Interim Report 2nd quarter | 2016 Half-Year Report

Selected figures

Sales and result[1]	01/01-06/30/2016	01/01-06/30/2015	Change
Sales (KEUR)	5,945	6,481	-8%
EBITDA (KEUR)	-3,561	-3,143	-13%
EBIT (KEUR)	-4,520	-3,971	-14%
Cash-EBT[2] (KEUR)	-5,047	-4,585	-12%
Net result (KEUR)	-4,621	-3,551	+30%
Cash flow and investments[3]	**01/01-06/30/2016**	**01/01-06/30/2015**	**Change**
Operative Cash flow (KEUR)	-4,050	-3,466	-17%
Investing activities in intangible assets (KEUR)	-837	-1,026	+18%
Investing activities in tangible assets (KEUR)	-592	-573	-3%
Total investing activities (KEUR)	-1,429	-1,599	+11%
Value development[1]	**06/30/2016**	**12/31/2015**	**Change**
Intangible assets (KEUR)	10,888	10,441	+4%
Tangible assets (KEUR)	7,988	7,675	+4%
Working capital (KEUR)	13,775	11,427	+21%
Working capital ratio[4] (sales)	0.9	1.1	-18%
Non-current assets (KEUR)	19,719	19,203	+3%
Current assets (KEUR)	50,299	35,743	+41%
Capital structure[3]	**06/30/2016**	**12/31/2015**	**Change**
Total assets (KEUR)	70,018	54,946	+27%
Shareholders' equity (KEUR)	59,712	40,307	+48%
Equity ratio	85%	73%	+16%
Share[5]	**01/01-06/30/2016**	**01/01-06/30/2015**	**Change**
Total amount of shares 06/30 (million pieces)	30.73	30.67	0%
Closing price 06/30 (EUR/Share)	1.33	2.43	-45%
Market Capitalization 06/30 (million EUR)	40.88	74.53	-45%
Average Price (EUR/Share)	1.39	2.54	-45%
High (EUR/Share)	1.67	2.82	-41%
Low (EUR/Share)	1.09	2.25	-52%
Ø Daily turnover (KEUR)	24.2	59.4	-59%
Employees[1]	**06/30/2016**	**12/31/2015**	**Change**
Employees (Headcount)	172	179	-4%
Employees (FTE)	159	159	0%

[1] Figures relate to the continued operation.
[2] EBT excluding capitalized development services and depreciation thereof.
[3] Figures relate to the group.
[4] Sales of the last four quarters.
[5] XETRA closing prices.

Note: In the figures, as shown in the quarterly report, technical rounding differences could exist, which have no impact on the entire statement.

Product image front page: LOQTEQ® Plates Upper Extremities

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Foreword by the Management Board

Ladies and Gentlemen,
Dear Shareholders, Employees,
and Business Partners,

The second quarter of 2016 was a very eventful quarter, in which we were able to make further significant progress towards meeting the objectives of our Management Agenda and strategy implementation.

In terms of sales and EBITDA, we were able to meet our financial objectives in the second quarter of 2016. In the continued operation we generated sales of EUR 3.4 million in the reporting period which were thus at the upper end of the EUR 2.5 million to EUR 3.5 million guidance published in May 2016. Furthermore, we realized an EBITDA of EUR -1.4 million in the continued operation and thereby a value slightly above the forecast range of EUR -2.0 to EUR -1.5 million.

One particularly pleasing aspect was the growth in the USA, which is one of the key markets in our growth strategy. We were able to increase sales with local distributors through our US American subsidiary and global partners who sell our products under their own name or the *aap* label in the USA to EUR 0.7 million in the second quarter (Q2/2015: EUR 0.2 million). This means that over the first half of the year, we have already recorded sales of EUR 1.3 million in the USA, compared to EUR 0.3 million in the previous year. Together with this, we have seen a growing number of weekly operations with our LOQTEQ® products and thus have access to US hospitals, either directly or through our distributors. This progress reflects the success of the measures introduced in recent months. Overall, we are seeing a positive trend in this area that we expect to continue over the coming months.

We were also able to make progress in our other core markets. In the DACH region, we were able to acquire additional new customers in Austria. At the international level, we further increased our presence in the established markets of Spain and Italy, attracted new customers in Latin America and expanded our business in South Africa. However, it should be noted that due to the tense economic and political framework conditions in a number of BRICS and SMIT states markets such as China, Turkey and Russia continued in the second quarter to make no contribution towards sales.

In the area of our innovative silver coating technology, we were also able to make good progress in the second quarter regarding the current CE conformity assessment procedure. The focus here was on intensive exchange with the notified body, which was constructive throughout. As part of the US American Food and Drug Administration (FDA) approval process, we had a presubmission meeting in early July, which we evaluate very encouraging. In the next step we will now prepare the necessary approval documents for submission to the US authorities.

With the granting of the notice of allowance for a further US American patent, we have reached a next important milestone in the expansion of our IP portfolio. Particularly notable about this property right is the comprehensive protection ("umbrella patent") which combines and extends many patents already granted. Final granting of the patent now depends solely on the fulfilment of formal conditions such as payment of a patent fee. We are also making progress with the planned completion of our LOQTEQ® portfolio. The focus of research and development activities in the second quarter was on new polyaxial LOQTEQ® systems and additions to existing LOQTEQ® systems.

Based on our strategy to transform *aap* into a pure trauma player with IP-protected innovative technologies, we successfully completed the sale of 100% of the company shares in our subsidiary *aap* Biomaterials GmbH on 11 May 2016. In total we received as at 30 June 2016 including the payment of liabilities assumed and less paid disposal costs and outgoing payment items a cash inflow of EUR 34.5 million. We will use a part of the proceeds to finance further growth and want to distribute a part of them to our shareholders. In this context we still evaluate different options without having taken a measure into closer consideration or decided on it. For example a dividend payment in financial year 2017 based on the annual financial statements 2016 seems to be conceivable.

Another important objective of the 2016 Management Agenda is to align the company's cost structure with the reduced size of the company and the anticipated future sales streams. We are aiming for this to realize an annualized savings effect of EUR 2.0 million. In this regard, we implemented comprehensive personnel measures in the second quarter, corresponding to a total effect of up to EUR 1.5 million if projected for a 12-month period. These measures are linked to one-off costs in the current financial year, which resulted in additional expenses of EUR 0.3 million in the second quarter.

Last but not least, we would like to once again mention this year's annual general meeting, which took place in Berlin on 17 June 2016. The main discussion point was the counter-motions brought by Westlake GmbH & Co. Beratungs KG, an unsuccessful bidder in the bidding process for our former subsidiary *aap* Biomaterials GmbH. We are pleased that both the motions to postpone the discharge of the Management and Supervisory Boards and the motion for a special audit of the sales process were rejected by an overwhelming majority and all agenda topics were adopted by a large majority. We would like to take this opportunity to thank our shareholders for the trust they have placed in us.

The second half of the year will bring further challenges in order to sustainably return *aap* to the growth path. We are confident that the measures initiated and planned have put us on the right track to achieve the targets set for 2016.

Bruke Seyoum Alemu
Chairman of the Management Board / CEO

Marek Hahn
Member of the Management Board / CFO

The Share

General Information about aap's Share

International Securities Identification Number (ISIN)	DE0005066609
Securities Identification Number (WKN)	506 660
Listing	All German stock exchanges, XETRA
Stock Symbol	AAQ
Market Segment	Prime Standard (since 16 May 2003)
Indices	CDAX Prime All Share Index Technology All Share Index
Prime Sector	Pharma & Healthcare
Capital Stock (06/30/2016)	EUR 30,733,256
Number of Bearer Shares (06/30/2016)	30,733,256
Authorized Capital (06/30/2016)	EUR 30,733,256

Key Figures* of aap's Share

	Q2		H1	
	2016	2015	2016	2015
Closing Price 06/30 (EUR/Share)	1.33	2.43	1.33	2.43
Market Capitalization 06/30 (million EUR)	40.88	74.53**	40.88	74.53**
Average Price (EUR/Share)	1.49	2.46	1.39	2.54
High (EUR/Share)	1.67	2.64	1.67	2.82
Low (EUR/Share)	1.33	2.25	1.09	2.25
Ø Daily Turnover (KEUR)	16.72	40.76	24.20	59.42

* Data source: Bloomberg. Figures relate to XETRA closing prices of the day.
** As of 06/30/2015, the number of bearer shares amounted to 30,670,056.

On the international financial markets, the second quarter of 2016 was predominantly characterized by a high degree of volatility. After a steady start with a slight upward trend, later in the reporting period, political and economic uncertainties in particular impacted investors' mood. In addition to the speculation about the US Federal Reserve changing the key interest rate, the United Kingdom's decision to leave the European Union was also, in particular, a cause of uncertainty, which resulted in significant price losses towards the end of the quarter.

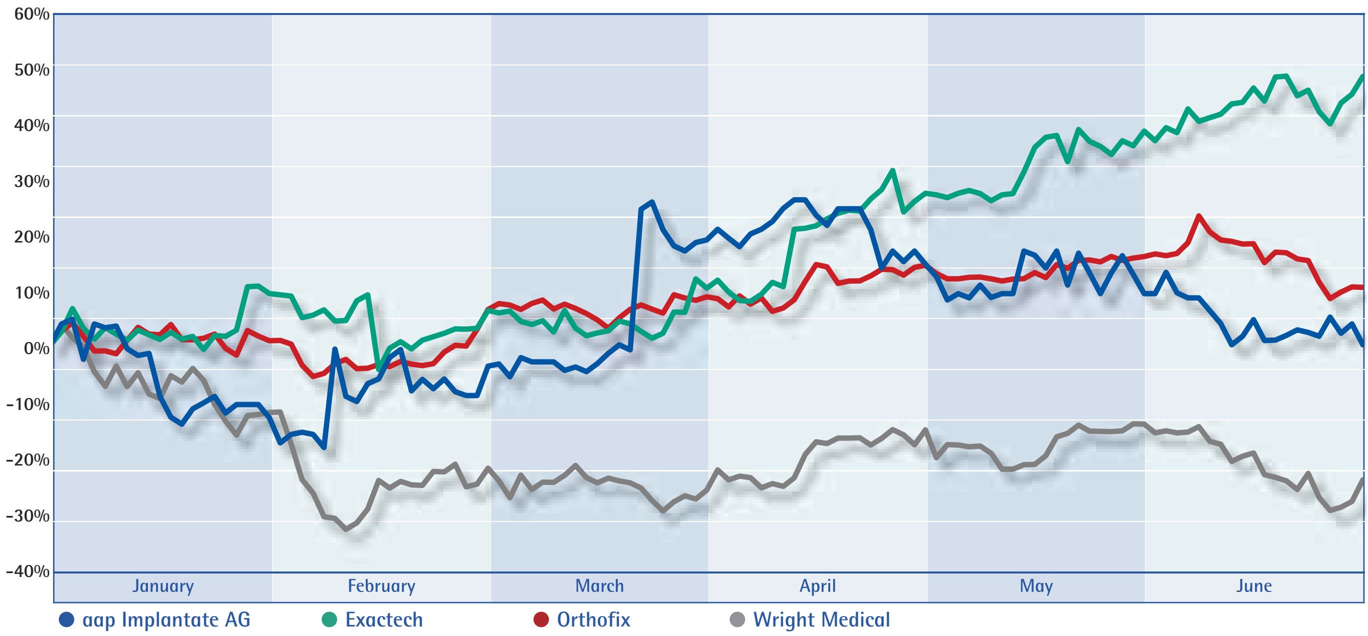
At the beginning of the reporting period, *aap*'s share developed positively and, starting from the XETRA closing price of EUR 1.58 on April 1, 2016, reached the quarterly high of EUR 1.67 on both April 13 and 14. Thereafter, the share came temporarily under pressure before the price moved predominantly sideways in the following weeks. At the end of the quarter, the share price was unable to escape the negative trend of the overall market, consequently reaching the quarterly low of EUR 1.33 on both June 14 and 30, 2016, which therefore also marked the closing price for the reporting period. Thus, in the second quarter, the share lost a total of about 16% of its value.

Also in view of the first half of 2016, the capital market environment was shaped by high volatility. At the beginning of the year, falling commodity prices and the uncertainties regarding the situation in the Middle East in particular caused insecurity, which was partly reflected by significant price declines. In the following weeks, the international stock markets mainly reported an upward trend, which was interrupted only by temporary downturns. At the end of the half year, market sentiment was particularly impacted by the United Kingdom's decision to leave the European Union, which ultimately resulted in a significant market downturn.

Looking at the price development of the *aap* share, the first half of the year painted a very different picture. First, the share price came under pressure at the beginning of the reporting period, starting from the XETRA closing price of EUR 1.33 on January 4, 2016, and reaching the half-year low of EUR 1.09 on February 9, 2016. After moving sideways in the next few weeks, on March 22, 2016, the share price increased significantly in response to the news of the sale of *aap* Biomaterials GmbH. As a result, one day later, the share achieved the high of the first half-year of EUR 1.67, which it also reached on April 13 and 14. In the further course the share price predominantly moved sideways before again being hit by a downwards trend towards the end of the half-year. As a consequence, the profits made by the share in the first quarter were completely cancelled out in the second quarter; as such, the closing price for the first half of the year corresponded exactly to its opening price of EUR 1.33.

Indices Share Price Comparison H1 | 2016

Peer Group Share Price Comparison H1 | 2016



Analysts' Recommendations

Research Company	Analyst	Recommendation	Target Price	Date
Warburg Research GmbH	Harald Hof	Buy	2.10 EUR	02/23/2016
Edison Investment Research GmbH	Dr. Linda Pomeroy	-	-	05/24/2016

All research reports by the analysis firms are available at **www.aap.de/en/investoren/aktie/research**. The reports by Edison Investment Research GmbH are only available in English.

Investor Relations

In the second quarter of 2016, as usual, *aap* focused on regular and transparent communication with its stakeholders as part of its investor relations activities. A focal point of the reporting period was certainly the 7th DVFA Spring Conference in Frankfurt am Main. There, the Management Board presented the company's equity story and participated in several one-on-one meetings with existing and in particular potential new investors. In addition, numerous conference calls with investors were held in the second quarter.

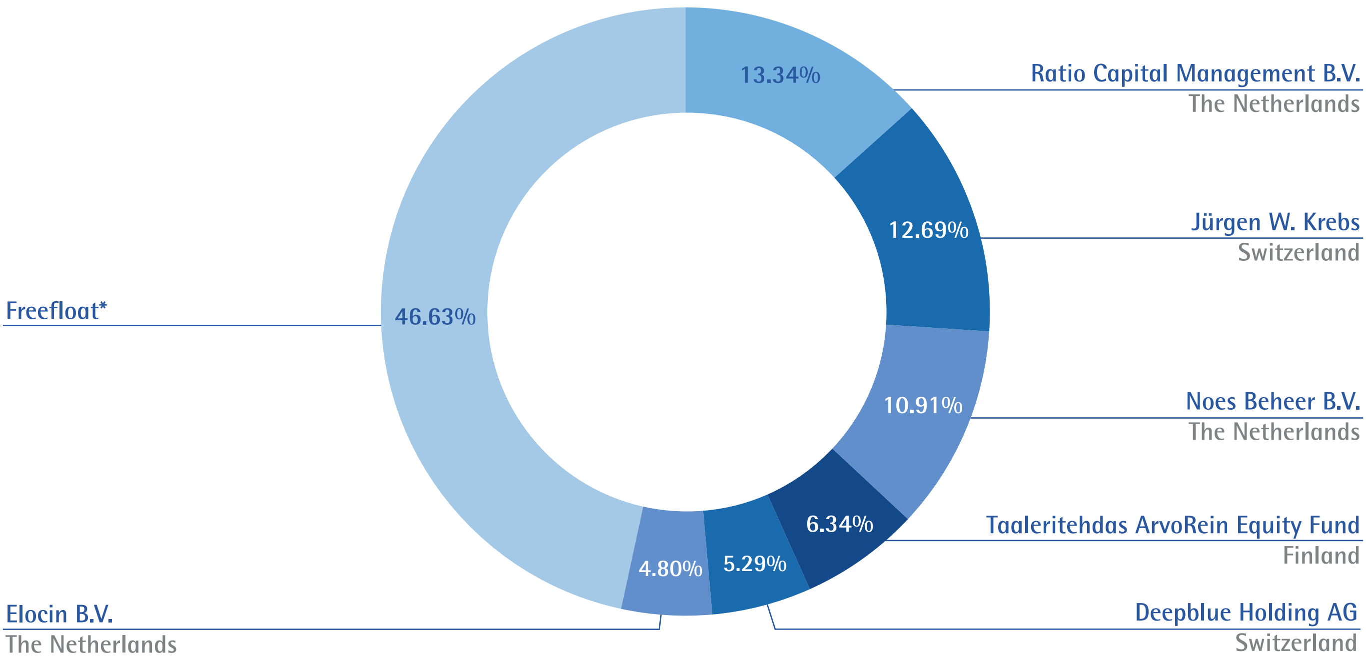
Later in the year, in November, *aap* will attend the German Equity Forum in Frankfurt am Main.

Investor Relations app download

Shareholder Structure

In the second quarter of 2016, there were no changes in the shareholder structure of *aap*, which thereby continues to be characterized by stability with a large number of long-term oriented investors. The free float was approximately 46.63% (based on own calculations) on June 30, 2016.

The following table shows all shareholdings in *aap* ≥ 3% as of June 30, 2016:



* Based on own calculations.

Shareholdings Executive Bodies

The table below shows the direct and indirect shareholdings of all members of the company's Supervisory Board and Management Board as of June 30, 2016:

	Shares	Options
Supervisory Board Members		
Biense Visser	275,196	150,000
Ronald Meersschaert	0	0
Rubino Di Girolamo	1,626,157	0
Members of the Management Board		
Bruke Seyoum Alemu	160,000	204,000
Marek Hahn	56,000	186,000

Interim Group Management Report

Business and General Conditions

Organizational and Legal Structure

In the consolidated financial statements, *aap* Implantate AG and all of its companies have been consolidated using the full consolidation method, in which the parent company *aap* Implantate AG directly or indirectly holds the majority of voting rights through consolidated subsidiaries.

	Shareholding in %
aap Implantate AG Berlin	Parent company
aap Implants Inc. Dover, Delaware, USA	100
MAGIC Implants GmbH Berlin	100
aap Joints GmbH Berlin	33
AEQUOS Endoprothetik GmbH Munich	4.57

Subsidiaries

aap Implants Inc.

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

MAGIC Implants GmbH

MAGIC Implants GmbH is a shelf company in which all potential development and, if applicable, marketing activities in the area of magnesium technology should be bundled. The company is based in Berlin.

Holdings

aap Joints GmbH

After the sale of 67% of the shares in June 2013, in the second quarter of 2016, there was a 33% stake in *aap* Joints GmbH. In *aap* Joints GmbH, all the orthopaedic activities (knees, hips, and shoulders) are bundled together with the C~Ment® line. The company is based in Berlin.

AEQUOS Endoprothetik GmbH

There is a 4.57% stake in AEQUOS Endoprothetik GmbH that has no decisive influence on the operating and financial policies. The company is based in Munich.

Former Subsidiaries

aap Biomaterials GmbH

All development and manufacturing activities relating to medical biomaterials, as well as bone cements and cementing techniques, were subsumed in *aap* Biomaterials GmbH. The company is based in Dieburg, near Frankfurt am Main. On March 22, 2016, a notarized share purchase agreement was signed with Keensight Capital for the sale of 100% of the company shares in *aap* Biomaterials GmbH. The transaction was closed on May 11, 2016 and *aap* Biomaterials GmbH was deconsolidated the same day.

Products, Markets & Distribution

Most products are sold under the brand name "*aap*". While products in German-speaking Europe are sold directly to hospitals, buying syndicates and hospital groups, the company uses a broad network of distributors in more than 25 countries at the international level. In regional terms, the most important sales markets, in addition to the DACH region and other European markets, are the USA and the BRICS and SMIT countries.

As part of its marketing and sales activities, *aap* presented its product portfolio in the second quarter of 2016 inter alia at the 17th EFORT Congress (European Federation of National Associations of Orthopaedics and Traumatology) in Geneva. With more than 6,700 attendees, the international congress is one of the most important European events in the fields of orthopaedics and trauma. In addition, during the reporting period, *aap* was represented at the 17th ESTES Congress (European Society for Trauma & Emergency Surgery) in Vienna and at other specialist symposia and conferences. Another particularly important event was *aap*'s Distributor Meeting in Berlin. Over the course of two days, 26 doctors and 41 distributors from a total of 23 countries took part in various training courses and workshops. In addition, at the University Hospital of Giessen, the second "International

Osteosynthesis Trauma Course" was held under the patronage of University Professor Dr. Christian Heiß and was attended by doctors and distributors of the company.

Product Developments and Approvals

In the **trauma business**, the focus of research and development activities in the second quarter of 2016 was on new polyaxial LOQTEQ® systems and additions to existing LOQTEQ® systems. In this respect, good progress was made during the reporting period and, consequently, various implants are scheduled to be introduced to the market in the second half of the year. The new periprosthetic treatment system convinced in its first applications in a number of clinics in various clinical situations due to its user-friendliness and flexibility. Upon successful completion of the evaluation phase, the new system should be launched globally at the end of the fiscal year. With the granting of the notice of allowance for a further US American patent *aap* could furthermore achieve a next important milestone in the expansion of its IP portfolio. Particularly notable about this property right is the comprehensive protection ("umbrella patent") which combines and extends many patents already granted. Final granting of the patent now depends solely on the fulfilment of formal conditions such as payment of a patent fee.

After *aap* submitted the design dossier for the CE conformity assessment procedure of its **silver coating technology** to a leading notified body in the field of medical devices in January, an intensive and constructive exchange with the inspecting authority followed in the second quarter of 2016. The conformity assessment procedure is progressing well for the first silver-coated LOQTEQ® plate. If successful, the company plans to extend the approval to further trauma products. As part of the aimed approval process in the USA, in early July, an encouraging Pre-Submission Meeting had already been held at the US Food and Drug Administration (FDA). In the next step the required approval documents for the submission at the US authority will be prepared.

In the **magnesium technology** area, *aap* focused on further technological development of the resorbable implants in the second quarter of 2016.

Employees

As at the reporting date of 30 June 2016, a total of 172 employees were employed in the continued operation (31 December 2015: 179 employees).

Economic Report

Preliminary remarks on the presentation of the consolidated statement of income

On 22 March 2016, *aap* Implantate AG signed a notarized share purchase agreement with Keensight Capital regarding the sale of 100% of the company shares in its subsidiary *aap* Biomaterials GmbH. The operation sold within the transaction consists of *aap* Biomaterials GmbH, which is specialized in the development, production and marketing of bone cements, mixing systems and related accessories, and *aap* Implantate AG's distribution business in this area. In 2015, the operation sold recorded sales of EUR 15.7 million.

Based on this transaction and the fulfillment of the requirements of IFRS 5 in November 2015, the disposed operation was first presented as a discontinued operation in the consolidated financial statements of 31 December 2015. The consolidated statement of income of the group is therefore splitted into two parts: continued operation and discontinued operation. The continued operation includes the activities bundled in *aap* Implantate AG, Berlin, *aap* Implants Inc., Dover, Delaware, USA, and MAGIC Implants GmbH, Berlin. The discontinued operation for the period from 1 January until 11 May 2016 and 2015 includes *aap* Biomaterials GmbH, Dieburg and the distribution business of *aap* Implantate AG in bone cements, mixing systems and related accessories.

The transaction was closed on 11 May 2016. After taking account of the disposal of liabilities assumed in connection with the sale, the interim financial statements as at 30 June 2016 indicate a deconsolidation profit of EUR 23.3 million, which was shown in the discontinued operation in the consolidated statement of income. Sale costs totaled EUR 1.6 million within the transaction. Of this amount, a total of EUR 0.8 million was already paid as at 30 June 2016. The purchaser is also entitled to the profit share of *aap* Biomaterials GmbH generated from 1 January 2016 to 11 May 2016 amounting to EUR 0.1 million. Overall, an EBITDA of EUR 24.1 million is shown in the discontinued operation for the period from 1 January to 11 May 2016, which contains the deconsolidation profit as well as the current profit subject to the provisions of IFRS 5 for the period from 1 January to 11 May 2016.

Unless otherwise stated, all remarks regarding the asset, financial and earnings position refer to the continued operation.

Earnings position

Sales development and total operating performance

Sales of the continued operation were down 3% compared to the second quarter of 2015 from EUR 3.6 million to EUR 3.4 million. Here, sales with trauma products (implants and trauma-complementary biomaterials) dropped from EUR 3.3 million to EUR 3.0 million. In the first half-year, sales of the continued operation fell from EUR 6.5 million to EUR 5.9 million, where sales with trauma products declined from EUR 6.0 million to EUR 5.2 million. It must be noted in this context that initial sales invoiced to a new Iranian distributor in the amount of EUR 0.7 million were included in the first quarter of 2015, but these were reversed in the course of preparing the 2015 annual financial statements due to non-fulfilled contractual obligations. When factoring out this effect, the first six months of both fiscal years indicate an almost identical result.

One particularly pleasing aspect was the growth in the USA, which is one of the key markets in our growth strategy. We were able to increase sales with local distributors through our US American subsidiary and global partners who sell our products under their own name or the *aap* label in the USA to EUR 0.7 million in the second quarter (Q2/2015: EUR 0.2 million). This means that over the first half of the year, we have already recorded sales of EUR 1.3 million in the USA, compared to EUR 0.3 million in the previous year. Together with this, we have seen a growing number of weekly operations with our LOQTEQ® products and thus have access to US hospitals, either directly or through our distributors.

We were also able to make progress in our other core markets. In the DACH region, we were able to acquire additional new customers in Austria. At the international level, we further increased our presence in the established markets of Spain and Italy, attracted new customers in Latin America and expanded our business in South Africa. However, it should be noted that due to the tense economic and political framework conditions in a number of BRICS and SMIT states markets such as China, Turkey and Russia continued in the second quarter to make no contribution towards sales.

In response to the business development of the past quarters, *aap* has expanded its sales organization considerably. For instance, the sales team was strengthened with several executives with extensive experience and proven track records in the industry based on many years of service with renowned international medical technology companies. We expect that these and the already initiated sales measures will have an effect from the second half of 2016, which should then be reflected in a tangibly more dynamic sales development from our trauma products.

Total operating performance includes sales revenues and inventory changes as well as own and development work capitalized. With only slightly lower sales revenues, total operating performance of the continued operation decreased in the second quarter of 2016 to EUR 3.3 million (Q2/2015: EUR 4.6 million). With lower sales revenues, total operating performance in the first half of 2016 also fell from EUR 8.4 million to EUR 7.1 million. This is due to the decline in sales as well as the significant reduction in stock, particularly in the second quarter of 2016, which resulted in a greatly reduced increase in stock in the first six months. This development is very welcome because *aap* had increased stock levels significantly in 2015 and can now generate sales partly from existing stocks.

In accordance with IFRS, *aap*, as a development-intensive company, capitalizes not only internally produced capital goods but also expenses for its own projects and development projects for which approval and economically successful sales are highly likely. *aap* capitalized EUR 0.4 million in the second quarter of 2016 (Q2/2015: EUR 0.3 million) and 0.8 million EUR in the first half-year (H1/2015: EUR 0.8 million) of own and development services. The largest additions in this regard concern the development of our silver coating technology and the expansion of our LOQTEQ® system by additional plating systems for certain indication regions respectively functions.

Cost structure and Result

Other operating income increased from EUR 0.1 million in the second quarter of 2015 to EUR 0.2 million in the reporting period, while in the first half-year the figure was EUR 0.3 million and therefore remained unchanged as compared to the same period the previous year. Based on the provisions of IFRS 5, the charges for services which *aap* provides for the discontinued operation will once again be shown in the continued operation since 11 May 2016. Until the time of deconsolidation, there was a consolidated presentation, which resulted in EUR 0.4 million in income from the continued operation and the same amount in expenses in the discontinued operation not being shown, thereby resulting in an EBITDA shift to the discontinued operation.

The **cost of materials ratio** (with regard to sales revenues and changes in inventories) decreased significantly from 38% to 26% in the second quarter of 2016. The same is shown with regard to the development in the first half-year: Here, the ratio decreased from 44% to 36%. Also, absolute material expenses fell significantly from EUR 1.7 million to EUR 0.8 million in the second quarter of 2016 while a decrease of EUR 3.3 million to EUR 2.3 million was recorded in the first six months. There were two reasons for this development. First, almost all temporary employees were laid off in the second quarter. Second, there was a significant reduction in related third-party services. The action plan which we started in 2015 and which we have already largely implemented aims, among other things, to lower manufacturing costs sustainably. In this regard, a reduction in the share of external services and an increase in in-house manufacturing are essential to achieving an improvement in margins. In this context, further progress has been recorded. For example, the proportion of third-party services in the cost of materials during the second quarter of 2016 improved to 13% compared to the same period in the previous year (Q2/2015: 32%), while there was an improvement from 31% to 20% in the first half-year.

Personnel expenses decreased in the second quarter of 2016 from EUR 2.6 million in the same period in the previous year to EUR 2.4 million. Both periods of comparison include special effects: While the second quarter of 2016 included one-off costs from severance payments totaling EUR 0.3 million due to the adjustment of the cost structure with the reduced size of the company, in the second quarter of 2015, one-off expenses of EUR 0.2 million were incurred due to the revaluation of individual stock option programs. The elimination of these effects resulted in a reduction of personnel costs from EUR 2.4 million to EUR 2.1 million. This development is primarily attributed to greatly reduced holiday accruals due to vacation being taken early in 2016. In the first half-year, personnel costs decreased only slightly from EUR 4.5 million to EUR 4.4 million taking into account the aforementioned effects. The personnel cost ratio (based on total operating performance) increased with slightly lower labor costs and significantly reduced total operating performance in the second quarter of 2016 to 72% (Q2/2015: 56%) and from 56% to 67% in the first half-year. As at 30 June 2016, a total of 172 people were employed in the continued operation (31 December 2015: 179 employees).

As compared to the previous year, **other operating expenses** decreased in the second quarter of 2016 by EUR 0.1 million to EUR 1.8 million, while the first six months recorded a slight increase from EUR 3.8 million to EUR 3.9 million. As compared to the previous year, the other operating expenses ratio increased overall in the second quarter of 2016 and also in the first half-year (related to the total operating expenses) from 41% to 53% and from 46% to 55%, respectively.

aap therefore achieved an **EBITDA** amounting to EUR -1.4 million in the second quarter of 2016 (Q2/2015: EUR -1.4 million) and EUR -3.6 million in the first six months (H1/2015: EUR -3.1 million).

Based on the comprehensive investments in machinery and systems with a view to building up capacity in the 2014 and 2015 fiscal years, **scheduled depreciation** increased from EUR 0.4 million to EUR 0.5 million in the second quarter of 2016 and from EUR 0.8 million to EUR 1.0 million in the first half-year, as compared to the previous year.

EBIT stood at EUR -1.9 million in the second quarter of 2016 (Q2/2015: EUR -1.8 million) and at EUR -3.6 million in the first six months (H1/2015: EUR -3.1 million).

The **financial result** changed only slightly and, as in the previous year, has only a very marginal impact on the key performance indicators.

The **result from joint ventures and affiliates** rose in the continued operation from KEUR -24 in the second quarter of 2015 to KEUR -5 in the second quarter of 2016 and is attributable entirely to *aap* Joints GmbH. In the six-month period, earnings rose from KEUR -58 to KEUR -11.

Overall, *aap* achieved a **net result** of EUR -1.9 million for the second quarter of 2016 (Q2/2015: EUR -1.8 million) and EUR -4.6 million in the first half-year (H1/2015: EUR -3.6 million).

Asset Position

Due to deconsolidation of *aap* Biomaterials GmbH on 11 May 2016, *aap*'s balance sheet has changed significantly as compared to 31 December 2015. As at 30 June 2016, total assets increased by 27% from EUR 54.9 million at year-end 2015 to EUR 70.0 million. Assets of EUR 14.6 million (31 December 2015: EUR 13.9 million) and liabilities of EUR 2.8 million (31 December 2015: EUR 2.2 million) have been retired within the transaction. These were recognized as assets and liabilities held for sale in the consolidated financial statements as at 31 December 2015. For further details, please refer to the information in the notes.

The increase in **non-current assets** as at 30 June 2016 by EUR 0.5 million, as compared to year-end 2015, results from investments in development projects and fixed assets. **Capitalized development costs** increased by EUR 0.4 million as compared to 31 December 2015, primarily due to the development activities in the area of silver coating technology and the planned enhancement of the LOQTEQ® portfolio. The proportion of intangible assets to total assets now stands at 16%, thereby falling as compared to the year-end (31 December 2015: 19%).

Current assets rose significantly from EUR 35.7 million as at 31 December 2015 to EUR 50.3 million as at 30 June 2016 and were primarily influenced by cash inflow from the sale of *aap* Biomaterials GmbH with simultaneous retirement of assets held for sale. In addition, **inventories** rose slightly from EUR 9.7 million at year-end 2015 by EUR 0.4 million to EUR 10.1 million as at 30 June 2016, but a large portion of sales was served from existing inventory in the second quarter. Contingent upon the reporting date, **trade receivables** increased slightly from EUR 5.8 million as at 31 December 2015 to EUR 6.2 million as at the 30 June 2016.

The level of **cash and cash equivalents** increased significantly to EUR 32.2 million as at 30 June 2016 (31 December 2015: EUR 4.9 million) as a consequence of the sale of *aap* Biomaterials GmbH.

Due to the net result of EUR 19,4 million, **equity** increased as at 30 June 2016 to EUR 59.7 million (31 December 2015: EUR 40.3 million). With total assets of EUR 70.0 million as at 30 June 2016 (31 December 2015: EUR 54.9 million), the equity ratio is 85 % (31 December 2015: 73 %).

Financial liabilities decreased after payment of the planned settlement payments in the amount of EUR 1.7 million with a simultaneous increase by EUR 0.2 million from EUR 3.3 million at the end of 2015 to EUR 1.8 million as at 30 June 2016. **Trade**

accounts payable also decreased as at 30 June 2016 from EUR 4.1 million, as at 31 December 2015, to EUR 2.5 million. Liabilities associated with assets held for sale in the amount of EUR 2.2 million (31 December 2015) also retired as part of the deconsolidation.

Financial position

Starting from a net result of EUR 19.4 million, the **operating cash flow** of the *aap* group in the first half of 2016 was down compared to the same period of the previous year to EUR -4.1 million (H1/2015: EUR -3.5 million). The main changes in the year-on-year comparison can be summarized as follows:

- Decreased operating result (excluding deconsolidation profit) both in the continued operation and in the discontinued operation, with the discontinued operation accounted for based on the result of the entire quarter in the previous year, but only based on one and a half months in 2016
- Deconsolidation profit of EUR 23.3 million from the sale of *aap* Biomaterials GmbH
- Strong reduction of trade accounts payable by EUR 1.6 million
- Balance-sheet-date-related increase in receivables at the end of the quarter (EUR 0.3 million) and a slight increase in inventories as a result of produced safety stock for new LOQTEQ® products (EUR 0.4 million)

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

Cash flow from investing activities increased to EUR 33.0 million in the first six months of 2016 (H1/2015: EUR -1.5 million). A major influence here was the cash inflow generated from the sale of *aap* Biomaterials GmbH, which is set out as follows in the consolidated cash flow statement as at 30 June 2016: based on a purchase price for shares in *aap* Biomaterials GmbH (equity value) of EUR 33 million, the company received EUR 34.5 million in total, including the payment of assumed liabilities (EUR 3.7 million) and less selling costs paid (EUR 0.8 million) and retired cash positions (EUR 1.4 million). For more details, please refer to the notes. In addition, *aap* invested EUR 0.6 million in machinery and systems, and in operating and office equipment. A further EUR 0.8 million was invested in capitalized development projects and in particular in the innovative silver coating and LOQTEQ® technology.

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

- Repayments on loan contracts in the amount of EUR 1.5 million
- Repayments on finance leasing agreements in the amount of EUR 0.2 million

This resulted in cash outflow of EUR 1.7 million from financing activities during the first half of 2016 (H1/2015: cash inflow of EUR 4.3 million).

Cash and cash equivalents increased as at the reporting date, 30 June 2016, to EUR 32.2 million (31 December 2015: EUR 5.7 million; including EUR 0.8 million attributable to the discontinued operation). The net credit balance (the sum of all cash and cash equivalents minus all interest-bearing liabilities) was EUR 28.7 million as at 30 June 2016 (31 December 2015: Net credit balance of EUR 0.9 million; including a credit balance of EUR 0.8 million attributable to the discontinued operation).

The *aap* group had access to contractually guaranteed credit lines totalling EUR 2.5 million as at 30 June 2016 (31 December 2015: EUR 4.5 million), none of which had been drawn on as at the reporting date (31 December 2015: undrawn). Thus, *aap* held usable liquidity (sum of cash and cash equivalents and available undrawn credit lines) of EUR 34.7 million as at the reporting date in this period (31 December 2015: EUR 10.2 million).

Risk and Opportunity Report

The risk and opportunity situation of *aap* Implantate AG has not materially changed since the end of 2015. There are still no risks that would threaten the company´s continued existence.

A contractual partner is asserting an out-of-court claim for damages of approx. EUR 0.5 million against a former subsidiary. It is claimed that a claim for damages exists due to the fact that a contractual product has not yet been recertified. We have recorded a corresponding risk provision for associated anticipated legal and consultancy costs.

All furthermore existing risks and opportunities as well the structure and set-up of our risk and opportunity management are comprehensively presented in our consolidated annual financial report 2015.

Outlook

In the third quarter of 2016, *aap* aims to achieve further progress in its strategy implementation. The Management Board will be focusing on the following topics:

To accelerate value-based innovations, *aap* will be taking forward in a targeted manner the further expansion of the LOQTEQ® portfolio for certain indication areas respectively functionalities. In the area of silver coating technology, the active interaction with the approval authorities will be continued regarding the current CE conformity assessment procedure. For the US American approval, based on a very encouraging pre-submission meeting with the FDA, the necessary approval documents are now being prepared for submission to the US authorities.

The company wants to enhance market access by means of two approaches: Firstly, sales activities in the established markets in Western Europe as well as in the United States are to be expanded further. Secondly, further endeavours are to be undertaken to stabilize sales in growth markets such as the BRICS and SMIT countries.

Following the successful divestment of *aap* Biomaterials GmbH, *aap* has already initiated extensive measures to reduce personnel and material costs in order to take into account the reduced size of the company. In the third quarter, we will also continue to work tirelessly to further optimize the cost base.

For the third quarter of 2016, *aap* is expecting for the continued operation sales to range between EUR 2.5 million and EUR 4.0 million and an EBITDA of EUR -2.0 million to EUR -1.2 million.

Bruke Seyoum Alemu
Chairman of the Management Board / CEO

Marek Hahn
Member of the Management Board / CFO

Interim Consolidated Financial Statements

Consolidated Balance Sheet

ASSETS (KEUR)	2016	2015
	06/30/2016	12/31/2015
Non-current assets	**19,719**	**19,203**
• Intangible assets	10,888	10,441
• Capitalized services	10,691	10,293
• Other intangible assets	197	148
• Tangible assets	7,988	7,675
• Accounts receivable (trade debtors)	95	310
• Financial assets	192	192
• Deferred taxes	556	585
Current assets	**50,299**	**35,743**
• Inventories	10,109	9,703
• Accounts receivable (trade debtors)	6,055	5,516
• Other financial assets	587	725
• Other assets	539	202
• Cash and cash equivalents	32,219	4,941
• Assets classified as held for sale	790	14,656
Total assets	**70,018**	**54,946**

LIABILITIES AND SHAREHOLDERS' EQUITY (KEUR)	2016	2015
	06/30/2016	12/31/2015
Shareholders´equity	59,712	40,307
• Subscribed capital	30,733	30,670
• Contributions to implement the capital increase resolved	99	162
• Capital reserve	17,582	17,615
• Revenue reserve	228	228
• Other reserve	490	490
• Consolidated balance sheet profit / loss	10,541	-8,864
• Currency differences	39	6
Non-current liabilities (above 1 year)	3,715	3,406
• Financial liabilities	427	0
• Other financial liabilities	1,287	1,340
• Deferred taxes	1,174	1,140
• Provisions	10	22
• Other liabilities	817	904
Current liabilities (up to 1 year)	6,591	11,233
• Financial liabilities	1,333	3,260
• Trade accounts payable	2,484	4,102
• Other financial liabilities	1,200	940
• Provisions	738	276
• Other liabilities	836	504
• Liabilities directly associated with assets classified as held for sale	0	2,151
Total liabilities and shareholders' equity	70,018	54,946

Consolidated Statement of Comprehensive Income

INCOME STATEMENT (KEUR)	Continued operation	
	2016	2015
	04/01/2016 – 06/30/2016	04/01/2015 – 06/30/2015
• Sales	3,427	3,542
• Changes in inventories of finished goods and work in progress	-479	830
• Other own work capitalized	384	259
Total revenue	3,332	4,631
• Other operating income	198	78
• Cost of purchased materials and services	-756	-1,679
• Personnel expenses	-2,394	-2,572
• Other operating expenses	-1,769	-1,876
• Other taxes	-1	34
EBITDA	-1,390	-1,384
• Depreciation of tangible assets and intangible assets	-476	-422
EBIT	-1,866	-1,807
• Financial result	-17	3
• Income / Expenses from joint ventures and associates	-5	-24
EBT	-1,888	-1,828
• Income tax	0	63
Net result / Total comprehensive income	-1,888	-1,765
Other net result / Other comprehensive income	-1,888	-1,765
• Net income per share (undiluted) in EUR	-0.06	-0.06
• Net income per share (diluted) in EUR	-0.06	-0.06
• Weighted average shares outstanding (undiluted) in thousand pieces	30,832	30,670
• Weighted average shares outstanding (diluted) in thousand pieces	30,964	31,357

	Discontinued operation		Group Total	
	2016	2015	2016	2015
	04/01/2016 – 06/30/2016	04/01/2015 – 06/30/2015	04/01/2016 – 06/30/2016	04/01/2015 – 06/30/2015
	1,655	2,922	5,082	6,464
	357	584	-122	1,414
	0	72	384	331
	2,012	**3,578**	**5,344**	**8,209**
	23,336	28	23,534	106
	-807	-1,646	-1,563	-3,325
	-386	-882	-2,780	-3,454
	-369	-501	-2,138	-2,377
	0	0	-1	34
	23,786	**572**	**22,396**	**-807**
	-33	-240	-509	-662
	23,753	**332**	**21,887**	**-1,475**
	-18	-34	-35	-31
	0	0	-5	-24
	23,735	**298**	**21,847**	**-1,530**
	-34	-33	-34	30
	23,701	**265**	**21,813**	**-1,500**
	23,701	**265**	**21,813**	**-1,500**
	0.77	0.01	0.71	-0.05
	0.77	0.01	0.71	-0.05
	30,832	30,670	30,832	30,670
	30,964	31,670	30,964	31,357

Consolidated Statement of Comprehensive Income

INCOME STATEMENT (KEUR)	Continued operation	
	2016	2015
	01/01/2016 – 06/30/2016	01/01/2015 – 06/30/2015
• Sales	5,945	6,481
• Changes in inventories of finished goods and work in progress	340	1,093
• Other own work capitalized	773	792
Total revenue	**7,058**	**8,366**
• Other operating income	285	279
• Cost of purchased materials and services	-2,294	-3,300
• Personnel expenses	-4,699	-4,687
• Other operating expenses	-3,906	-3,832
• Other taxes	-4	31
EBITDA	**-3,561**	**-3,143**
• Depreciation of tangible assets and intangible assets	-959	-828
EBIT	**-4,520**	**-3,971**
• Financial result	-30	-7
• Income / Expenses from joint ventures and associates	-11	-58
EBT	**-4,561**	**-4,036**
• Income tax	-60	485
Net result / Total comprehensive income	**-4,621**	**-3,551**
Other net result / Other comprehensive income	**-4,621**	**-3,551**
• Net income per share (undiluted) in EUR	-0.15	-0.12
• Net income per share (diluted) in EUR	-0.15	-0.11
• Weighted average shares outstanding (undiluted) in thousand pieces	30,832	30,670
• Weighted average shares outstanding (diluted) in thousand pieces	30,964	31,357

	Discontinued operation		Group Total	
	2016	2015	2016	2015
	01/01/2016 – 06/30/2016	01/01/2015 – 06/30/2015	01/01/2016 – 06/30/2016	01/01/2015 – 06/30/2015
	4,201	7,116	10,146	13,597
	711	746	1,051	1,839
	15	129	788	921
	4,927	**7,991**	**11,985**	**16,357**
	23,397	298	23,682	577
	-2,095	-2,960	-4,389	-6,261
	-1,252	-1,744	-5,951	-6,432
	-896	-1,056	-4,802	-4,888
	-1	-1	-5	30
	24,080	**2,528**	**20,519**	**-615**
	-33	-463	-992	-1,293
	24,047	**2,060**	**19,527**	**-1,911**
	-10	-53	-40	-60
	0	0	-11	-58
	24,037	**2,007**	**19,476**	**-2,029**
	-10	-408	-70	77
	24,027	**1,599**	**19,406**	**-1,952**
	24,027	**1,599**	**19,406**	**-1,952**
	0.78	0.05	0.63	-0.07
	0.78	0.05	0.63	-0.06
	30,832	30,670	30,832	30,670
	30,964	31,670	30,964	31,357

Consolidated Statement of Cash Flows

(KEUR)	2016	2015
	01/01/2016 – 06/30/2016	01/01/2015 – 06/30/2015
• Net income (after tax) from continued operations	-4,621	-3,551
• Net income (after tax) from discontinued operations	24,027	1,599
Net income after tax	**19,406**	**-1,952**
Changes in working capital	**-2,373**	**-1,799**
• Stock options expenses without effect on payments	67	-62
thereof: • Cash settlement	0	-11
• Stock option expenses	67	-51
• Depreciation and impairment loss fixed assets	993	1,292
• Changes in provisions	939	11
• Gain / loss from disposal of subsidiaries	-23,339	0
• Share of net profit / loss of investments	0	58
• Changes in other assets	-199	-579
• Changes in other liabilities	456	-355
Cash flow from operating activities	**-4,050**	**-3,466**
• Outgoing payments from investing activities	-1,429	-1,599
• Grants	0	55
• Incoming payments from disposal of shares from subsidiaries less outgoing cash	34,464	0
Cash flow from investing activities	**33,035**	**-1,473**
• Incoming payments from equity injection	0	69
• Inflow from loans	0	4,744
• Redemption of loans	-1,500	-498
• Redemption of finance leases	-207	-34
Cash flow from financing activities	**-1,707**	**4,281**
Changes of cash fund due to exchange rate effects	**-2**	**5**
• Increase / Decrease in cash & cash equivalents	27,278	-653
• Cash & cash equivalents at beginning of period	4,941	12,165
Cash & cash equivalents at end of period	**32,219**	**11,512**
thereof account for the discontinued operation	0	121
thereof restricted cash & cash equivalents	4,936	0

Consolidated Statement of Changes in Equity

(KEUR)	Subscribed capital	Initial capital payments made for capital increase	Capital reserve	Revenue reserves		Non-cash changes in equity				Balance sheet result	Total
				Legal reserves	Other revenue reserves	Reserve for available-for-sale assets	Other revenue reserves	Difference from currency translation	Total		
Status 01/01/2016	30,670	162	17,615	0	228	490	0	6	496	-8,865	40,306
Increase in shares									0		0
Stock options	63	-63	-33						0		-33
Income of the group as of 06/30/2016									0	19,406	19,406
Currency differences								33	33		33
Other comprehensive income								0	0		0
Total comprehensive income								33	33	19,406	19,439
Status 06/30/2016	30,733	99	17,582	0	228	490	0	39	529	10,541	59,712
Status 01/01/2015	30,670	0	17,609	42	186	490	0	0	490	-3,573	45,424
Increase in shares	34		6								40
Stock options			-62								-62
Income of the group as of 06/30/2015										-1,952	-1,952
Other comprehensive income											5
Total comprehensive income										-1,952	-1,947
Status 06/30/2015	30,704	0	17,553	42	186	490	0	0	490	-5,525	43,455

Notes to the Interim Consolidated Financial Statements

1. Accounting and Valuation Methods

The unaudited interim financial statements as at June 30, 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The same accounting policies are applied in the interim financial statements as in the consolidated financial statements for fiscal year 2015. For more information, please refer to the consolidated financial statements of December 31, 2015, which form the basis for these interim financial statements.

During the preparation of consolidated financial statements for interim reporting in accordance with IAS 34, the Management Board is required to make judgements and estimates as well as assumptions that affect the application of accounting principles within the group and the approach, recognition and measurement of assets and liabilities as well as income and expenses. The actual amounts may differ from these estimates.

The consolidated interim financial statements account for all current transactions and deferrals that the Management Board deems necessary for an accurate presentation of the interim results. The Management Board is confident that the information and comments presented convey a true and fair view of the asset, financial and earnings position.

2. New and Amended Standards and their Application

No new or revised standards which may be relevant for the group were mandatory with effect as at 01/01/2016. The changes have no impact on the asset, financial and earnings position of the group.

3. Changes to the Composition of the Company

Until June 30, 2016, the following changes had been made to the consolidation entity of the *aap* group:

aap Biomaterials GmbH

On March 22, 2016, *aap* Implantate AG signed a notarized share purchase agreement with Keensight Capital for the sale of 100% of the company shares in *aap* Biomaterials GmbH. The transaction was closed on May 11, 2016 and *aap* Biomaterials GmbH was deconsolidated the same day.

The sale resulted in a deconsolidation profit of EUR 23.3 million, which was allocated to the discontinued operation in the consolidated statement of comprehensive income. Total selling costs of KEUR 1,600 were accrued. Furthermore, the buyer receives a profit share from *aap* Biomaterials GmbH of KEUR 133 for the period from 01/01/2016 to 05/11/2016.

Cash inflows generated from the sale were recorded in the statement of cash flows under cash flow from investing activities. The cash inflow as at 06/30/2016 is summarized as follows:

	KEUR
Purchase price payment received	32,955
Payment for liabilities assumed	3,669
Disposal of cash flow positions	-1,362
Paid sale costs	-798
Cash inflow as at 06/30/2016	**34,464**

As *aap* Biomaterials GmbH was sold on 05/11/2016, assets classified as held for sale and liabilities directly associated with assets classified as held for sale as at 12/31/2015 are no longer included in the balance sheet as at the reporting date.

As at 05/11/2016 and 12/31/2015, the main categories of assets and liabilities of the discontinued operation comprise the following:

	05/11/2016	12/31/2015
	KEUR	KEUR
Intangible assets	5,454	5,592
Tangible assets	1,544	1,293
Inventories	4,367	3,819
Accounts receivable (trade debtors) and other assets	1,841	2,372
Cash	1,362	779
Disposal of assets	**14,568**	**13,855**
Deferred taxes	-986	-1,010
Trade accounts payable	-1,106	-679
Financial liabilities	-81	-188
Other liabilities	-626	-275
Disposal of liabilities	**-2,799**	**-2,152**

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4. Share-based Remuneration

The group-wide share-based remuneration system for the employees of *aap* Implantate AG and its affiliated companies was reported separately in the consolidated financial statements as at December 31, 2015. For further information please refer to the consolidated financial statements.

532,500 options were exercisable as of June 30, 2016.

The significant terms of the programs in force during the period under review are summarized in the following overview:

<table>
<tr><th></th><th colspan="2">Significant Terms of the Applicable Option Programs</th></tr>
<tr><th></th><th>2010</th><th>2012, 2013, 2014, 2015</th></tr>
<tr><td rowspan="2">Subscription right</td><td colspan="2">Each option grants the beneficiaries the right to subscribe one no-par value bearer share in aap Implantate AG upon payment of the exercise price</td></tr>
<tr><td colspan="2">The pecuniary benefit is limited to four times the exercise price</td></tr>
<tr><td>Authorized individuals</td><td>• Employees and Management Board members of the company
• Employees and members of the management of associated companies in accordance with Sections 15 et seqq. of the German Companies Act (AktG)</td><td>• Employees of the company
• Employees of affiliated companies in accordance with Sections 15 et seqq. AktG
• Only in the 2015 option program: Board members of the company</td></tr>
<tr><td>Issue period</td><td>Until 12/19/2011</td><td>2012: Until 12/19/2014, 2013: Until 12/19/2015,
2014: Until 12/18/2016, 2015: Until 12/19/2017</td></tr>
<tr><td>Waiting period</td><td colspan="2">4 years from the date of issue</td></tr>
<tr><td>Term</td><td colspan="2">8 years from the date of issue</td></tr>
<tr><td>Exercise periods</td><td colspan="2">Within four weeks, beginning on the second trading day of the Frankfurt Stock Exchange
• After the company's Annual General Meeting
• After the date on which the management has made the annual financial statements, the half-year financial statements or the interim report for the first or third quarter of the company's fiscal year available to the public at the stock exchange</td></tr>
<tr><td>Exercise price</td><td colspan="2">The average closing price of the aap share in electronic trading (XETRA or a successor system) on the Frankfurt Stock Exchange on the five trading days preceding the first day of the purchase period, at least according to the lowest issue price in accordance with Sec. 9 para. 1 AktG</td></tr>
<tr><td rowspan="2">Performance target</td><td colspan="2">Option programs 2010, 2012, 2013 and 2014: The (average) closing auction price of the aap share in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day prior to the date on which the subscription right is exercised has to exceed the exercise price by at least 10%</td></tr>
<tr><td colspan="2">Option program 2015: The closing price of the aap share in electronic trading (XETRA or a successor system) on the Frankfurt Stock Exchange on the last trading day prior to the date on which the subscription right is exercised has to be at least EUR 3.50</td></tr>
<tr><td>Fulfilment</td><td colspan="2">The company can choose whether to fulfil the obligation by issuing equity instruments or cash settlements</td></tr>
</table>

All stock options within the stock option programs were issued in two or more tranches. In the past, realized compensations have been settled in cash. On 12/19/2014, the Management Board decided that, with immediate effect, additional options can only be exercised through the acquisition of equity instruments. Due to the legal requirements, only the options granted to the former chairman of the Management Board and the current chairman of the Supervisory Board are settled in cash. The stock options exercised by him were compensated by cash settlement. His stock options that may be exercised in the future are valued at the reporting date using the fair value of the future pay-off obligation and recorded as a provision.

As at the reporting date, the following option programs have not yet been exercised or fully exercised:

Option program	Date of acceptance per tranche	Number of options granted	Expiration date	Exercise price in EUR	Fair value on the grant date in EUR
2010	07/29/2010	360,000	07/28/2018	1.29	0.58
2010	11/17/2010	505,000	11/16/2018	1.17	0.501
2010	07/15/2011	481,600	07/14/2019	1.03	0.40
2010	11/15/2011	55,000	11/14/2019	1.00	0.39
2012	07/25/2012	65,000	07/24/2020	1.00	0.51
2012	11/28/2012	180,000	11/27/2020	1.30	0.63
2012	07/03/2013	65,000	07/02/2021	1.27	0.64
2012	11/25/2013	5,000	11/24/2021	1.78	1.02
2013	07/03/2013	165,000	07/02/2021	1.27	0.64
2013	11/25/2013	135,000	11/24/2021	1.78	1.02
2013	07/01/2015	49,000	06/30/2023	2.51	1.02
2013	12/02/2015	26,500	12/01/2023	1.53	0.67
2014	07/01/2015	155,000	06/30/2023	2.51	1.02
2014	12/02/2015	133,500	12/01/2023	1.53	0.67
2015	07/01/2015	90,000	06/30/2023	2.51	1.00

The following table illustrates the quantity and weighted average exercise prices (WAEPs) and the development of the stock options during the reporting period:

	2016		2015	
	Quantity	WAEP in EUR	Quantity	WAEP in EUR
Pending as of 01/01	1,453,500	1.32	1,344,600	1.20
Granted	0	0.00	454,000	1.62
Expired / waived / forfeited	-242,000	1.56	-123,000	1.53
Exercised	0	0.00	-222,100	1.11
Pending as of 06/30	**1,211,500**	**1.27**		
Pending as of 12/31			**1,453,500**	**1.32**
of which exercisable	**532,500**		**532,500**	

The range of exercise prices for the stock options pending as of 06/30/2016 ranged from EUR 1.00 to EUR 2.51 (previous year: EUR 1.00 to EUR 1.78). The stock options pending as of the end of the reporting period have a weighted average remaining term of 4.8 years (previous year: 4.9 years). The expenses shown in the reporting period for current option programs amounted to KEUR 63 (2015 total: KEUR 110), of which KEUR 32 for programs to be settled through equity instruments and KEUR 31 for programs to be settled in cash in order to increase the provision, as the right to select the way of exercise of the company for fulfilling by equity instruments actually no longer exists with respect to the Supervisory Board.

5. Reporting on Financial Instruments

The following table shows the financial instruments held by the group as at June 30, 2016. Additional information on financial instruments can be found in the consolidated financial statements as at December 31, 2015.

	Valuation categories in accordance with IAS 39	Book value 06/30/2016	Amortized costs	Fair value without impacting on income	Valuation acc. to IAS 17	Fair Value 06/30/2016
Assets		KEUR	KEUR	KEUR	KEUR	KEUR
Financial assets	AfS	192	192			0
Accounts receivable	LaR	6,155	6,155			6,155
Receivables from service contracts		0				0
Other financial assets	LaR	587	587			587
Cash and cash equivalents	LaR	32,219	32,219			32,219

	Valuation categories in accordance with IAS 39	Book value 06/30/2016	Amortized costs	Fair value without impacting on income	Valuation acc. to IAS 17	Fair Value 06/30/2016
Liabilities		KEUR	KEUR	KEUR	KEUR	KEUR
Financial liabilities	FLAC	1,760	1,760			1,760
Accounts payable	FLAC	2,161	2,161			2,161
Development orders with debit balances		0				0
Capital lease obligations		1,759			1,759	
Other financial liabilities	FLAC	706	706			706

	Valuation categories in accordance with IAS 39	Book value 06/30/2015	Amortized costs	Fair value without impacting on income	Valuation acc. to IAS 17	Fair value 06/30/2015
Assets		KEUR	KEUR	KEUR	KEUR	KEUR
Financial assets	AfS	192	192			0
Accounts receivable	LaR	10,405	10,405			10,405
Receivables from service contracts		94				94
Other financial assets	LaR	932	932			932
Cash and cash equivalents	LaR	11,512	11,512			11,512
Liabilities		KEUR	KEUR	KEUR	KEUR	KEUR
Financial liabilities	FLAC	8,530	8,530			8,530
Accounts payable	FLAC	3,258	3,258			3,258
Development orders with debit balances						
Capital lease obligations		156			156	
Other financial liabilities	FLAC	871	871			871

of which aggregated by valuation categories in accordance with IAS 39 for the continued operation:

	Valuation categories in accordance with IAS 39	Book value 06/30/2016	Amortized costs	Fair value without impacting on income	Fair value 06/30/2016
		KEUR	KEUR	KEUR	KEUR
Financial assets available for sale	AfS	192	192		0
Loans and receivables (including cash and cash equivalents)	LaR	38,961	38,961		38,961
Total financial assets		**39,154**	**39,154**	**0**	**38,961**
Liabilities held at amortized costs	FLAC	4,627	4,627		4,627
Total financial liabilities		**4,627**	**4,627**		**4,627**

	Valuation categories in accordance with IAS 39	Book value 06/30/2015	Amortized costs	Fair value without impacting on income	Fair value 06/30/2015
		KEUR	KEUR	KEUR	KEUR
Financial assets available for sale	AfS	192	192		0
Loans and receivables (including cash and cash equivalents)	LaR	22,849	22,849		22,849
Total financial assets		**23,040**	**23,040**		**22,849**
Liabilities held at amortized costs	FLAC	12,659	12,659		12,659
Total financial liabilities		**12,659**	**12,659**		**12,659**

The *aap* group holds only primary financial instruments. The volume of primary financial instruments is shown in the balance sheet. The financial asset amount represents the maximum default risk. Where default risks are apparent, they are reflected as value adjustments. The fair values of cash and cash equivalents, current receivables, accounts payable, other current financial liabilities and financial debts correspond to their book values, in particular due to the short maturity of such financial instruments.

Non-current receivables with remaining terms of more than one year are valued on the basis of various parameters such as interest rates, individual creditworthiness of the customer and the risk characteristics of the financing transaction. Accordingly, the book values of these receivables less the shown value adjustments are approximately equivalent to their cash values.

The fair value of non-current liabilities to banks and non-current finance lease liabilities are measured by discounting the expected future cash flows at interest market rates which are usual for similar financial liabilities with comparable maturities. The financial assets available for sale relate to shares in AEQUOS Endoprothetik GmbH, which were recognized at fair value as at June 30, 2014 without effect on net income. The information required to determine fair value was not available as at the reporting date of December 31, 2015. The shareholding was therefore valued at its amortized costs in the quarterly financial statements as at June 30, 2016 due to a lack of an active market and the fact that the fair value cannot be reliably assessed.

6. Relationships with Related Companies and Individuals

Relationships with related companies and individuals are shown by groups of people.

	Individuals and companies with significant influence on the group	Associated companies	Individuals in key positions within the group
06/30/2016	KEUR	KEUR	KEUR
Proceeds from sales of goods and services	0	361	0
Purchases of goods and services	0	0	0
Accounts receivable / other receivables	0	473	0
Accounts payable / other liabilities	0	0	45
Interest income	0	0	0
Interest rate		*6.5%*	
Loan and interest receivables	0	0	0
Interest expenses	0	0	0
Interest rate			
Loan obligations	0	0	0

	Individuals and companies with significant influence on the group	Associated companies	Individuals in key positions within the group
06/30/2015	KEUR	KEUR	KEUR
Proceeds from sales of goods and services	0	465	0
Purchases of goods and services	0	0	0
Accounts receivable / other receivables	0	465	0
Accounts payable / other liabilities	0	0	60
Interest income	0	3	0
Interest rate		*6.5%*	
Loan receivables	0	113	0
Interest expenses	0	0	0
Interest rate			
Loan obligations	0	0	0

All transactions do not fundamentally differ from trade relationships with third parties.

7. Other Events

On March 22, 2016, *aap* Implantate AG signed a notarized share purchase agreement with Keensight Capital for the sale of 100% of the company shares in *aap* Biomaterials GmbH. The transaction was closed on May 11, 2016 and *aap* Biomaterials GmbH was deconsolidated the same day.

aap Implants Inc. successfully further expanded its business activity as distribution company for the US market.

8. Release of the Consolidated Financial Statements

The Management Board of *aap* Implantate AG released the consolidated interim financial statements for the second quarter of 2016 on August 11, 2016 for submission to the Supervisory Board and subsequent publication.

Responsibility Statement by the Legal Representatives

To the best of our knowledge and in accordance with the applicable reporting principles for interim consolidated financial statements, these statements present a true and fair view of the group's asset, financial and earnings position and the interim group management report includes a fair review of the development and performance of the business and the group's position, together with a description of the principal opportunities and risks associated with the group's expected development in the remainder of the financial year.

Bruke Seyoum Alemu
Chairman of the Management Board / CEO

Marek Hahn
Member of the Management Board / CFO

Company Calendar

2016

• **November 14, 2016**

Interim report 3rd quarter 2016

• **November 21 – 23, 2016**

German Equity Forum 2016 (Analyst Meeting)

Frankfurt am Main

aap Implantate AG
Lorenzweg 5 • 12099 Berlin • Germany

Forward-looking statements

This report contains forward-looking statements based on current experience, estimates and projections of the management board and currently available information. They are not guarantees of future performance. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. Many factors could cause the actual results, performance or achievements of aap to be materially different from those that may be expressed or implied by such statements. These factors include those discussed in aap's public reports. Forward-looking statements therefore speak only as of the date they are made. aap does not assume any obligation to update the forward-looking statements contained in this release or to conform them to future events or developments.

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