relationships worth €2.400 million (previous year: €2.644 million) identified in the course of purchase price allocation and industrial property rights and similar rights to the value of €2.505 million (previous year: €2.658 million) along with €150K (previous year: €170K) in advance payments.

Write-downs amounting to €673K (previous year: €696K) were made in the reporting period.

(15) Tangible Fixed Assets

Fixed assets	Land, land rights and buildings, incl. buildings on third-party land	Technical plant and machinery	Other plant, factory and office equipment	Advance payments received	Total
	€K	€K	€K	€K	€K
Cost of acquisition or manufacture					
As at 01.01.2012	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
Transfers	0	90	0	-90	0
Disposals	0	-57	-231	0	-288
As at 31.12.2012	2,451	14,329	4,870	47	21,697
Accumulated depreciation					
As at 01.01.2012	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
Transfers	0	0	0	0	

Disposals	0	-55	-221	0	-276
Write-ups	0	0	0	0	
As at 31.12.2012	1,780	11,099	3,711	0	16,590
Book value					
As at 31.12.2012	**671**	**3,230**	**1,159**	**47**	**5,107**

Fixed assets	Land, land rights and buildings, incl. buildings on third-party land	Technical plant and machinery	Other plant, factory and office equipment	Advance payments received	Total
	€K	€K	€K	€K	€K
Cost of acquisition or manufacture					
As at 01.01.2011	2,390	13,006	4,754	79	20,229
Additions/disposals due to consolidation changes	0	0	0	0	0
Additions	10	545	320	53	928
Transfers	0	0	41	-41	0
Disposals	0	-36	-102	0	-138
Stand 31.12.2011	2,400	13,515	5,013	91	21,019
Accumulated depreciation					
As at 01.01.2011	1,611	9,813	3,605	0	15,029
Additions/disposals due to consolidation changes	0	0	0	0	0
Depreciation in the reporting year	88	673	293	0	1,054
Transfers	0	0	0	0	0
Disposals	0	-35	-100	0	-135
Write-ups	0	0	0	0	0
Stand 31.12.2011	1,699	10,451	3,798	0	15,948
Book value					
As at 31.12.2011	**701**	**3,064**	**1,215**	**91**	**5,071**

The book value of leased fixed assets as of December 31, 2012 was €602K (previous year: €389K). The Group's €499K (previous year: €226K) in commitments arising from these finance leases is covered by the lessors' rights to the leasing items.

The book value of fixed assets assigned as collateral for liabilities is €1.444 million (previous year: €1,312 million).

€3.379 million (previous year: €3.532 million) of the tangible fixed assets are in Germany and €1.728 million (previous year: €1.539 million) in the Netherlands.

(16) Investments Stated at Equity

Book values of Group investments in joint ventures stated at equity changed as follows:

Book values of investments stated at equity	2012	2011
	€K	€K

Book values as at 01.01.	**0**	**0**
Acquisitions	56	0
Other additions	0	0
Disinvestments	0	0
Other disposals	0	0
Pro rata result after taxes	-1	0
Book values as at 31.12.	**55**	**0**

The investment consists solely of *aap* BM productions GmbH, Dieburg, and is held for strategic reasons.

The purchase price for the equity in *aap* BM productions GmbH was €27K and was paid in full in cash. The acquisition included €25K in cash. The price for the transfer of 50% of the equity was €1.0 million and has yet to be paid. In connection with the sale €25K in cash was handed over (C. 8.).

The following tables show a summary of the aggregated income statements and balance sheets of investments stated at equity in *aap*'s consolidated financial statements.

Aggregated results of financial investments stated at equity	2012 €K	2011 €K
Sales	0	0
Gross earnings on sales	0	0
Annual result	-2	0
Pro rata result before taxes	-1	0
Current result before taxes of financial investments stated at equity	**-1**	**0**
Result of impairment/other disposals of holdings before taxes	0	0
Earnings before taxes of financial investments stated at equity	**-1**	**0**

Aggregated balance sheet data of financial investments stated at equity	2012 €K	2011 €K
Non-current assets	1,000	0
Current assets	25	0
Non-current debts	0	0
Current debts	2	0
Equity capital	1,023	0
Book value of financial investments stated at equity	**55**	**0**

(17) Other Financial Assets

Participating interests	2012		2011	
	€K	Shareholding	€K	Shareholding
1. AEQUOS Endoprothetik GmbH, Munich	356	4.57%	356	4.57%
2. Rofil Medical International N.V., Breda, Netherlands	0	10%	0	10%
Total	356		356	

The **portfolio value** corresponds to the fair value of the participating interests. The insolvency proceedings in respect of the assets of Rofil Medical International N.V., opened in 2007, have yet to be completed.

(18) Inventories

	2012 €K	2011 €K
Raw materials, consumables and supplies	2,784	3,210
Work in progress	2,949	2,309
Finished products and merchandise	8,116	8,378
Advance payments	94	94
Total	13,943	13,991

The inventories include goods returned to the value of €86K (previous year: €515K). The returns can, for the most part, be resold to customers.

Value adjustments of inventories shown in the cost of materials (G (4)) developed as follows:

	2012 €K	2011 €K
Accumulated value adjustments as of January 1	**3,219**	**2,847**
Thereof		
- Marketability discounts	2,935	2,229
- Stated net realisable value	284	618
Expenditure in the reporting period – Marketability discounts	702	706
Expenditure in the reporting period – Net realisable value	0	80
Reversal of asset impairment/Utilisation	-27	- 414
Accumulated value adjustments as of December 31	**3,895**	**3,219**
Thereof		
- Marketability discounts	3,638	2,935
- Stated net realisable value	257	284

The book value of inventories stated at their net residual value was €382K (previous year: €669K). No inventories (previous year: €471K) were assigned as collateral for liabilities. Reversals of asset impairment in the reporting year 2012 totalled €27K (previous year: €414K), circumstances that led to their impairment in previous years having changed.

(19) Trade Receivables

Trade receivables less write-downs totalled €4.226 million (previous year: €5.508 million) as of the balance sheet date. All were due within a year (previous year: €5.467 million). The sum total is shown under current assets. Individual value adjustments are made if customers are likely to have payment difficulties. Furthermore, lump-sum value adjustments are made in respect of general interest, processing and credit risks.

Value adjustments for trade receivables stated under other operating expenses (G (7)) developed as follows:

	2012 €K	2011 €K
Accumulated value adjustments as of January 1	**340**	**412**
Expense in the reporting period	84	62
Recourse to value adjustment	-113	-107

Payments received and impairment reversal of receivables originally written off	0	-27
Accumulated value adjustments as of December 31	**311**	**340**

As of December 31, 2012 the maturity structure of Trade Receivables was as follows:

	Book value	Neither overdue nor value-adjusted	Of which not value adjusted as of the balance sheet date and overdue in subsequent periods				
			Up to 3 months			Up to 3 months	
	31.12.2012						
	€K	€K	€K	€K	€K	€K	€K
Trade receivables	4,226	2,572	974	119	59	258	244

	Book value	Neither overdue nor value-adjusted	Of which not value adjusted as of the balance sheet date and overdue in subsequent periods				
			Up to 3 months			Up to 3 months	
	31.12.2011						
	€K	€K	€K	€K	€K	€K	€K
Trade receivables	5,508	3,647	1,100	233	219	14	295

Trade receivables do not bear interest and as a rule 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 balance sheet date there are no indications that the debtors will not fulfil their payment obligations.

Current and future trade receivables totalling €4.441 million (previous year: €3.878 million) were assigned as collateral for liabilities.

(20) Other Financial Assets

	31.12.2012	31.12.2011
	€K	€K
Public sector grants	178	116
Warranty receivables	33	17
Other	1,120	198
	1,331	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.

The value adjustments to Other Financial Assets stated under Other Operating Expenses (G (7)) developed as follows:

	2012	2011
	€K	€K
Accumulated value adjustments as of January 1	**12**	**2**

Expense in the reporting period	0	10
Write-up/Recourse to value adjustment	-12	0
Accumulated value adjustments as of December 31	**0**	**12**

As of December 31, 2012 the maturity structure of Other Financial Assets was as follows:

	Book value	Neither overdue nor value-adjusted	Of which not value adjusted as of the balance sheet date and overdue in subsequent periods				
			Up to 3 months			Up to 3 months	
	31.12.2012						
	€K	€K	€K	€K	€K	€K	€K
Other financial assets	1,331	1,298	0	0	0	0	33

	Book value	Neither overdue nor value-adjusted	Of which not value adjusted as of the balance sheet date and overdue in subsequent periods				
			Up to 3 months			Up to 3 months	
	31.12.2011						
	€K	€K	€K	€K	€K	€K	€K
Other financial assets	331	302	0	0	0	0	29

For the non value adjusted but overdue receivables there were no indications as of the balance sheet date that the debtors would not fulfil their payment obligations.

(21) Other Assets

	31.12.2012	31.12.2011
	€K	€K
Tax refund entitlements	292	287
Accruals	179	207
	471	494

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

(22) Income Tax Receivables

Income tax receivables as of December 31, 2012 totalled €0K (previous year: €0K).

(23) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist solely of cash in hand and with banks totalling €3.698 million (previous year: €2.152 million).

(24) Equity

The company's subscribed capital as of December 31, 2012 amounted to €30,670,056 (previous year: €30,670,056) and was divided into 30,670,056 (previous year: 30,670,056) fully paid-up bearer shares each with a nominal value of €1 (previous year: €1).

Retained earnings contain the statutory reserve totalling €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. To offset the balance sheet loss the Management Board resolved to withdraw the sum of €21,913,730.79 from the capital reserve.

Conditional Capital

As of December 31, 2012, *aap* Implantate AG had at its disposal conditional capital up to a nominal €2,311,100 or up to 2,311,100 shares to fulfil stock options exercised. In detail:

The General Meeting held on July 6, 2012 waived by €567,500 the conditional increase in capital stock by up to 629,500 (originally 1,200,000) shares approved by the General Meeting held on June 30, 2006. The company's capital stock was thereby conditionally increased by up to €62,000 by the issue of up to 62,000 new bearer shares. The new shares are entitled to a share in profits from the beginning of the financial year in which they are issued (Conditional Capital 2006/I). The Conditional Capital 2006/I serves the purpose of fulfilling the exercise of option rights granted by December 31, 2008 on the basis of the authorisation approved by the General Meeting held on June 30, 2006. The authorisation of the Management Board and Supervisory Board approved by the General Meeting held on September 29, 2008 to issue stock options was waived 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 €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 authorisation approved by the General Meeting held on September 29, 2008.

The General Meeting held on July 16, 2010 waived by €570,500 the conditional increase in capital stock by up to 1,200,000 shares approved by the General Meeting held on June 30, 2006. The company's capital stock was thereby conditionally increased by up to €629,500 by the issue of up to 629,500 new bearer shares. The new shares are entitled to a share in profits from the beginning of the financial year in which they are issued (Conditional Capital 2006/I). The Conditional Capital 2006/I serves the purpose of fulfilling the exercise of option rights granted by December 31, 2008 on the basis of the authorisation approved by the General Meeting held on June 30, 2006. The authorisation of the Management Board and Supervisory Board approved by the General Meeting held on September 29, 2008 to issue stock options was waived insofar as it had yet to be exercised by issuing stock options, in other words in respect of 512,500 stock options. The company's capital stock was therefore increased conditionally (Conditional Capital 2008/I) by up to €672,500 by the issue of up to 672,500 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 authorisation approved by the General Meeting held on September 29, 2008.

The General Meeting held on July 16, 2010 approved a conditional increase in the capital stock by up to €1,486,000 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 authorisation approved by the General Meeting held on July 16, 2010. The General Meeting held on July 6, 2012 waived by €139,400 the conditional increase in capital stock by up to

1,486,000 shares approved by the General Meeting held on July 6, 2010. The company's capital stock was therefore increased conditionally by up to €1,346,000 by the issue of up to 1,346,000 new bearer shares.

The General Meeting held on July 6, 2012 approved a conditional increase in the capital stock by up to €300,000 by the issue of up to 300,000 new bearer shares. 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 December 19, 2014 on the basis of the authorisation approved by the General Meeting held on July 6, 2012.

Authorisations

2006 Stock Option Program

The General Meeting held on June 30, 2006 authorised the Management Board or, if Management Board members were among the beneficiaries, the Supervisory Board to launch by December 31, 2008 stock option programs for *aap* Management Board members and members of the management of affiliated companies as defined in Section 15 ff. of the German Stock Corporation Act (AktG) and to grant options rights to up to 1,200,000 shares in the company with a residual term of up to four years from the date of issue. In any one calendar year, stock option programs are only to establish option rights that entitle the holders to a maximum of 600,000 shares. Existing shareholders are not entitled to subscribe to the new shares. Fulfilment of option rights exercised may be by making use of either Conditional Capital 2006/I or by future share buyback authorisations at the company's discretion.

The total volume of option rights is to be allocated to the groups of people who are entitled to them as follows:

- 65% to members of the *aap* Management Board and of the managements of affiliated companies,
- 35% to employees of the company and of affiliated companies.

Stock options will only be granted to the groups of people who are entitled to them between the tenth and twentieth stock market trading days after publication of *aap*'s quarterly or annual financial statements.

The exercise price to be paid per share on exercising the option is based on the average closing auction price of the *aap* Implantate AG share in XETRA trading (or a functionally comparable successor system) on the Frankfurt Stock Exchange on the ten trading days prior to the issue date and for at least the lowest issue price as per Section 9 (1) AktG, or no less than each share's €1 share in the company's capital stock.

Option rights may only be exercised if the average closing auction price of the *aap* Implantate AG share in XETRA trading (or a functionally comparable successor system) on the Frankfurt Stock Exchange on the ten trading days prior to the day on which the option right is exercised is at least 10% higher than the share price on the issue date.

Option rights may only be exercised two years after the issue date at the earliest.

2008 Stock Option Program

The General Meeting held on September 29, 2008 authorised the Management Board or, if Management Board members are among the beneficiaries, the Supervisory Board to launch by September 28, 2013 stock option programs for people who belong to a category of person specified at (1) below and to issue up to 1,200,000 stock options, each with a right to one share in the company, with a residual term of up to five years from the date of issue as defined at (3) below. Existing shareholders are not entitled to subscribe to the new shares. Stock options may also be taken over by a bank subject to the requirement that it transfers them as instructed by the company to the individual persons entitled as per (1) below; in this case too, options may only be exercised by the entitled person. Fulfilment of option rights exercised may, at the company's discretion, be either by making use of the Conditional Capital 2008/I or by allocating Treasury stock. The granting of options to buy shares in the company and the issue of these shares are subject to the following provisions:

(1) Entitled persons

Those entitled to acquire stock options and to buy shares in the company are:

(i) Members of the company's Management Board,

(ii) Selected executives of the company and members of the management, but the latter only if on the day of issue that are not at the same time entitled in accordance with (i) above as members of the company's Management Board, and selected executives of affiliated companies as defined in Section 15 AktG (hereinafter referred to as "affiliated companies"),

(iii) Employees of the company and of affiliated companies.

The total volume of option rights is to be shared out as follows:

Up to 800,000 stock options:	to members of the company's Management Board,
Up to 200,000 stock options:	to selected executives of the company and members of the management, but the latter only if on the date of issue they are not at the same t5ime entitled in accordance with (i) above, and selected executives of affiliated companies,
Up to 200,000 stock options:	to employees of the company and of affiliated companies.

The number of stock options granted to Management Board members must be stated yearly in the Notes to the Annual Financial Statements listing the names of the beneficiaries and the number of stock options granted to them. The same applies to the number of option rights exercised by Management Board members in the reporting year, to the exercise prices paid and to the number of stock options still held by Management Board members at the year's end.

(2) Right to Purchase Shares

Each stock option grants the holder the right to purchase one bearer share certificate in return for payment of the exercise price as defined at (4) below. New shares are entitled to a share in profits from the beginning of the financial years for which, at the time the option right was exercised, a General Meeting had yet to decide on the distribution of balance sheet profits.

(3) Purchase Periods

Stock options are to be issued in no fewer than three tranches subject to the provision that no tranche must account for more than 50% of the total volume. Stock options may only be issued to entitled persons between the tenth and twentieth stock market trading day after publication of the company's quarterly or annual report (the day on which the option agreement, signed by the company, is issued to the entitled person is termed the "issue date").

(4) Exercise Price

The exercise price to be paid when exercising an option right to acquire a share certificate corresponds to the average of the closing auction prices of the *aap* Implantate AG share in XETRA trading (or a functionally comparable successor system) at the Frankfurt Stock Exchange over the last 20 trading days before the issue date, but is at least the lowest issue price according to Section 9 (1) AktG and is therefore not less than each share's €1 pro rata share of the capital stock.

(5) Adjustment in the Event of Capital Measures

Option terms and conditions may, in the case of measures undertaken during the term of stock options that influence the value of the options (a capital increase with a direct or indirect right for

existing shareholders to buy shares, the sale of Treasury stock or the issue of stock warrants with conversion and/or option rights to shares in the company), provide for adjustments of the exercise price and/or purchase terms and conditions. There will be no price reduction if entitled persons are granted a direct or indirect right to purchase the new shares or Treasury stock that puts them in a position as if they had exercised the option. In addition, the option terms and conditions can provide for an adjustment of option rights in the case of a capital increase from company funds and a capital reduction, a share split or share consolidation, and premiums and/or extraordinary distributions in cash or kind in keeping with practice on German and international futures markets without prejudice to Section 9 (1) AktG.

(6) Performance Targets

Purchase rights to stock options may only be exercised if the average closing auction price of the *aap* Implantate AG share in XETRA trading (or a functionally comparable successor system) at the Frankfurt Stock Exchange over the last 20 trading days before the day on which the option right is exercised is at least 20% higher than the exercise price (absolute hurdle).

(7) Waiting Periods

Option rights granted to individual entitled persons may be exercised at the earliest after a waiting period of two years from the issue date. At the earliest, 25% of the total may be exercised two years after the issue date, a further 25% three years after the issue date, a further 25% four years after the issue date and the final 25% five years after the issue date.

(8) Exercise Periods

Once the above waiting periods have elapsed, purchase rights arising from the stock options may be exercised at any time except the following:

- From the last day on which shareholders can register to attend the company's Annual Meeting until the third bank working day in Frankfurt am Main after the General Meeting;
- From the day of publication in an official journal of the Frankfurt Stock Exchange for company announcements of a rights offer for new shares or stock warrants with conversion and/or option rights to shares in the company until the day on which the purchase period ends;
- During the four weeks prior to publication of the company's quarterly or annual report.

(9) Personal Law

Only the entitled persons themselves may exercise stock options. This applies even if the stock options have been taken over by a bank subject to the provision that it will transfer them to individual entitled persons as instructed by the company. The right to dispose of stock options is ruled out and they are, in particular, non-transferable. Stock options may, however, be bequeathed. The option terms and conditions may, in deviation herefrom, make special provision for the event that the entitled person dies or retires or ends his or her employment with the company or affiliated company in any other way that does not involve termination of contract or the affiliated company leaving the *aap* Group.

(10) Expiry

(a) Stock options expire six years after the issue date.

(b) Stock options that are not exercised also expire on receipt of written notice by the company of termination of the option rights agreement. One month's notice may be served if a creditor of the entitled person has applied to foreclose on his or her stock options, if insolvency proceedings are opened on the entitled person's assets, if insolvency proceedings are not opened due to insufficient assets or if the a entitled person is in breach of material obligations

with regard to the law, the company's articles of association or his or her contract of employment with the company or an affiliated company or to the option rights agreement.

(c) Stock options that are not exercised also expire as soon as the entitled person's contract of employment is terminated by notice being served or for other reasons, such as the end of a fixed-term contract, be it as a Management Board member, selected executive or employee of the company or as a managing director, selected executive or employee of an affiliated company. In the case of termination or cancellation being served, the time of receipt of the notice or the effective conclusion of the cancellation agreement will count – even if it only takes effect at a future date. Stock options granted to a member of the company's Management Board or the management of an affiliated company in such capacity also expire when the Management Board member or member of the management of an affiliated company retires or is dismissed.

(d) If the end of employment by the company or an affiliated company coincides with taking up a new appointment with the company or with an affiliated company, the stock options granted to an entitled person will not expire. The same applies to the end of a term as director if it is followed by a renewal of contract with the company or by a contract as director with an affiliated company.

(e) Stock options granted to an entitled person likewise do not expire if his or her employment ends by reaching retirement age or by invalidity or death. In cases such as these the entitled person or the heirs of the deceased entitled person is entitled to exercise the option rights on expiry of the waiting period as defined at (7) sentence 2 (above). If they are not exercised during this exercise period, they will then expire.

(11) Cash Settlement

Instead of buying new shares, an entitled person may also be granted a cash settlement. The Management Board decides on the exercise of this option, with the Supervisory Board taking its place if members of the Management Board are involved. The cash settlement corresponds to the difference between the exercise price and the average closing auction price of the *aap* Implantate AG share in XETRA trading (or a functionally comparable successor system) at the Frankfurt Stock Exchange over the last 20 trading days before the day on which option rights arising from stock options are exercised.

(12) Regulation of Details

The Management Board is authorised to specify further details for the issue of shares from conditional capital and to lay down the further terms and conditions of the stock option program, including the option conditions for the groups of people entitled to options. As an exception to this rule the company's Supervisory Board shall decide where members of the Management Board are concerned. These further details include in particular provisions with regard to the allocation of option rights within the groups in question, the issue date within the specified period, the allocation procedure for individual entitled persons and the exercise of option rights and other procedural arrangements.

2010 Stock Option Program

The Management Board and, if members of the company's Management Board are among the beneficiaries, the company's Supervisory Board are authorised to launch by December 19, 2011 for people who belong to a category of person specified at (1) below a stock option program ("2010 Stock Option Program") and to issue up to 1,486,000 stock options, each with a right to subscribe ("subscription right") to one share in the company, with a residual term of up to eight years from the day after the issue date as defined at (6) below. Existing shareholders are not entitled to subscribe to the new shares. Stock options may also be taken over by a bank subject to the requirement that it transfers them as instructed by the company to the individual persons entitled as per (1) below; in this case too, options may only be exercised by the entitled person. Fulfilment of

subscription rights that are exercised may, at the company's discretion, be either by making use of the conditional capital that is up for approval, by allocating Treasury stock or by means of a cash settlement. The granting of options to buy shares in the company and the issue of these shares is subject to the following provisions:

(1) Entitled Persons

As part of the 2010 Stock Option Program subscription rights are to be granted to employees and Management Board members of the company and to employees and members of the management of affiliated companies.

(2) Purchase of Stock Options

The granting of stock options will be by the conclusion of an option agreement between the company and the individual entitled person.

Each subscription right entitles the holder to purchase one bearer share in the company in return for payment of the exercise price. New shares are entitled to a share in profits from the beginning of the financial year in which they originate. The option terms and conditions may provide for the company to offer the entitled person in fulfilment of the subscription right Treasury stock or a cash settlement instead of new shares from conditional capital. Details are to be laid down by the Management Board or, if the Management Board is affected, by the Supervisory Board.

(3) Purchase Periods

Stock options are to be issued in two annual tranches subject to the proviso that no single tranche may account for more than 60% of the total volume. An option agreement must be signed during a purchase period in 2010 and 2011. The purchase periods are as follows:

- The fourth and the nine following bank working days after the company's General Meeting ("purchase period 1"),
- The fourth and the nine following banking working days after publication of the company's quarterly report on the third quarter of a financial year ("purchase period 2").

Granting of subscription rights on the basis of this resolution will be permitted for the last time in purchase period 2 of 2011.

Stock options issued during a purchase period make up a tranche, so that over a period of two years two annual tranches may be issued.

If stock options issued expire before the end of the last purchase period, they can be reoffered to other members of the group in question as defined at (5) below.

(4) Exercise Price

Stock options are issued to entitled persons free of charge. Each stock option issued entitles the holder to purchase one share in the company at the exercise price. The exercise price for stock options issued a tranche is the average (arithmetic mean) closing price of the *aap* share in electronic trading (Xetra or a successor system) at the Frankfurt Stock Exchange on the five trading days following the first day of the exercise period. A trading day here means a day on which Frankfurt Stock Exchange quotes prices for the company's share in electronic trading.

The pecuniary advantage that the entitled person gains by exercising the subscription right (the difference between the final auction price of the *aap* share in Xetra trading of a comparable successor system on the subscription right is exercised and the exercise price) must not exceed four times the exercise price (the "ceiling") specified on issue. If the ceiling is exceeded the exercise price is adjusted and corresponds to the difference between the final auction price of the *aap* share in Xetra trading (or

a comparable successor system) at the Frankfurt Stock Exchange on the day the subscription right is exercised and four times the exercise price. The Management Board or, if members of the Management Board are affected, the Supervisory Board may in individual cases decide to reduce the ceiling appropriately.

If during the term of the stock options the granting of a subscription right to shareholders leads to the company's capital stock is increased by the issue of new shares or own shares or bonds with conversion or option rights to shares in the company, the option terms and conditions may provide for an adjustment of the exercise price in a ratio that corresponds to the average price for shareholders' subscription rights on all trading days at the Frankfurt Stock Exchange in relation to the closing auction price for shares in the company in Xetra trading (or a comparable successor system) at the Frankfurt Stock Exchange on the last trading day before the deduction of subscription rights. The adjustment will not apply if no trading in subscription rights takes place or the holders of stock options are offered a subscription right that corresponds to the one offered to shareholders.

The option terms and conditions may also provide for an adjustment in the case of capital measures (a share consolidation or split, capital increase from company funds, capital reduction) during the term of the subscription rights.

The minimum exercise price is any case the lowest issue price as defined by Section 9 (1) AktG.

(5) Allocation

Of the total possible subscription rights to up to 1,486,000 shares, subscription rights may be granted

- for up to 40% of the shares to the group of Management Board members ("Group 1") and
- for up to 60% of the shares to the group of employees in the company and members of the management and employees of affiliated companies ("Group 2").

Precise details of the group of entitled persons and the number of stock options to be offered to them are specified by the Management Board or, if they are to be offered to members of the Management Board, by the Supervisory Board. A double allocation based on member of both groups is ruled out. Existing shareholders are not entitled to a subscription right.

(6) Waiting Period, Exercise Periods, Final Exercise

Subscription rights arising from stock options may first be exercised after the end of the waiting period and then until the end of the option period. The waiting period is four years and the option period eight years.

Subscription rights may only be exercised during four weeks (the exercise periods) beginning on the second trading day at the Frankfurt Stock Exchange

- after the company's Annual General Meeting,
- after the day on which the management makes the annual report, the half-yearly financial report or the interim report for the first or third quarter of the financial year available to the public.

The waiting period and the option period begin on the day after the issue of the stock options. That being so, subscription rights granted during the purchase period 1 of 2010 can be exercised for the last time in 2018. Subscription rights granted in subsequent purchase period can be exercised for the last time on the same basis, so that subscription rights grants in the final purchase period 2 of 2011 can be exercised for the last time in 2019. Subscription rights that are not exercised lapse.

(7) Performance Target

Subscription rights arising from stock options may only be exercised if the final auction price for shares in the company in Xetra trading (or a comparable successor system) at the Frankfurt Stock Exchange is at least 10% higher than the exercise price on the last trading day before the exercise date.

(8) Further Exercise Conditions

The option agreement must state that only people in an unterminated employment or service relationship with the company or with an affiliated company may exercise subscription rights. In deviation from this, the subscription right is only to be retained in the immediate instance and for the following exercise period if the employment relationship was terminated due to permanent ill health, to incapacity to work or to reaching retirement age. In further deviation, the subscription right is also to be retained if the Management Board or, if members of the Management Board are affected, the Supervisory Board decides in an individual instance that the exercise entitlement shall continue to exist. Transferability of subscription rights must be ruled out. In the event of the holder's death, subscription rights must be inheritable. The option agreement must also make provisions for adjusting the exercise conditions in the event of capital measures by the company and for the beneficiaries to be responsible for all taxes and duties.

The Management Board is authorised to specify the further details of the issue of shares from the conditional capital increase and the further conditions of the 2010 stock option plan. The Management Board is authorised, subject to the Supervisory Board's consent, to determine the further details of the implementation of the capital increase. Insofar as the stock option plan and implementation of the capital increase affect the Management Board, these authorisations are entrusted to the Supervisory Board.

2012 Stock Option Program

The Management Board is authorised to launch by December 19, 2014 for people who belong to a category of person specified at (1) below a stock option program ("2012 Stock Option Program") and to issue up to 300,000 stock options, each with a right to subscribe ("subscription right") to one share in the company, with a residual term of up to eight years from the day after the issue date as defined at (4) below. Existing shareholders are not entitled to subscribe to the new shares. Stock options may also be taken over by a bank subject to the requirement that it transfers them as instructed by the company to the individual persons entitled as per (1) below; in this case too, options may only be exercised by the entitled person. Fulfilment of subscription rights that are exercised may, at the company's discretion, be either by making use of the conditional capital that is up for approval, by allocating Treasury stock or by means of a cash settlement. The granting of options to buy shares in the company and the issue of these shares is subject to the following provisions:

(1) Entitled Persons

As part of the 2012 Stock Option Program subscription rights are to be granted to employees of the company and to employees of affiliated companies. Subscription rights are not to be granted to members of the Management Board.

(2) Purchase of Stock Options

The granting of stock options will be by the conclusion of an option agreement between the company and the individual entitled person.

Each subscription right entitles the holder to purchase one bearer share in the company in return for payment of the exercise price. New shares are entitled to a share in profits from the beginning of the financial year in which they originate. The option terms and conditions may provide for the company to offer the entitled person in fulfilment of the subscription right Treasury stock or a cash settlement instead of new shares from conditional capital. Details are to be laid down by the Management Board.

(3) Purchase Periods

Stock options are to be issued in two annual tranches subject to the proviso that no single tranche may account for more than 60% of the total volume. An option agreement must be signed during a purchase period in 2012, 2013 and 2014. The purchase periods are as follows:

- The fourth and the nine following bank working days after the company's General Meeting ("purchase period 1"),
- The fourth and the nine following banking working days after publication of the company's quarterly report on the third quarter of a financial year ("purchase period 2").

Granting of subscription rights on the basis of this resolution will be permitted for the last time in purchase period 2 of 2014.

Stock options issued during a purchase period make up a tranche, so that over a period of two years two annual tranches may be issued.

If stock options issued expire before the end of the last purchase period, they can be reoffered to other entitled persons.

(4) Exercise Price

Stock options are issued to entitled persons free of charge. Each stock option issued entitles the holder to purchase one share in the company at the exercise price. The exercise price for stock options issued a tranche is the average (arithmetic mean) closing price of the *aap* share in electronic trading (Xetra or a successor system) at the Frankfurt Stock Exchange on the five trading days following the first day of the exercise period. A trading day here means a day on which Frankfurt Stock Exchange quotes prices for the company's share in electronic trading.

The pecuniary advantage that the entitled person gains by exercising the subscription right (the difference between the final auction price of the *aap* share in Xetra trading of a comparable successor system on the subscription right is exercised and the exercise price) must not exceed four times the exercise price (the "ceiling") specified on issue. If the ceiling is exceeded the exercise price is adjusted and corresponds to the difference between the final auction price of the *aap* share in Xetra trading (or a comparable successor system) at the Frankfurt Stock Exchange on the day the subscription right is exercised and four times the exercise price. The Management Board or, if members of the Management Board are affected, the Supervisory Board may in individual cases decide to reduce the ceiling appropriately.

If during the term of the stock options the granting of a subscription right to shareholders leads to the company's capital stock is increased by the issue of new shares or own shares or bonds with conversion or option rights to shares in the company, the option terms and conditions may provide for an adjustment of the exercise price in a ratio that corresponds to the average price for shareholders' subscription rights on all trading days at the Frankfurt Stock Exchange in relation to the closing auction price for shares in the company in Xetra trading (or a comparable successor system) at the Frankfurt Stock Exchange on the last trading day before the deduction of subscription rights. The adjustment will not apply if no trading in subscription rights takes place or the holders of stock options are offered a subscription right that corresponds to the one offered to shareholders.

The option terms and conditions may also provide for an adjustment in the case of capital measures (a share consolidation or split, capital increase from company funds, capital reduction) during the term of the subscription rights.

The minimum exercise price is any case the lowest issue price as defined by Section 9 (1) AktG.

(5) Allocation

There is no division into different groups of entitled persons because the options are to be granted solely to employees of the company and employees of affiliated companies, these constituting a single group of entitled persons.

Precise details of the group of entitled persons and the number of stock options to be offered to them are to be specified by the Management Board. A double allocation based on member of both groups is ruled out. Existing shareholders are not entitled to a subscription right.

(6) Waiting Period, Exercise Periods, Final Exercise

Subscription rights arising from stock options may first be exercised after the end of the waiting period and then until the end of the option period. The waiting period is four years and the option period eight years.

Subscription rights may only be exercised during four weeks (the exercise periods) beginning on the second trading day at the Frankfurt Stock Exchange

- after the company's Annual General Meeting,
- after the day on which the management makes the annual report, the half-yearly financial report or the interim report for the first or third quarter of the financial year available to the public.

The waiting period and the option period begin on the day after the issue of the stock options. That being so, subscription rights granted during the purchase period 1 of 2012 can be exercised for the last time in 2020. Subscription rights granted in subsequent purchase period can be exercised for the last time on the same basis, so that subscription rights grants in the final purchase period 2 of 2014 can be exercised for the last time in 2022. Subscription rights that are not exercised lapse.

(7) Performance Target

Subscription rights arising from stock options may only be exercised if the final auction price for shares in the company in Xetra trading (or a comparable successor system) at the Frankfurt Stock Exchange is at least 10% higher than the exercise price on the last trading day before the exercise date.

(8) Further Exercise Conditions

The option agreement must state that only people in an unterminated employment or service relationship with the company or with an affiliated company may exercise subscription rights. In deviation from this, the subscription right is only to be retained in the immediate instance and for the following exercise period if the employment relationship was terminated due to permanent ill health, to incapacity to work or to reaching retirement age. In further deviation, the subscription right is also to be retained if the Management Board or, if members of the Management Board are affected, the Supervisory Board decides in an individual instance that the exercise entitlement shall continue to exist. Transferability of subscription rights must be ruled out. In the event of the holder's death, subscription rights must be inheritable. The option agreement must also make provisions for adjusting the exercise conditions in the event of capital measures by the company and for the beneficiaries to be responsible for all taxes and duties.

The Management Board is authorised to specify the further details of the issue of shares from the conditional capital increase and the further conditions of the 2012 stock option plan. The Management Board is authorised, subject to the Supervisory Board's consent, to determine the further details of the implementation of the capital increase.

Treasury Stock

The General Meeting held on August 7, 2009 authorised the company to buy Treasury stock up to a nominal €1.0 million of its capital stock. This authorisation, which was limited until February 4, 2011, was waived from

when the new authorisation approved at the General Meeting held on July 16, 2010 came into force. The authorisation to use own shares acquired on the basis of the August 7, 2009 resolution remains in force. These shares, together with any other Treasury stock held by the company or attributable to it by the terms of Section 71a ff. AktG, must at no time exceed 10% of the capital stock. The authorisation may not be used for the purpose of trading in the company's shares.

The authorisation 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 authorisation 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, 2012 *aap* Implantate AG held approved capital to a face value of €15,335,028 that may be issued in tranches with different time limitations totalling up to 15,335,028 bearer shares. Details as follows:

The General Meeting held on August 27, 2007 authorised the Management Board to increase the company's capital stock, subject to approval by the Supervisory Board, by August 26, 2012 on one more occasions by up to €2,988,935 in cash or kind (Approved Capital 2007) and, as agreed with the Supervisory Board, to lay down the terms and conditions of the share issue. Subject to Supervisory Board approval, subscription rights for existing 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 thenew shares is not substantially lower than the market price (Section 186 (3) 4 AktG),

c) To issue shares in return for contributions as part of an acquisition of companies, parts of companies or participations in companies (including conversions by the terms of the Conversion 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 (so-called equity kickers),

g) To repay loans or other liabilities.

After partial utilisation the Approved Capital 2007 now stands at €1,721,578.

The General Meeting held on August 7, 2009 authorised the Management Board to increase the company's capital stock, subject to approval by the Supervisory Board, by August 6, 2014 on one or more occasions by up to €8,026,571 in cash or kind (Approved Capital 2009/I) and, as agreed with the Supervisory Board, to lay down the terms and conditions of the share issue. Subject to Supervisory Board approval, subscription rights for existing 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 thenew shares is not substantially lower than the market price (Section 186 (3) 4 AktG),

c) To issue shares in return for contributions as part of an acquisition of companies, parts of companies or participations in companies (including conversions by the terms of the Conversion 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 (so-called equity kickers), especially in connection with mezzanine financing,

g) To repay loans or other liabilities.

After partial utilisation the Approved Capital 2009/I now stands at €5,238,385.

The General Meeting held on July 16, 2010 authorised the Management Board to increase the company's capital stock, subject to approval by the Supervisory Board, by July 15, 2015 on one more occasions by up to €4,192,786 in cash or kind (Approved Capital 2010/I) and, as agreed with the Supervisory Board, to lay down the terms and conditions of the share issue. Subject to Supervisory Board approval, subscription rights for existing 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 thenew shares is not substantially lower than the market price (Section 186 (3) 4 AktG),

c) To issue shares in return for contributions as part of an acquisition of companies, parts of companies or participations in companies (including conversions by the terms of the Conversion 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 (so-called equity kickers), especially in connection with mezzanine financing,

g) To repay loans or other liabilities.

The General Meeting held on July 6, 2012 authorised the Management Board to increase the company's capital stock, subject to approval by the Supervisory Board, by July 5, 2017 on one more occasions by up to €4,182,279 in cash or kind (Approved Capital 2012/I) and, as agreed with the Supervisory Board, to lay down the terms and conditions of the share issue. Subject to Supervisory Board approval, subscription rights for existing 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 thenew shares is not substantially lower than the market price (Section 186 (3) 4 AktG),

c) To issue shares in return for contributions as part of an acquisition of companies, parts of companies or participations in companies (including conversions by the terms of the Conversion 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 (so-called equity kickers), especially in connection with mezzanine financing,

g) To repay loans or other liabilities.

(25) Share Price-Based Remuneration

In the financial year 2006 a share price-based remuneration system with equity capital adjustment was introduced throughout the Group for employees of *aap* Implantate AG and affiliated companies. Further stock option programs were launched In 2008 and 2010.

The Management Board and employees of *aap* have received stock options that entitle them, subject to certain conditions, to acquire *aap* shares at a prearranged price. *aap* will create the shares required by means of capital increases and has for this purpose various conditional capitals at its disposal.

The following conditions apply to the stock option programs:

	Stock Option Program			
	2006	2008	2010	2012
Stock options	Each option gives the entitled person the right to purchase an *aap* bearer share with a notional face value of €1.00.			
Entitled persons	Management Board members, selected executives of the company and its employees along with members of the management and employees of affiliated companies as defined in Section 15 ff. AktG.			Employees of the company and employees of affiliated companies as defined in Section 15 ff. AktG.
Waiting period from the decision to allocate options to the entitled person	2 years	25% two years after issue and a further 25% three, four and five years after the issue date	4 years	
Term	Up to four years from the issue date	Up to five years from the issue date	Up to eight years from the issue date	
Exercise periods	<u>2006 and 2008</u> Possible at any time after end of waiting period but not during the following: - From the last day on which shareholders can register to attend the company's General Meeting until the three bank working day in Frankfurt am Main after the General 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 warrants 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 and 2012</u> Within four weeks from the second trading day on the Frankfurt Stock Exchange - After the company's Annual General 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	The average value of the final auction price of the *aap* share in XETRA trading (or a functionally comparable successor system) at the Frankfurt Stock Exchange in the last			
	10 trading days	20 trading days	5 trading days	
	and at least at the lowest issue price according to Section 9 (1) AktG, or not less than each share's €1 pro rata share of the capital stock.			
Performance target	The average value of the final auction price (2006 and 2008) or the final auction price (2010) of the *aap* share in XETRA trading (or a functionally comparable successor system) at the Frankfurt Stock Exchange in the last			
	10 trading days	20 trading days	trading day	
	before the day on which the subscription right arising from the stock options exceeds			

	Stock Option Program			
	2006	2008	2010	2012
	the exercise price by at least			
	10%	20%	10%	
	since the issue date.			

The following share-based remuneration agreements existed during the current and earlier reporting periods.

Option program	Date option tranche was confirmed	Number of options granted	Expiry date	Exercise price	Fair value at time of issue
2006	18.04.2007	152,500	17.04.2011	€2.37	€0.99
2006	30.11.2007	477,500	29.11.2011	€2.41	€0.69
2006	17.04.2008	131,500	16.04.2012	€2.27	€0.87
2006	10.09.2008	96,000	09.09.2012	€2.23	€0.74
2008	01.12.2008	200,000	30.11.2014	€1.61	€0.55
2008	26.05.2009	487,500	25.05.2015	€1.29	€0.48
2010	29.07.2010	360,000	28.07.2018	€1.29	€0.58
2010	17.11.2010	505,000	16.11.2018	€1.17	€0.50
2010	15.07.2011	481,600	14.07.2019	€1.01	€0.40
2010	15.11.2011	55,000	14.11.2019	€1.00	€0.39
2012	25.07.2012	65,000	24.07.2020	€1.00	€0.51
2012	28.11.2012	180,000	27.11.2020	€1.30	€0.63

The fair values were established in the reporting year by means of a binomial model, taking the following parameters into consideration:

2012 Stock Option Program	07/2012 Tranche	11/2012 Tranche
Time of issue	25.07.2012	28.11.2012
Performance target	€1.10	€1.43
Risk-free interest rate	0.37%	0.47%
Expected volatility	46.80%	46.41%
Expected dividend payment	€0	€0
Share price at time of issue	€1.10	€1.40
Expected option term	5 years	5 years

The best Management Board estimate of the following influencing factors went into establishing the likely option term: non-transferability, exercise restrictions, including the likelihood that the market conditions attached to the option will be fulfilled, and assumptions on exercise behaviour. 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 differing 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-fold of the exercise price.

The following changes were made to stock option programs for the last financial year and the previous year:

	Stock Option Program							
	2006			2008		2010		2012
	2006	2007	2008	2008	2009	2010	2011	2012
	Tranche	Tranche	Tranche	Tranche	Tranche	Tranche	Tranche	Tranche
Number outstanding as of Jan. 1, 2012	0	0	106,500	200,000	402,500	810,000	536,600	0
Number issued in financial year	0	0	0	0	0	0	0	245,000
Lapsed/foregone in financial year	0	0	106,500	0	0	50,000	20,000	10,000
Exercised in financial year	0	0	0	0	0	0	0	0
Outstanding as of Dec. 31, 2012	0	0	0	200,000	402,500	760,000	516,600	235,000
Exercisable as of Dec. 31, 2012	0	0	0	150,000	201,250	0	0	0

The following stock options lapsed in financial year 2012:

Stock Option Program	Stock options
2006	106,500
2008	0
2010	70,000
2012	10,000

	Stock Option Program						
	2006			2008		2010	
	2006	2007	2008	2008	2009	2010	2011
	Tranche	Tranche	Tranche	Tranche	Tranche	Tranche	Tranche
Number out-standing as of Jan. 1, 2011	0	470,000	117,000	200,000	422,500	850,000	0
Issued in financial year	0	0	0	0	0	0	536,600
Lapsed/foregone in financial year/ Foregone in financial year	0	470,000	10,500	0	20,000	40,000	0
Exercised in financial year	0	0	0	0	0	0	0
Outstanding as of Dec. 31, 2011	0	0	106,500	200,000	402,500	810,000	536,600
Exercisable as of Dec. 31, 2011	0	0	106,500	150,000	100,625	0	0

The following stock options lapsed in the financial year 2011:

Stock Option Program	Stock options
2006	480,500
2008	20,000
2010	40,000

The bandwidth of exercise prices for the stock options outstanding as of December 31, 2012 ranged from €1.00 to €1.61 (previous year: €1.00 to €2.27). Stock options outstanding at the end of the financial year had a weighted average residual term of 5.2 years (previous year: 4.3 years).

The cost of share-based remuneration recorded in the reporting period totalled €208K (previous year: €210K).

(26) Provisions

	Status as of 01.01.2012	Consumed	Released	Allocated	Status as of 31.12.2012	RT* > 1 year
	€K	€K	€K	€K	€K	€K
Employee commitments	63	-31	0	9	41	0
Storage costs	35	0	-9	0	26	26
Other uncertain liabilities	28	0	0	1	29	0
Litigation costs and risks	80	-3	-7	0	70	0
Other provisions	15	0	0	51	66	0
Total	221	-34	-16	61	232	26

*RT = Residual term

(27) Liabilities

The residual terms of liabilities are as follows:

		Residual term (RT)			
	31.12.2012 total	Up to 1 year	1-5 years	More than 5 years	Previous year
	€K	€K	€K	€K	€K
Financial liabilities	6,516	4,497	2,019	0	5,553
Advances received	1,125	1,125	0	0	337
Development orders with balance due to customers	0	0	0	0	32
Trade payables	3,259	3,259	0	0	3,120
Owed to shareholders	1,057	1,057	0	0	3,522
Other financial liabilities	2,111	1,742	369	0	1,776
Other liabilities	1,334	1,133	201	0	1,064
	15,402	12,813	2,589	0	15,404

Of the non-current liabilities (RT > 1 year) totalling €2.589 million (previous year: €464K), €2.389 million (previous year: €224K) attracted interest. Of the current liabilities (RT < 1 year) totalling €12.183 million (previous year: €14.940 million), €5.589 million (previous year: €8.831 million) attracted interest. The average interest burden was about 5.8% (previous year: 6.3%)

As of December 31, 2012 the *aap* Group had confirmed lines of credit totalling €5.8 million at its disposal (previous year: €4.8 million) of which €4.5 million (previous year: €4.4 million) had been taken up as of the balance sheet date. Cash and cash equivalents held as of December 31, 2012 amounted to €3.698 million (previous year: €2.152 million). As of December 31, 2012, *aap*'s free and usable liquidity (the sum of cash at banks and freely available lines of credit) totalled €4.9 million (previous year: €2.5 million).

€ million	31.12.2012	31.12.2011
Gross recourse to lines of credit	-4.5	-4.4
Balance under lines of credit	3.3	1.9
Net recourse to lines of credit	-1.2	-2.5

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

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

	31.12.2012 total	Currency		Currency
	€K	€K		€K	
Advances received	189	189	US $	0	
Trade payables	25	24	US $	1	CHF
Other financial liabilities	12	12	US $	0	
	226	225		1	

As of December 31, 2011, foreign currency liabilities were as follows:

	31.12.2011 total	Currency		Currency
	€K	€K		€K	
Advances received	193	193	US $	0	
Trade payables	29	28	US $	1	CHF
Owed to shareholders	140	140	US $	0	
Other financial liabilities	91	91	US $	0	
Other liabilities	4	4	US $	0	
	457	456		1	

(28) Development Orders with Balance Due to Customers

Order costs, including the corresponding earnings contributions that netted against advances lead to a debit balance, are stated under Development orders with balance due to customers. As of the balance sheet date, liabilities arising from development orders totalled €0K (previous year: €32K).

	31.12.2012	31.12.2011
	€K	€K
Development order receivables	0	112
Netted against advances received	0	144
Development orders with balance due to customers	0	32

(29) Other Financial Liabilities

		Residual term (RT)			
	31.12.2012 total	Up to 1 year	1 to 5 years	More than 5 years	Previous year
	€K	€K	€K	€K	€K
Owed to companies with which the company is linked by virtue of participating interests	0	0	0	0	12
Financial leasing commitments	499	130	369	0	226
Other financial liabilities	1,612	1,612	0	0	1,538
	2,111	1,742	369	0	1,776

Other Financial Liabilities consist mainly of employee bonuses totalling €935K (previous year: €567K), license payments totalling €153K (previous year: €12K), holiday pay and Christmas bonuses totalling €101K (previous year: €141K) and liabilities for Supervisory Board meetings amounting to €76K (previous year: €162K).

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 on average about 5% (previous year: 6%).

(30) Other Liabilities

		Residual term (RT)			
	31.12.2012 total	Up to 1 year	1 to 5 years	More than 5 years	Previous year
	€K	€K	€K	€K	€K
Special item for investment grants	245	44	201	0	292
Personnel liabilities	287	287	0	0	366
Tax liabilities	731	731	0	0	330
Other liabilities	71	71	0	0	76
	1,334	1,133	201	0	1,064

The personnel liabilities consist mainly of holiday entitlements.

(31) Other Financial Liabilities

Other Financial Liabilities break down as follows:

		Capital repayments		
	31.12.2012	2013	2014 to 2017	From 2018
	€K	€K	€K	€K
Future rent payments	4,956	1,210	2,924	822
Future operating lease payments	707	396	308	3
	5,663	1,606	3,232	825

		Capital repayments		
	31.12.2011	2012	2013 to 2016	From 2017
	€K	€K	€K	€K
Future rent payments	5,952	1,181	3,713	1,058
Future operating lease payments	945	444	501	0

	6,897	1,625	4,214	1,058

The operating lease contracts are short-term contracts for cars and provide in some instances for renewal and purchase options. Expenditure on operating lease contracts stated in the reporting period totalled €423K (previous year: €405K).

(32) Contingent Liabilities

Contingent liabilities totalling €124K relate to public sector investment grants and allowances received. They are conditional on the assets financed remaining at the Berlin production facility for at least five years after completion of the investment project, and most of the goods manufactured must be sold in the region. 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 *aap* subsidiary *aap* Biomaterials GmbH claimed damages and filed a suit for €350K in damages on December 30, 2010. The management of *aap* Biomaterials GmbH considers the provision created in 2009 and totalling as of December 31, 2011 €70K (previous year: €80K) to be appropriate. Provision for legal costs is included in this figure.

In connection with the termination of a supply contract an *aap* Implantate AG supplier has claimed €83K in damages plus interest and legal costs for alleged impermissible cancellation. On January 23, 2013 *aap* Implantate AG was notified of the suit after serving notice to terminate the contract with effect from February 15, 2013 in August 2012. *aap* Implantate AG's Management is of the opinion that the contract does not commit it to the purchase for the order originally planned. As presently understood after taking legal advice it is considered unlikely that *aap* Implantate AG will have to pay damages.

I. Reporting on Financial Instruments

(33) Basics

According to IAS 39 (Financial Instruments: Recognition and Measurement), financial instruments are divided into the following categories:

- Financial assets valued at fair value with effect on results
- Financial liabilities valued at fair value with effect on results
- Financial investments held to maturity
- Loans and receivables
- Available-for-sale financial assets.

Their categorisation depends on the nature of the financial assets and the use to which they are put and is undertaken on receipt. Financial assets are recognised 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. Financial liabilities are written off if the underlying obligation has been fulfilled or waived or has expired. Financial assets and financial liabilities must be stated at fair value on receipt.

For financial instruments that are not recognised at fair value with effect on results, directly attributable transaction costs that reduce or increase the fair value of the financial assets or liabilities are also taken into account. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities and that must be valued with effect on results at their fair value are recorded immediately with effect on results. The subsequent valuation of financial assets and financial liabilities depends on their categorisation.

Financial instruments that must be recognised at fair value with effect on results consist primarily of financial assets and liabilities held for trading purposes. Financial instruments are classified as held for trading purposes if they are acquired for the purpose of sale or repurchase in the near future. Changes in the fair value of financial instruments of this kind are always recorded with effect on results. On initial recognition the *aap* Group classified no financial assets or financial liabilities at fair value with effect on results. Loans and receivables are non-derivative financial assets with fixed or definable payments that are not listed in an active market. After initial recording, financial assets and liabilities of this kind are subsequently valued at amortised cost using the effective interest model less any depreciation in value. Exceptions to this rule are current receivables and payables with a residual term of less than one year because in their case the interest effect can be considered to be immaterial. Income and expenses are shown in the statement of comprehensive income under financial income and financial expenses.

The *aap* Group holds only primary financial instruments. On the assets side they consist mainly of participating interests, trade and loan receivables, other receivables and cash assets. On the liabilities side, primary financial instruments consist mainly of liabilities stated at cost of acquisition.

Holdings of primary financial instruments are shown in the balance sheet. The level of financial assets corresponds to the maximum risk of default. Where default risks are apparent, they are covered by value adjustments. Write-downs of trade receivables are shown in separate value adjustment accounts.

Fair values are either derived from stock market prices or calculated on the basis of recognised valuation methods.

The market values of cash and cash equivalents, of current receivables, of trade payables, 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.

Non-current fixed-interest and floating-rate liabilities are valued on the basis of various parameters such as interest rates, the customer's creditworthiness and the risk structure of the financial transaction. The book values of these receivables less the value adjustments undertaken as of December 31, 2012 and December 31, 2011 more or less correspond to their market values.

The market 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.

(34) Financial Instruments by Valuation Categories

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

Valuation Categories:

1 - Financial assets valued with effect on results at fair value through profit or loss (FVTPL)

2 - Financial liabilities stated at fair value and measured at amortised cost (FLAC)

3 - Financial investments held to maturity (HtM)

4 - Loans and Receivables (LaR)

5 - Available-for-sale (AfS) financial assets

		IAS 39 balance sheet valuation			
IAS 39 valuation categories	Book value as of **31.12.2012**	Amortised cost of acquisition	Fair value No effect on profit or loss	IAS 17 valuation	Fair value as of 31.12.2012

		€K	€K	€K	€K	€K
Assets						
Financial assets	AfS	356	0	356	-	356
Trade receivables	LaR	4,226	4,226	0	-	4,226
Other financial assets	LaR	1,331	1,331	0	-	1,331
Cash and cash equivalents	LaR	3,698	3,698	0	-	3,698
Liabilities						
Financial liabilities	FLAC	6,516	6,516	0	-	6,516
Trade liabilities	FLAC	3,259	3,259	0	-	3,259
Owed to shareholders	FLAC	1,057	1,057	0	-	1,057
Financial leasing liabilities	-	499	-	0	499	499
Other financial liabilities	FLAC	1,612	1,612	0	-	1,612

Thereof aggregated by IAS 39 valuation categories:

			IAS 39 balance sheet valuation			
	IAS 39 valuation categories	Book value as of **31.12.2012** €K	Amortised cost of acquisition €K	Fair value No effect on profit or loss €K	IAS 17 valuation €K	Fair value as of 31.12.2012 €K
Available-for-sale financial assets	AfS	356	0	356	-	356
Loans and receivables (incl. cash and cash equivalents)	LaR	9,255	9,255	0	-	9,255
Total financial assets		**9,611**	**9,255**	**356**	**-**	**9,611**
Liabilities carried at amortised cost	FLAC	12,444	12,444	0	-	12,444
Financial leasing liabilities		499	-	-	499	499
Total financial liabilities		**12,943**	**12,444**	**0**	**499**	**12,943**

			IAS 39 balance sheet valuation			
	IAS 39 valuation categories	Book value as of **31.12.2011** €K	Amortised cost of acquisition €K	Fair value No effect on profit or loss €K	IAS 17 valuation €K	Fair value as of 31.12.2011 €K
Assets						
Financial assets	AfS	356	-	356	-	356
Trade receivables	LaR	5,508	5,508	-	-	5,508
Other financial assets	LaR	331	331	-	-	331
Cash and cash equivalents	LaR	2,152	2,152	-	-	2,152
Liabilities						
Financial liabilities	FLAC	5,553	5,553	-	-	5,553
Trade payables	FLAC	3,120	3,120	-		3,120
Owed to shareholders	FLAC	3,522	3,522	-	-	3,522
Financial leasing liabilities	-	226	-	-	226	226
Other financial liabilities	FLAC	1,550	1,550	-	-	1,550

Thereof aggregated by IAS 39 valuation categories:

	IAS 39 valuation categories	Book value as of **31.12.2011** €K	IAS 39 balance sheet valuation: Amortised cost of acquisition €K	IAS 39 balance sheet valuation: Fair value No effect on profit or loss €K	IAS 17 valuation €K	Fair value as of 31.12.2011 €K
Available-for-sale financial assets	AfS	356	-	356	-	356
Loans and receivables (incl. cash and cash equivalents)	LaR	7,991	7,991	-	-	7,991
Total financial assets		**8,347**	**8,347**	**356**	**-**	**8,347**
Liabilities carried at amortised cost	FLAC	13,745	13,745	-	-	13,745
Financial leasing liabilities	-	226	-	-	226	226
Total financial liabilities		**13,971**	**13,745**	**-**	**226**	**13,971**

The available-for-sale financial assets are the shareholding in AEQUOS Endoprothetik GmbH, which is stated at fair value with effect on results and assigned in accordance with IFRS 7 to the valuation hierarchy Stage 3 (market value established on the basis of parameters for which no observable market data was available). The valuation was based on the premiums paid in the capital increases undertaken. There was no change in the fair value in the financial year 2012.

(35) Expenses, Income, Losses and Profits from Financial Instruments

2012	Income from interest €K	Interest costs €K	Impairment expenses €K	Income from write-ups €K	Net result €K
Loans and receivables (incl. cash and cash equivalents)	29	0	-131	78	-24
Financial liabilities held at amortised cost of acquisition	0	-504	0	0	-504
Total	29	-504	-131	78	-528

2011	Income from interest €K	Interest costs €K	Impairment expenses €K	Income from write-ups €K	Net result €K
Loans and receivables (incl. cash and cash equivalents)	58	0	-243	53	-132
Financial liabilities held at amortised cost of acquisition	0	-605	0	0	-605
Total	58	-605	-243	53	-737

Interest income from impaired financial assets totalled €28K in the financial year (previous year: €46K). The impairment expenses were value adjustments on receivables and currency translation effects.

In the financial year 2012 interest costs incurred in connection with financial leasing liabilities that could not be covered by the effective interest rate method totalled €13K (previous year: €14K).

(36) Depreciation of Financial Assets

Financial assets with the exception of those stated at fair value with an effect on profit or loss are checked on every balance sheet date for indicators of value impairment. Financial assets are depreciated if, as a result of

one or more events that occurred after the initial asset statement, there is an objective indication that the anticipated future cash flows have changed for the negative.

Value adjustments are stated and explained under the respective balance sheet items.

(37) Management of Financial Risks

In view of its operating activities, the *aap* Group is liable to the following financial risks:

- Market risks
- Liquidity risks
- Credit risks

The Group's risk management is handled by the central finance department in accordance with the guidelines issued by the Management Board with a view to minimising potentially negative repercussions on the Group's financial situation. For this purpose financial risks are identified and assessed and safeguards are put in place in close coordination with the Group's operating units.

Internal guidelines provide the action framework, assign responsibilities and specify binding checks. The *aap* Group's risk and the aims and processes of risk management are outlined in detail in the management report under the heading Risk Report (cf. Section D).

Market risks

Market risk is understood to be the risk that of the fair value or future cash flows of a financial instrument fluctuating due to changes in market prices. Market risks include interest risks, foreign currency risks and other price risks such as commodity or share price risks.

Interest Rate Risks

Interest risks result from financial liabilities and investments. The *aap* Group seeks to optimise interest results and to minimise interest risks. To do so it operates cash management across the Group and for original financial transactions. Interest and price change risks are managed by mixing terms and by taking up variable and fixed interest positions. The use of derivative financial instruments is considered from case to case, but none were used in the reporting year.

Group debts on which interest is paid are all fixed-interest apart from the current account credit lines. As of December 31, 2012 about 19% of the Group's borrowing (previous year: 30%) was at fixed interest rates. So changes in market interest rates only have an effect insofar as these financial instruments need to be stated at fair value in the balance sheet – which is not the case.

Sensitivity analyses have been undertaken for the floating-rate financial liabilities. A similar change in interest rates for all financial liabilities and all currencies was assumed. A uniform one percentage point change in interest rates for all currencies was found to lead to a €71K increase or decrease in the result before taxes on income (previous year: €41K).

Foreign Currency Risks

Buying and selling in foreign currencies can, depending on how exchange rates develop, lead to risks for the company.

The major part of the Group's business activity is conducted in the euro zone. Business conducted outside of Europe was not generally suitable in nature or extent for hedging by means of exchange futures trading or similar hedging measures. The Group's most important foreign currencies are the US dollar, the Swiss franc and the pound sterling. Sensitivity analyses have established that the repercussions for other foreign currencies used by the Group are of minor importance. As of December 31, 2012 foreign currency receivables amounted to about 16.34% of the total (previous year: 0.5%) and were denominated entirely in US dollars. Foreign

currency liabilities amounted to about 2.56% of the Group's borrowing (previous year: 2.56%), of which US dollar liabilities totalled about 1.27% (previous year: 2.56%). If the euro exchange rate were to change by 10% against the US dollar, the result before taxes on income, all other variables being constant, would have been €23K (previous year: €98K) higher or lower for the reporting period. It would have been due mainly to currency translation gains from receivables and payables denominated in US dollars. Against this background and with cost-benefit considerations in mind, the Group accordingly decided to dispense with hedging transactions.

Liquidity Risks

The *aap* Group's liquidity risk is that of possibly being unable to meet financial obligations on time for lack of liquidity. This risk arises, for example, in connection with 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 so-called financial covenants that must be observed in connection with loan agreements. If these covenants are not observed, the financing bank is entitled to cancel loans without notice and to demand their immediate repayment. By the terms of the current long-term loan agreements, for example, *aap* must not fall below a certain minimum Moody's rating or must abide by certain maximum or minimum levels of equity ratio, indebtedness or borrowing. *aap* considers the risk of failure to comply with financial covenants that could result from downgrading by the financing bank to be low. Furthermore, *aap* pursues a very open and transparent communication policy with the banks that finance it in order to identify possible danger potential at any early stage and to draw up jointly solutions that are appropriate to the risk.

In addition, the Group limits this risk by means of effective central cash management and by negotiating adequate credit lines. The *aap* Group has at its disposal until further notice credit lines for its German companies totalling €4.5 million (previous year: €3.5 million) and for its Dutch companies totalling €1.3 million (previous year: €1.3 million). Of the contractually assured credit lines totalling €5.8 million, €4.5 million was taken up as of the balance sheet date. As of December 31, 2012, *aap* had €4.9 million (previous year: €2.5 million) in free and usable liquidity (the sum of bank balances and freely available lines of credit) at its disposal.

€ million	31.12.2012	31.12.2011
Gross take-up of credit lines	-4.5	-4.4
Balance under credit lines	3.3	1.9
Net take-up of credit lines	-1.2	-2.5

Contractually agreed payments such as interest and capital for financial obligations stated in the balance sheet are as follows:

Capital/interest payments in respect of financial liabilities	Book value as of **31.12.2012**	Capital repayments 2013	2014 to 2017	From 2018	Interest payments 2013	2014 to 2017	From 2018
	€K	€K	€K	€K	€K	€K	€K
Financial liabilities	6,516	4,497	2,019	0	157	136	0
Owed to shareholders	1,057	1,057	0	0	74	0	0
Financial leasing liabilities	499	130	369	0	16	41	0
Other financial liabilities	1,612	1,612	0	0	0	0	0
Total	9,684	7,296	2,388	0	247	177	0

Capital/interest payments in respect of financial liabilities	Book value as of **31.12.2011**	Capital repayments 2012	2013 to 2016	From 2017	Interest payments 2012	2013 to 2016	From 2017

	€K	€K	€K	€K	€K	€K	€K
Financial liabilities	5,553	5,479	74	0	117	56	0
Owed to shareholders	3,522	3,522	0	0	270	0	0
Financial leasing liabilities	226	76	150	0	10	19	0
Other financial liabilities	1,550	1,550	0	0	1	0	0
Total	10,851	10,627	224	0	398	75	0

Credit Risks

A credit risk is the risk of default by a customer or contracting partner that leads to a need for value adjustment of assets, investments or receivables in the consolidated balance sheet. The risk is therefore limited to the book value of these assets.

Credit risks result mainly from trade receivables. Credit risks in respect of contracting partners are checked before the contract is signed and are monitored continuously. Credit risks still exist because customers may not honour their payment obligations. The *aap* Group limits this risk by undertaking a regular creditworthiness review of its customers and by means of efficient receivables management. In addition, receivables are covered by retention of title so that in the case of non-payment their return can be demanded and, after checking and processing, they can be sold to other *aap* customers. Write-offs in the reporting year totalled €19K (previous year: €42K).

For trade receivables that were not value adjusted as of December 31, 2012, there were no indications of default.

(38) Capital Management

aap manages its capital with a view to ensuring the company's long-term development, its short-term solvency and a sufficiently high level of self-financing. This ensures that all companies in the Group are able to operate on the assumption that it will stay in business as a going concern. In addition, the aim of *aap*'s capital management is to ensure that inter alia a credit rating appropriate to its credit agreements and a good equity ratio are maintained. The Group manages its capital structure and undertakes adjustments taking the change in economic framework conditions into account. *aap* monitors its capital by means of its debt and interest coverage ratios and its net indebtedness. The *aap* Management Board considers a debt coverage ratio of less than 2 and an interest coverage ratio of more than 10 to be strategically achievable targets.

Debt/Interest Coverage Ratio

	31.12.2012 €K	31.12.2011 €K
Interest-bearing liabilities (gross)	7,978	9,055
Balance under credit lines	-3,328	- 1,922
Interest-bearing liabilities (net)	4,650	7,133
Operating EBITDA	6,122	4,126
Debt coverage ratio	0.8	1.7

	31.12.2012 €K	31.12.2011 €K
Interest expenses	520	-605
Operating EBITDA	6,122	4,126
Debt coverage ratio	11.8	6.8

Net Indebtedness

The *aap* Group's net indebtedness at the end of the financial year was as follows:

	31.12.2012	31.12.2011
	€K	€K
Interest-bearing liabilities	7,978	9,055
Cash and cash equivalents	-3,698	- 2,152
Net debts	4,280	6,903
Equity	50,866	48,350
Net indebtedness to capital ratio	8%	14%

(39) Cash Flow Statement

The inflow of funds from current business activities includes inter alia:

Interest income	Nil (previous year: Nil)
Interest expenses	€185K (previous year: €307K)

Income tax paid totalled €9K (previous year: €100K). No income tax was refunded (previous year: €4K).

J. Other Disclosures

(40) Related Enterprises and Parties

Relations with related enterprises and parties are shown by groups of persons.

The following transactions with related enterprises and parties took place in the reporting period:

2012	Related enterprises	Other related parties
	€K	€K
Sales of goods	0	0
Purchased services	0	-285
Financing		
- Loans taken out	0	0
- Loan repayments	-2,753	0
- Interest expense	-288	0
- Interest rate	6%-9%	0%

2011	Related enterprises	Other related parties
	€K	€K
Sales of goods	36	0
Purchased services	0	-56
Financing		
- Loans taken out	0	0
- Loan repayments	0	0
- Interest expense	-278	0
- Interest rate	6%-9%	0%

All transactions are undertaken on market terms and conditions and do not differ in principle from delivery and performance relationships with third parties.

Business with related enterprises and parties led to the following financial statement items:

2012	Related enterprises	Other related parties
	€K	€K
Liabilities to companies in which a participating interest is held	0	0
Trade liabilities	0	27
Loan liabilities	1,057	0
Other liabilities	0	150

2011	Related enterprises	Other related parties
	€K	€K
Liabilities to companies in which a participating interest is held	12	0
Loan liabilities	3,522	0
Other liabilities	0	14

(41) Management Board, Supervisory Board

Members of the company's Management Board in the year under review were:

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

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

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

Management Board remuneration totalled €864K (previous year: €809K). The basic features of the Management Board and Supervisory Board remuneration systems are outlined in the remuneration report, which is part of the combined management report.

	Remuneration components in €K				
	Fixed	Performance-related	Long-term incentive	Total	Total (2012)
Biense Visser	213	95	38	346	265
Bruke Seyoum Alemu	305	95	31	431	344
Marek Hahn	191	60	18	269	200
	709	250	87	1,046	809

The company takes out D&O insurance cover for the management. Premiums paid in 2012 totalled €27K (previous year: €27K).

Of the Management Board members only Mr. Visser holds Supervisory Board directorships. They are as follows:

Biense Visser	Mediq N.V. (until June 7, 2012)
	HZPC Holland B.V.
	Kreatech Biotechnology B.V.
	Actavis Group hf. (until Nov. 30, 2012)

Members of the company's Supervisory Board in the reporting year were:

Mr. Rubino Di Girolamo (Chairman),

Delegate of the Administrative Council, Oberägeri near 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

Members of the Supervisory Board were elected for the full term of office until the end of the General Meeting that decides on the discharge for the 2012 financial year.

Supervisory Board remuneration in the financial year totalled €75K (previous year: €85K) as follows:

	2012 €K	2011 €K
Mr. Rubino Di Girolamo	25	30
Mr. Ronald Meersschaert	25	25
Prof. Prof. h.c. Dr. Dr. Dr. h.c. Reinhard Schnettler	25	30
Total	75	85

Payments made in the reporting year totalled €153K (previous year: €20K) and included €42K paid to former members of the Supervisory Board.

In addition to their work for *aap* Implantate AG, members of the Supervisory Board are active in the following supervisory bodies:

Mr. Rubino Di Girolamo	Deepblue Holding AG, Zug, Administrative Board President Metalor Dental Holding AG, Zug, Administrative Board
Mr. Ronald Meersschaert	Toeca International Company B.V., Arnhem, Netherlands, Administrative Board Voice Cash Holding B.V., Arnhem, Netherlands, Administrative Board Novum Bank Ltd., Malta, Administrative Board
Prof. Prof. h.c. Dr. Dr. Dr. h.c. Reinhard Schnettler	Kliniken des Main-Taunus-Kreises GmbH, Bad Soden/Frankfurt

Shares and options held by members of the Supervisory Board and Management Board are as follows:

	Shares		Options	
	2012	2011	2012	2011
Supervisory Board				
Rubino Di Girolamo	1,626,157	1,622,357	0	0
Ronald Meersschaert	0	0	0	0
Prof. Prof. h.c. Dr. Dr. Dr. h.c. Reinhard Schnettler	197,094	182,094	0	0
Management Board				
Biense Visser	390,000	370,000	400,000	400,000
Bruke Seyoum Alemu	70,000	70,000	350,000	350,000
Marek Hahn	20,000	13,422	175,000	180,000

The fair values of the options at the time they were granted were between €0.87 and €0.39.

(42) Disclosures Pursuant to Section 160 (1) 8 AktG

In accordance with Section (1) 8 of the German Stock Corporation Act (AktG) *aap* has received the following notifications pursuant to Section 21 (1) or (1a) of the German Securities Trading Act (WpHG) with the most recent reports on levels of investment. These reports are mandatory for people whose voting rights in *aap* Implantate AG reach or exceed or fall below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% directly or indirectly by means of acquisition, disposal or otherwise.

2011:

Elocin B.V., Arnhem, Netherlands, informed us on May 18, 2011 in accordance with Section 21 (1) WpHG that its shareholding in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660, exceeded the 15% and 20% voting rights thresholds and amounted on that day to 20.89%, or 6,405,722 voting rights.

Boekhoorn M & A B.V., Arnhem, Netherlands, informed us on May 26, 2011 in accordance with Section 21 (1) WpHG that its shareholding in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660, exceeded the 15% and 20% voting rights thresholds on May 16, 2011 and amounted on that day to 20.89%, or 6,405.722 rights. In accordance with Section 22 (1) 1 (1) WpHG, 20.89% is attributable to Elocin B.V.

Ramphastos Investments N.V., Arnhem, Netherlands, informed us on May 26, 2011 in accordance with Section 21 (1) WpHG that its shareholding in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660, exceeded the 15% and 20% voting rights thresholds on May 16, 2011 and amounted on that day to 20.89%, or 6,405.722 rights. In accordance with Section 22 (1) 1 (1) WpHG, 20.89% is attributable to Elocin B.V. via Boekhoorn M & A B.V.

Mr. Marcel Martinus Jacobus Johannes Boekhoorn, Netherlands, informed us on May 26, 2011 in accordance with Section 21 (1) WpHG that its shareholding in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660, exceeded the 15% and 20% voting rights thresholds on May 16, 2011 and amounted on that day to 20.89%, or 6,405.722 rights. In accordance with Section 22 (1) 1 (1) WpHG, 20.89% is attributable to Elocin B.V. via Ramphastos Investments N.V. and Boekhoorn M & A B.V.

2010:

Mr. Jan Albert de Vries, Netherlands, informed us on October 19, 2010 in accordance with Section 21 (1) WpHG that his shareholding in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660, fell below the threshold of 20% of voting rights on October 15, 2010 when it amounted to 19.6%, or 5,465,924 voting rights. 19.6%, or 5,465,924 voting rights, must be attributed to Mr. de Vries by Noes Beeheer B.V. in accordance with Section 22 (1) 1 (1) WpHG.

Noes Beheer B.V., Nijmegen, Netherlands, informed us on October 19, 2010 in accordance with Section 21 (1) WpHG that its share of voting rights in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660, fell below the threshold of 20% of voting rights on October 15, 2010 when it amounted to 19.6%, or 5,465,924 voting rights.

2009:

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

Merval AG, Zug, Switzerland, fell below the 30, 25, 20, 15, 10, 5 and 3% thresholds on January 13, 2009. As of January 13, 2009, Merval AG held 346,000 shares (1.3%).

Mr. Rubino di Girolamo, Switzerland, informed us on January 13, 2009 his share in voting rights on January 13, 2009 fell below the 30, 25, 20, 15 and 10% thresholds. On January 13, 2009 Mr. di Girolamo 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.

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

2008:

DZ Bank AG, Frankfurt am Main, Germany, informed us on September 9, 2008 that its share of voting rights in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, ISN: 506660, on September 9, 2008 fell below the 5% threshold and amounted to 4.8%, or 1,267,357 voting rights.

(43) Auditor's Fees

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

a) For auditing the annual financial statements (consolidated and separate): €115K (previous year: €115K)

b) Other services: €26K (previous year: €23K)

(44) Events Since the Balance Sheet Date

aap subsidiary EMCM B.V. signed on March 20, 2013 an exclusive license agreement with BiosCompass, Inc. of Rochester, Minnesota. EMCM grants BiosCompass an exclusive license to the intellectual property of Adcon®, not an *aap* Group focus area product, but continues to manufacture the product. The exclusive license relates to all forms of intellectual property such as patents, brand names, design rights, manufacturing know-how, etc. and is valid worldwide. As part of the deal *aap* receives a one-time license fee of €1.7 million. The transaction was undertaken at book values and thus without effect on the annual result.

In the second quarter of 2012 a subsidiary concluded an agreement with an international med tech company on the development of a biomaterial. The agreement does not come into effect until certain test results have been achieved. As of the publication date of these annual financial statements these results had yet to be achieved.

(45) Declaration Pursuant to the German Corporate Governance Code

aap Implantate AG has submitted the declaration of conformity to the German Corporate Governance Code as required by Section 161 of the German Stock Corporation Act (Aktiengesetz/AktG) and has made it available to shareholders on our website at www.aap.de/de/Investor/Corporate_Governance/index_html.

(46) Publication

These consolidated financial statements to December 31, 2012 were released for publication by the company's Management Board on March 28, 2012.

Berlin, March 28, 2013

The Management Board

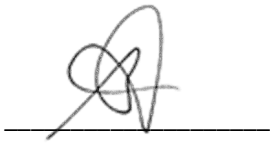
Biense Visser Management Board Chairman/CEO	Bruke Seyoum Alemu Management Board member/COO	Marek Hahn Management Board member/CFO

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

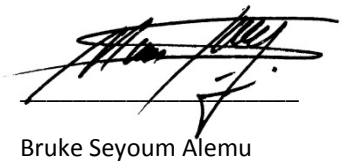
To the best of our knowledge and in accordance with the applicable financial reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the consolidated management report includes a fair review 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, 2013

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 2012 to 31 December2012. 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, 2013

RBS RoeverBroennerSusat GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Helmut Schuhmann
Auditor

Ralf Bierent
Auditor