ANNUAL REPORT 2004

Key Figures Overview of the *aap* Group of Companies

	1.1.-31.12.2004	1.1.-31.12.2003
Sales	11,530 T€	10,960 T€
Total Output	12,571 T€	12,591 T€
Special Factors*	2,544 T€	-11,236 €
Net Loss	-140 T€	-15,422 T€
Operating Income	-315 T€	-4,645 T€
EBITDA	1,203 T€	-273 T€
EBIT	-316 T€	-4,636 T€
EBT	1,260 T€	-5,858 T€
DVFA/SG Earnings	-556 T€	-4,180 T€
DVFA/SG Earnings per Share	-0.07 €	-0.87 €
DVFA/SG Cash Earnings	838 T€	-822 T€
DVFA/SG Cash Earnings per Share	0.10 €	-0.17 €

T€ corresponds to € 1.000

* Extraordinary 2004 result, or extraordinary expenditure on strategic realignment in 2003 that is not included in the figures stated.

Selected Balance sheet data

	31.12.2004	31.12.2003
Fixed Assets	8,276 T€	13,031 T€
Current Assets	9,687 T€	10,043 T€
Deferred Taxes	2,485 T€	3,629 T€
Total Assets	20,448 T€	26,703 T€
Shareholder's Equity	15,533 T€	6,548 T€
Minority Interest	0 €	-275 T€
Non-current Liabilities	322 T€	7,740 T€
Current Liabilities	4,592 T€	12,689 T€
Equity Ratio	76%	25%
Employees	109	102

T€ corresponds to € 1.000

ANNUAL REPORT 2004

Table of Contents

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

For *aap* • mebio, the financial year 2004 was a year of change. Due to the company's strong focus on innovation and the heavy R&D expenditure this involved, to the lack of refinancing opportunities in the capital market in the years 2000 to 2003, and to the enormous follow-on costs from acquiring the Mebio/Coripharm group of companies, the company entered financial 2004 with serious liquidity problems. Indebtedness to banks and other lenders amounted to € 14.1 million and the resulting annual interest burden totaled € 1.2 million. This capital burden greatly limited the Group's freedom of entrepreneurial activity and led in 2003, along with delivery difficulties and failure to carry out urgently needed investment, to a very negative performance that also marked the first half of 2004.

In summer 2004 the company was able to strike a blow for freedom. A group of German and Swiss investors and existing shareholders injected € 9.7 million of new equity capital into the company in August 2004. At the same time *aap* • mebio signed a reconstruction agreement with the banks and other creditors that enabled it to free itself almost entirely of debts by means of debt redemption and debt waivers. In the course of restructuring, value adjustments totaling € 16.1 million were made to the 2003 and 2004 balance sheets. This restructuring has led to a current 76.0% equity ratio that represents a sound basis for future growth.

After this capital increase the company embarked on an operative revitalization program, given that *aap* • mebio's liquidity squeezes and resulting delivery

Foreword by the Board of Management

difficulties for critical products, sales weaknesses and loss of image with customers had led to clear sales declines. The restructuring program concentrate mainly on three areas:

- **Financial and operative stabilization of the Group** by means of balance sheet restructuring and the recovery of its credibility and reputation with all market partners as an innovative German medical technology enterprise,
- **Laying a foundation for future growth** by a marked reinforcement of sales and marketing capacities and a focus on the approval and market launch of various finished products in the three business segments, and
- **Structural improvements** brought about by optimizing operative workflows, simplifying the Group's structure and resolving legal disputes.

The measures initiated and, for the most part, already implemented showed initial results in the financial year 2004. Improved fourth quarter sales and earnings, with year-on-year sales growth of 28.3%, sounded clear signals. In view of measures already undertaken and contracts already signed with large customers, of order forecasts and improvements in sales and products, we anticipate strong double-digit sales growth in 2005.

We would like to take this opportunity of thanking our employees most cordially for their loyalty and commitment in what has been a very difficult period.

We must also thank our shareholders and business partners for the confidence they have shown in us, and we look forward to further fine cooperation.

Uwe Ahrens
Chairman of the Board

Oliver Bielenstein
Member of the Board

Bruke Seyoum Alemu
Member of the Board

Product and Technology Competences

For years, medicine and technology have been developing at lightning speed to the benefit of humankind. *aap* • mebio utilizes this steadily expanding knowledge potential to ensure the best possible patient care in close partnership with doctors.

The business activities of *aap* • mebio have since 1990 been oriented toward the development, production and marketing of innovative implants for musculo-skeletal healing. Our in-house research and development department works on numerous projects that focus, in line with corporate strategy, on the three lines of business endoprosthetics, osteosynthesis and orthobiology. We also undertake research commissioned by other companies.

New, progressive technologies form the foundation for high-tech metalworking, for producing bone cements and for making biological bone substitutes using a special synthesizing process.

Within our strategic lines of business the **Hip**, **Knee**, **Trauma**, **Shoulder**, **Bone Cement & Cementing Techniques** and **Biomaterials** fields of competence are being built up and expanded successively and in a targeted way.

People's increasing life expectancy and the aspiration to maintain the patient's quality of life place very high demands on endoprosthetic implants. The growing number of hip and knee replacement each year leads us to anticipate high growth potential in the future, too.

Hip

In the **Hip** field of competence, the **VarioFit® system** occupies a central position. Based on a modular principle, this endoprosthesis makes it possible to perform implantation using minimally invasive implantation techniques and a combination of implants tailored to the patient's individual anatomical situation. VarioFit® sets new standards for the restoration of hip geometry to suit the patient. Moreover, its patented raster cone gives the surgeon an unprecedented degree of intraoperative flexibility.

The **Mebio knee** endoprosthesis has been tried and trusted for years and permits axis-free total surface replacement. Built like the Scan knee as documented in the Swedish knee endoprosthesis register, this universal implant for both right and left knees underscores our **Knee** competence. The aim of our research and development is, in the event of wear and tear, to restore the natural knee movement and function by means of an artificial replacement joint.

Our wide, market-proven portfolio of products in the **Trauma** field of competence includes the **cannulated screw system**, the **dynamic hip screw system**, standard steel osteosynthesis and titanium osteosynthesis. **Angle-stable plates** for upper and lower arm have further supplemented a key group of products. These plates are anatomically preformed, and angle-stable fixing in the bone is achieved with the help of a patented spherical thread.

In the Shoulder field of competence, along with the innovative **trauma shoulder system**, the **Acro-Plate™** has for many years been one of the most successful implants. This anatomically designed hook plate permits safe, uncomplicated treatment of lateral collarbone fractures. Users have assessed it very positively on account of the minimally invasive surgery required and early patient mobility due to safe retention of the injured joint.

The company's competence in the Bone Cement and Cementing Techniques field is the result of many years' experience and is characterized by modern cements such as **Palacos®** and **Versabond®**, the **EASYMIX®** vacuum mixing system and the **Microaire pulse lavage system.** Our range of bone replacement implants is complemented by bone cements and innovative cementing techniques. The emphasis is on ease and safety of handling in the operating room and on sustained achievement of outstanding mechanical properties in the anchoring of endoprosthetic implants.

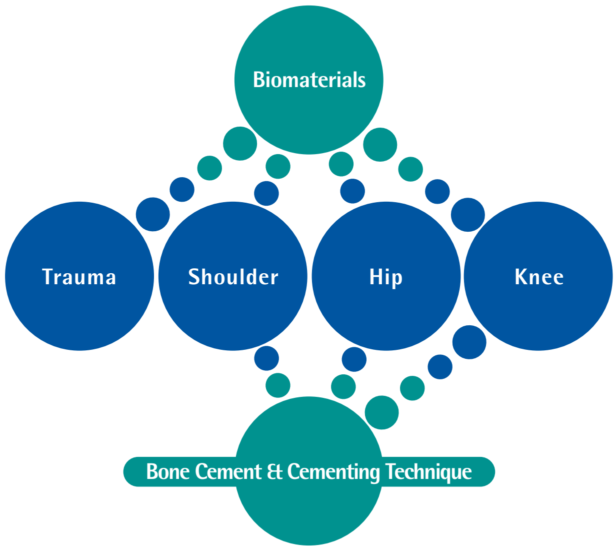
Biomaterials

Innovative new bone replacement materials for use in the treatment of a wide range of bone defects typify our competence in the field of Biomaterials. Along with the use of body's bone material, hydroxylapatite-based bone replacement materials for treating bone defects and ensuring a prompt healing process are especially important.

A diverse range of products opens up optimal clinical possibilities.

Cerabone® is a stable ceramic bone matrix made from hydroxylapatite with an interconnecting pore system for permanent filling and reconstruction of uninfectious bone defects. The nanocrys-talline hydroxylapatite in **Ostim®** and **PerOssal®** stimulates new bone formation while at the same time permitting complete biodegradation and the building of new bone. The paste-like consistency of Ostim® means that bone defects can be filled to shape on a permanent basis. PerOssal® can also be charged with antibiotics to meet the needs of specific patients, thereby opening up individual treatment options in bone infection therapy.

Changes in the health market and in the legal framework place new demands on medical technology. Special emphasis is placed on looking at the treatment process as a whole while paying close attention to flat-rate cost allowances per case in clinics and hospitals. This calls for case-related integrated solutions from a single source.



Here, *aap* Implantate AG is well placed strategically. Increasingly, the company utilizes synergy effects between the separate competence areas to offer integrated solutions, inter alia by bundling products. In our portfolio, we have set the focus on cost-optimized standard products and high-quality innovative products. With consistently good quality and a balanced price-performance ratio, we contribute toward the efficiency and economic viability of the healing process.

History

2004 Capital increase, financial and operative reorganization,
Launch of variable hip system VarioFit®

2003 European initial registration of innovative
synthetic antibiotical carrier PerOssal®

2002 CE approval of nanocrystalline bone matrix Ostim®

2001 Launch of first self-developed bone cement VERSABOND™
and first self-developed bone ceramics Cerabone®

2000 Acquisition of the Mebio/Coripharm group of companies
Lauch of a novel Trauma-Shoulder-System

1999 IPO

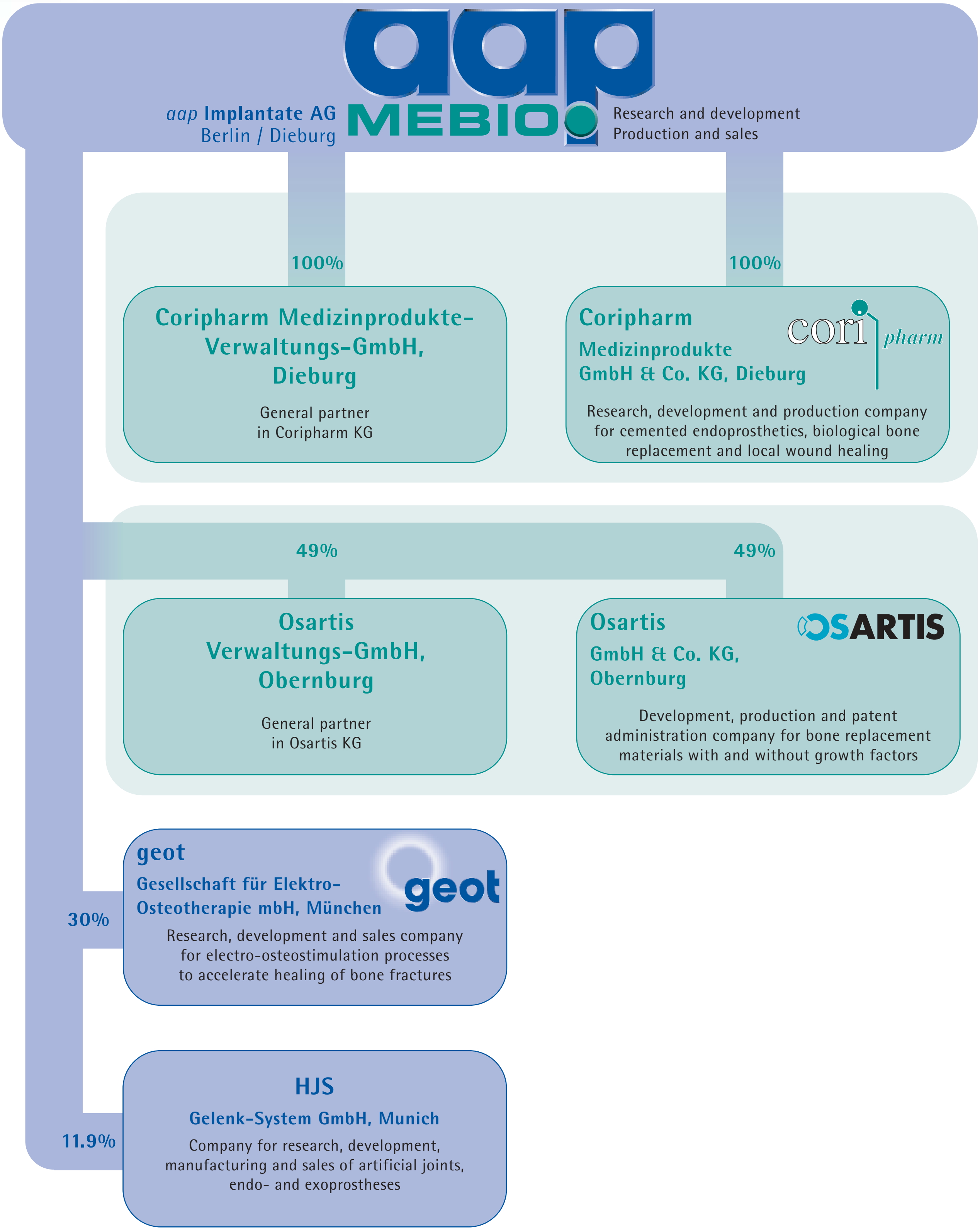
1997 Conversion into a stock company (Aktiengesellschaft)

1990 MBO and foundation of *aap* GmbH & Co. Betriebs KG

1986 Takeover by Johnson & Johnson

1970 Mecron med. Prod. GmbH established

Group Structure Chart



Corporate Governance

aap Implantate AG on December 13, 2004 issued the following declaration of compliance:

Declaration by the Management Board and Supervisory Board of *aap* Implantate AG on the recommendations of the Government Commission German Corporate Governance Code as per § 161 of the German Stock Corporation Act (AktG)

aap Implantate AG abides by the recommendations in the May 21, 2003 version of the German Corporate Governance Code (GCGC) as published by the Federal Ministry of Justice in the electronic edition of the Federal Gazette (Bundesanzeiger) on July 4, 2003 with the following exceptions:

The D&O policy taken out for the Management Board and Supervisory Board does not include a suitable deductible (GCGC Section 3.8 Par. 2).

A retroactive change of performance targets or comparison parameters in connection with compensation of Management Board members is not ruled out (GCGC Section 4.2.3 Par. 5). The Supervisory Board has not agreed to a possibility of limitation (cap) for extraordinary, unforeseen developments (GCGC Section 4.2.3 Par. 2).

Compensation of the members of the Management Board is not reported in the Notes on the Consolidated Financial Statements subdivided individually (GCGC Section 4.2.4).

No age limit is specified for members of the Management and Supervisory Boards (GCGC Section 5.1.2 Par. 2 Sentence 3; Section 5.4.1 Sentence 2).

The Supervisory Board has not formed any committees (GCGC Sections 5.3.1 and 5.3.2; Section 4.2.2 Par. 1; Section 5.2 Par. 2).

Compensation of members of the Supervisory Board does not include a performance-related component. Payments made to members of the Supervisory Board are not listed individually in the Notes to the Consolidated Financial Statements (GCGC Sections 5.4.5 and 5.3.1).

Annual financial statements and interim reports are published in accordance with Frankfurt stock exchange regulations (GCGC Section 7.1.2).

Not all relationships with shareholders considered to be "related parties" pursuant to the applicable accounting regulations are noted in the Consolidated Financial Statements (GCGC Section 7.1.5).

Since its last declaration dated December 18, 2003, *aap* Implantate AG has complied with the recommendations of the revised version of the German Corporate Governance Code dated May 21, 2003 and published by the Federal Ministry of Justice in the electronic edition of the Federal Gazette (Bundesanzeiger) on July 4, 2003 with the following exceptions:

The D&O policy taken out for the Management Board and Supervisory Board did not include a suitable deductible (GCGC Section 3.8 Par. 2).

The Management Board's Terms of Reference did not regulate the allocation of responsibility and the cooperation in the Management Board (GCGC Section 4.2.1 Sentence 2).

The new Supervisory Board elected at the Annual Meeting of Shareholders on July 19, 2004 has not formed any committees (GCGC Section 4.2.2 Par. 1, Section 5.2 Par. 2, Sections 5.3.1 and 5.3.2).

Retroactive changes to performance targets or comparison parameters were not ruled out in the overall compensation of the members of the Management Board. The Supervisory Board did not agree to a possibility of limitation (cap) for extraordinary, unforeseen developments (GCGC Section 4.2.3 Par. 2).

Compensation of the members of the Management Board was not reported in the Notes to the Consolidated Financial Statements subdivided by fixed, performance-related and long-term incentive components, and the figure was not individualized (GCGC Section 4.2.4).

No age limit was specified for members of the Management and Supervisory Boards (GCGC Section 5.1.2 Par. 2 and Section 5.4.1 Sentence 2).

Compensation of the members of the Supervisory Board did not include a performance-related component and did not take membership of committees into consideration. Payments made to members of the Supervisory Board are not listed individually and subdivided accordingly in the Notes to the Consolidated Financial Statements (GCGC Section 5.4.5).

Annual financial statements and interim reports were published in accordance with Frankfurt stock exchange regulations (GCGC Section 7.1.2).

Not all relationships with shareholders considered to be "related parties" pursuant to the applicable accounting regulations were noted in the Consolidated Financial Statements (GCGC 7.1.5).

Berlin, December 13, 2004

The Supervisory Board	The Management Board
Jürgen Krebs The Supervisory Board	**Uwe Ahrens** The Management Board

After consultation and agreement with the Supervisory Board, the Management Board has the following comments on the divergences from German Corporate Governance Code recommendations outlined in the Declaration of Compliance dated December 13, 2004:

Point 3.8

The D & O insurance is a group insurance policy for managers in Germany and abroad under which it does not seem appropriate to distinguish between board members and other managers. In addition, at present no recognized principles exist for establishing the suitability of a deductible of this kind or for implying an increased sense of responsibility and a divergence from the approach that is customary abroad.

Point 4.2.3

Until now, the company has refrained from explicitly ruling out retrospective changes to performance targets so as to be able to react to legal and/or fiscal changes at any time. Due to the share price trend and other tough hurdles to exercise in the stock option program that lapsed in the period under review, until now no limitation seemed necessary.

Point 4.2.4

Publication of the remuneration paid to individual members of the Management Board contains no additional information relevant to the capital markets and conflicts with the Management Board members' justified claim to protection of their privacy. As a matter of principle, the main emphasis is on Management Board pay as a whole. Furthermore, it is only possible to judge the appropriateness of an individual Board member's remuneration if one is familiar with his individual contributions toward the company's success.

Point 5.1.2 and 5.4.1

Specifying an age limit for Board members restricts shareholders' right to elect their representatives to the Supervisory Board on the one hand and the Supervisory Board's right to appoint the best-qualified candidate to the Management Board on the other. Besides, specifying any age limit to comply with Code recommendations is not deemed appropriate.

Point 5.3.1 and 5.3.2

The Supervisory Board, which since the Shareholders' Meeting in July 2004 comprises only three members, has not set up any committees. Formation of committees is not considered to enhance efficiency given the small number of members.

Point 5.4.5

Supervisory Board remuneration comprises only fixed components since this guarantees the supervisory body's independence in every respect. Membership of committees is not taken into consideration separately since this would not increase motivation. Furthermore, as a suitable compromise between transparency and respect for privacy, remuneration is only published cumulatively. Besides, the Supervisory Board does its work as an entity, so publishing individual remuneration would not necessarily result in an accurate assessment of its members.

Point 7.1.2

Until now the Company has had a legally very complex group structure for its size. That made drawing up financial statements very time-consuming. In the future, the company will endeavor to draw up financial statements before the statutory deadline.

Point 7.1.5

Taking into consideration the materiality limit in respect of the participations of the shareholders involved and their privacy, the Company refrains from commenting on these relations.

Management Board remuneration

Management Board members receive a fixed annual payment and a profit share based on the annual profit reported by *aap* Implantate AG taking into account § 86 AktG. No profit share is awarded for an annual profit of up to 4% of annual sales. For annual profit in excess of this, the profit share is calculated using a scale of percentages. In addition, each director has a company car.

Supervisory Board remuneration

In addition to reimbursement of expenses, Supervisory Board members each receive remuneration of € 1,278.23 per meeting. The Chairman receives twice this amount and the Deputy Chairman one and a half times this amount

Stock option program

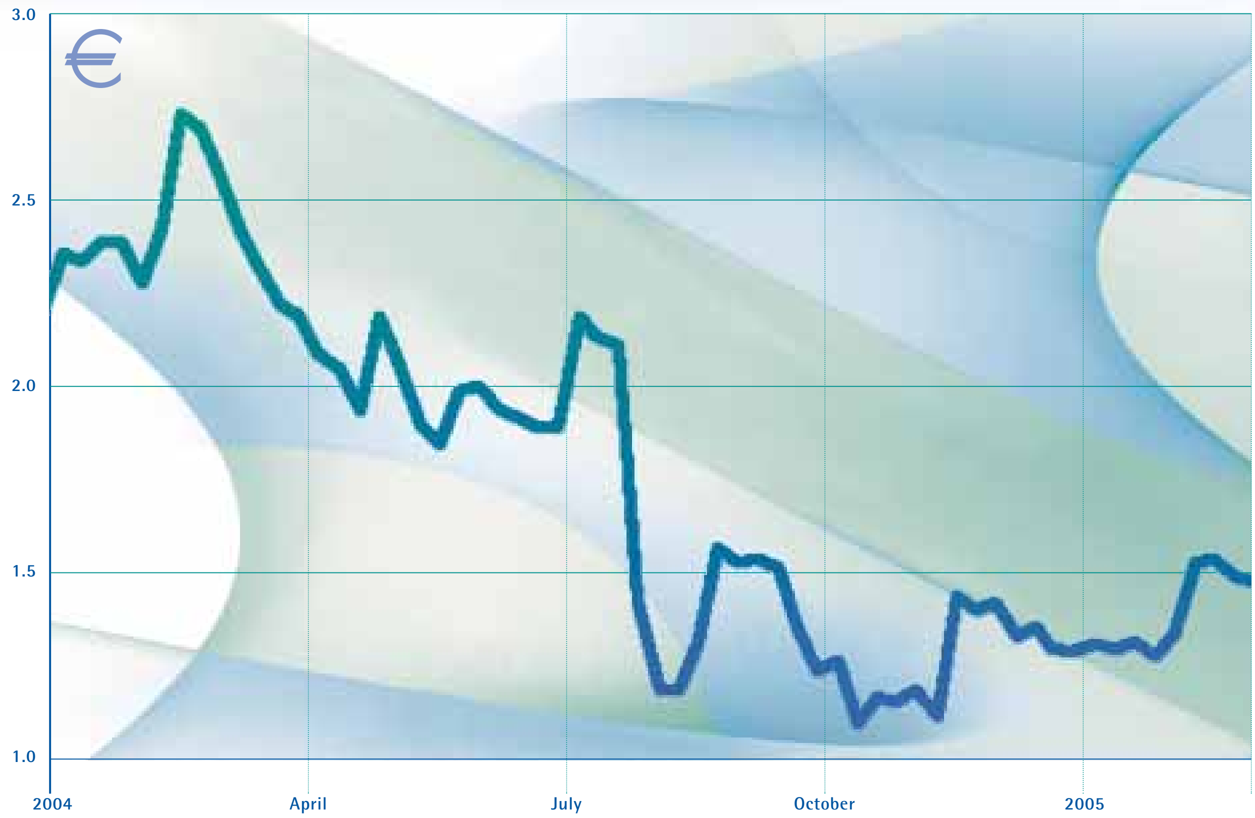
Subscription rights under the Company's 2001 stock option program lapsed without replacement on December 1, 2004. No further subscription rights were issued.

Management Report 2004

by *aap* Implantate AG

Company and Group

Share and Stock Market



The *aap* Implantate AG share price reached its high-water mark for the year at € 2.75 on February 17, 2004 and its low-water mark of € 1.08 on October 26, 2004. It began to recover in the middle of the fourth quarter and settled down at around € 1.40.

From July 26, 2004, the share was listed ex rights as a result of the capital increase approved by the general meeting of shareholders on July 19, 2004 involving the issue of up to 9,739,058 new bearer share certificates. New shares were offered to existing shareholders as an indirect rights issue at a purchase price of € 1 and a ratio of 2 to 1, i. e. shareholders were entitled to buy two new shares for every existing share they held. This right was held by *aap* Implantate AG shareholders as of July 23, 2004. The new shares, along with all previously unlisted shares, were admitted to trading on the Frankfurt stock exchange in the Prime Standard segment on September 20, 2004. All 14,608,587 shares in *aap* Implantate AG have since been listed under the German Security ID No. 506 660 (ISIN DE0005066609) and traded in the stock market since September 22, 2004.

Capital increase and balance sheet restructuring

The balance sheet restructuring process commenced with € 11.2 million in value adjustments and writedowns at the expense of the annual financial statements for 2003 continued in 2004 with the € 9.7 million capital increase and a further € 4.9 million in value adjustments and was concluded in the fourth quarter.

The restructuring agreement signed at the end of May 2004 by *aap* Implantate AG, a group of German and Swiss investors, ten lenders (banks, equity investment companies and shareholders) and members of management was implemented as planned. As a result of the capital increase, which was subscribed in full on August 20, 2004, the company acquired € 9.7 million in funds. This capital was used to replace external funding almost entirely, to reduce accrued trade payables to a normal level, and to boost operative business (sales, marketing, development, current assets), leaving a shareholder's loan of € 736,000 still to be converted into equity capital. This will be done at a later stage.

aap • mebio was thereby able to reduce by € 12.9 million external borrowing on which interest is payable and to reduce trade accounts payable by € 969,000. Apart from a refinanced May 2004 bridging loan the Group is now basically free from debt. In 2003 the Group was still paying € 1.2 million in interest. Since the reorganization was concluded in the fourth quarter of 2004 its financial result has been in balance already.

During the financial year 2004, € 4.9 million in value adjustments mainly allocable to the extraordinary result was made to the balance sheet:

- Value adjustments on intangible assets, inventories and other assets totaling € 4.7 million. The company made value adjustments to capitalized development costs of all products that are not in the market already or planned for approval within the next 12 months.
- Value adjustments on receivables and inventories in connection with the discontinuation of *aap*'s own sales activities in the United States
- Value adjustments on loans to associated companies
- Value adjustments to claims against shareholders arising from the contribution of the Mebio/Coripharm group of companies in 2000.

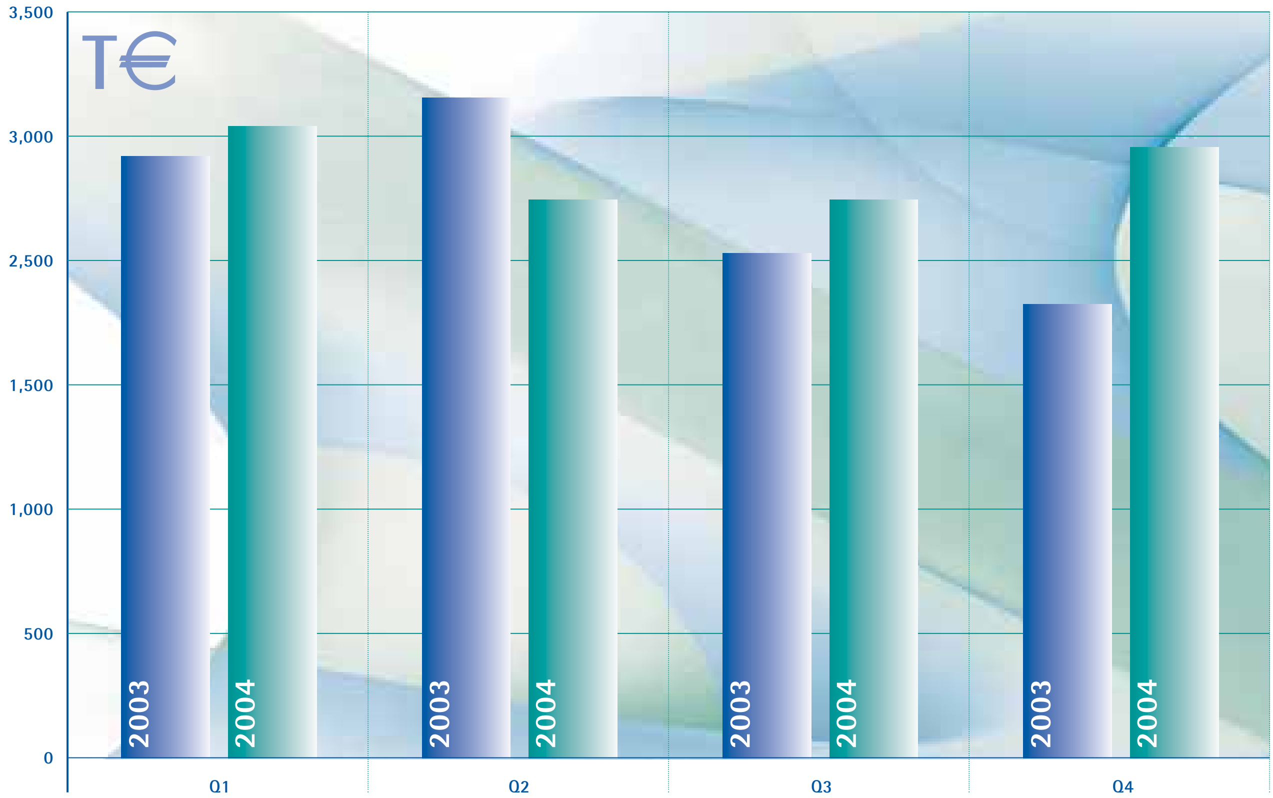
At the same time *aap* • mebio was able, by settling legal disputes, to transfer to other operating results € 765,000 in provisions for legal expenses.

Restructuring measures

Along with the financial restructuring of the Group, the following restructuring projects were implemented:

- Enlargement of sales capacity (increasing the number of sales staff in Germany from 7 to 16 employees, including 5 focused on biomaterials),
- Adding to the existing management structure managers with many years of industry and customer know-how in development, sales and product management,
- Acceleration of development times to series production,
- Reestablishing a Scientific Advisory Council consisting of renowned users and opinion leaders,
- A major simplification of corporate structure by means of mergers (merger of Corimed and Mebio GmbH with *aap* Implantate AG) and the closure of *aap* Implants, Inc., and with it the discontinuation of all own sales activities in the U.S. market,
- Tight financial management, improved planning and controlling systems,
- Selective inventory development and investment in new growth products along with a reduction in inventories of standard products.

Sales and results development at Group level



After sales developed unsatisfactorily in the first half of 2004, falling by 5.2% year on year due to poor liquidity and the resulting loss of customers, the Group's sales increased once more by 18.4% in the second half, including a 28.3% increase in the fourth quarter alone. In spite of the difficult starting position, sales for the full year increased by 5.2% to € 11.5 million.

The substantial first-half reduction in inventories was offset, especially in the fourth quarter, by the build-up of inventories of endoprosthetics sets and by procurement for large orders processed early in 2005.

Capitalization of internally produced assets, especially in R&D, was down on previous years due to the advanced state of market maturity or ongoing manufacture of products and to a stronger focus on specific projects (2004: € 1.2 million, 2003: € 1.7 million). At € 12.6 million, the group's total operating performance was unchanged on the year.

Other operating income consists mainly of revenue from the retransfer of reserves and the write-off of receivables.

The cost of materials ratio was up 2.3% on the year due to launching costs for a number of new products, disproportionate growth in the endoprosthetics segment with a lower value added penetration, and the inventory build-up in the commercial products segment ahead of large orders processed early in 2005.

Personnel costs increased by 4.9% to € 4.1 million due to the build-up of sales activities and reinforcements at the management level.

The massive € 2.8 million decrease in depreciation was due, along with value adjustments on intangible assets in 2003 and 2004 and restraint in capitalizing internally produced assets in 2004, especially to one-off factors in the previous year.

Other operating expenses consisted largely of more than € 1 million in value adjustments and special costs incurred in connection with restructuring the company. They were non-recurrent expenditure items. Ordinary other operating expenses will, however, increase in the year in progress due to higher sales and development expenditures.

EBITDA without taking into account the extraordinary result (special factors) increased on the year from € minus 0.3 million to € 1.2 million, while EBIT before special factors improved to € minus 316,000 (previous year: € minus 4.6 million).

Because bank loans were not repaid or waived in part until August to November 2004, the Group still had to pay € 570,000 on capital borrowing in 2004, but net interest income was in balance in the fourth quarter.

The result of ordinary business activity improved as a result of second-half factors and value adjustments to € minus 1.3 million (previous year: € minus 5.9 million).

The € 7.4 million in restructuring profits from the repayment and waiver of liabilities was offset in part by restructuring expenditure totaling € 4.9 million (extraordinary value adjustments, closure of the U.S. subsidiary).

The € minus 1.4 million in deferred taxes on corporate income and business profits (previous year: € 2 million) was due mainly to loss carryovers in connection with the restructuring profit. The high level of tax on corporate income was due for to extraordinary value adjustments that were not, for the most part, tax-relevant.

After tax, the Group's total operating result was € minus 140,000 (previous year: € minus 15.4 million).

Balance sheet development at Group level

The Group's fixed assets were down € 4.8 million on 2003, due mainly to value adjustments on intangible assets.

Current assets were also affected by a further € 640,000 in restructuring-related inventory write-downs and by € 979,000 in value adjustments on warranty claims against the contributing shareholders in the Mebio/Coripharm group of companies. Capitalized tax accruals and deferrals were down € 1.1 million as a result of recourse to tax loss carryovers in connection with the restructuring profit.

Capital stock increased from € 6.3 million to € 15.5 million, mainly as a result of the capital increase and restructuring profits. The group's equity ratio is now 76.0%. From today´s point of view, *aap* • mebio achieve along with the shareholder loan of € 736,000, which the company plans to convert into equity in the course of 2005, a comfortable equity ratio of 79.6%.

Long- and medium-term capital borrowings were eliminated almost entirely by debt waiver and redemption in connection with restructuring, while short-term outside capital, consisting mainly of provisions and trade payables, still amounts after subtraction of the shareholder's loan to € 4.0 million (previous year: € 12.7 million).

Financial position

Apart from the refinanced investor's loan the company no longer has any significant indebtedness to banks. To finance targeted growth and the build-up of inventories and receivables that will involve, *aap* • mebio plans in the course of 2005 to raise a limited amount of new funding by way of borrowing and, especially, to finance investment in machinery and equipment by means of leasing solutions.

Sales and results development at *aap* Implantate AG

In the course of restructuring Mebio GmbH was on October 5, 2004 merged with *aap* Implantate AG with retroactive effect from January 1, 2004 in order to make the Group's structure leaner and to cut administrative costs. That is why the annual financial statements for *aap* Implantate AG, which are drawn up in accordance with the accounting principles of the German civil code (Handelsgesetzbuch, HGB), differ in sales and earnings structure from previous years. To improve comparability, the previous year's figures are shown in "as if" form, in other words combining the figures for both *aap* Implantate AG and Mebio Medizinische Biomaterialien Vertriebs-GmbH.

At *aap* Implantate AG a slight increase of 1.6% in sales to € 10.3 million was posted in spite of the company's difficult financial position. Internally produced capitalized assets increased to € 714,000 (previous year: € 392,000). The total operating result thereby improved to € 10.9 million (previous year: € 10.3 million).

Other operating earnings increased to € 2.0 million (previous year: € 444,000), largely as a result of the retransfer of provisions for litigation and currency risks.

Costs of materials and personnel were roughly on a par with the previous year. While the cost of materials ratio fell slightly by 2.2% (previous year: 41.7%), the personnel costs ratio increased slightly by 0.4% (previous year: 31.5%). The substantial increase in sales and marketing capacities will only be reflected in the figures for the current financial year.

Writedowns by *aap* Implantate AG were down € 1.3 million on the year to € 1.1 million (previous year: € 2.4 million) after value adjustments in the previous two years, and the result of ordinary business activity improved accordingly to € minus 1.2 million (previous year: € minus 4.7 million).

Due to the € 2.8 million extraordinary result due to restructuring profits, the company was able to report a € 1.5 million net surplus for the year (previous year: net loss € 8.0 million).

Balance sheet development at *aap* Implantate AG

aap Implantate AG's fixed assets increased in 2004 as a result of the redemption of bank loans to Coripharm to € 9.4 million (previous year: € 7.5 million). Current assets increased only slightly to € 10.0 million (previous year: € 9.5 million).

The August 2004 € 9.7 million capital increase increased the company's capital stock to € 15.0 million. *aap* Implantate AG's equity ratio is now 77.4%.

aap Implantate AG's liabilities were reduced by debt waiver and redemption in connection with restructuring to € 3.4 million from € 12.3 million in the previous year.

Coripharm Medizinprodukte GmbH & Co. KG

The wholly owned *aap* subsidiary Coripharm is a development and manufacturing company specialized in biological implants, bone replacement materials, bone cements and cementing techniques. Coripharm customers include, along with *aap* Implantate AG, international MedTec companies. In its area of activities, Coripharm is one of the leading European specialists. It has many years of research competence, a large number of world patents and an outstanding product pipeline that will provide, with improved marketing by *aap* • mebio, a high growth potential in the years ahead.

The situation at *aap* Implants, Inc.

The U.S. subsidiary *aap* Implants, Inc. was dissolved on August 5, 2004 by order of the Commonwealth of Massachusetts. *aap* • mebio has no plans in the years ahead for sales activities of its own in the U.S. market. It will work the market selectively and only with partners or as a supplier (such as by manufacturing products for Smith & Nephew).

Osartis GmbH & Co. KG

Osartis, like Coripharm, is a development and manufacturing company specialized in biological implants and bone replacement materials. Osartis products include the bone replacement material Ostim" that *aap* • mebio markets. After development-related losses in the financial year 2004 we anticipate balanced results from the second half of 2005. *aap* • mebio holds a 49% stake in Osartis.

GEOT (Gesellschaft für Elektro-Osteotherapie mbH)

Gesellschaft für Elektro-Osteotherapie mbH (GEOT mbH) develops and sells equipment and implants that use the invasive Magnetodyn" process. This process combines the use of electrical and magnetic fields to treat healing-impaired bone fractures and is used in joint-preserving treatment of femoral neck fractures and necrosis of the femoral head. After operative problems in the financial year 2004 the company is currently undergoing a process of restructuring that is already reflected in a marked improvement in sales figures. From the second half of 2005 we expect results to be balanced to positive. *aap* • mebio holds a 30% stake in GEOT.

Employees

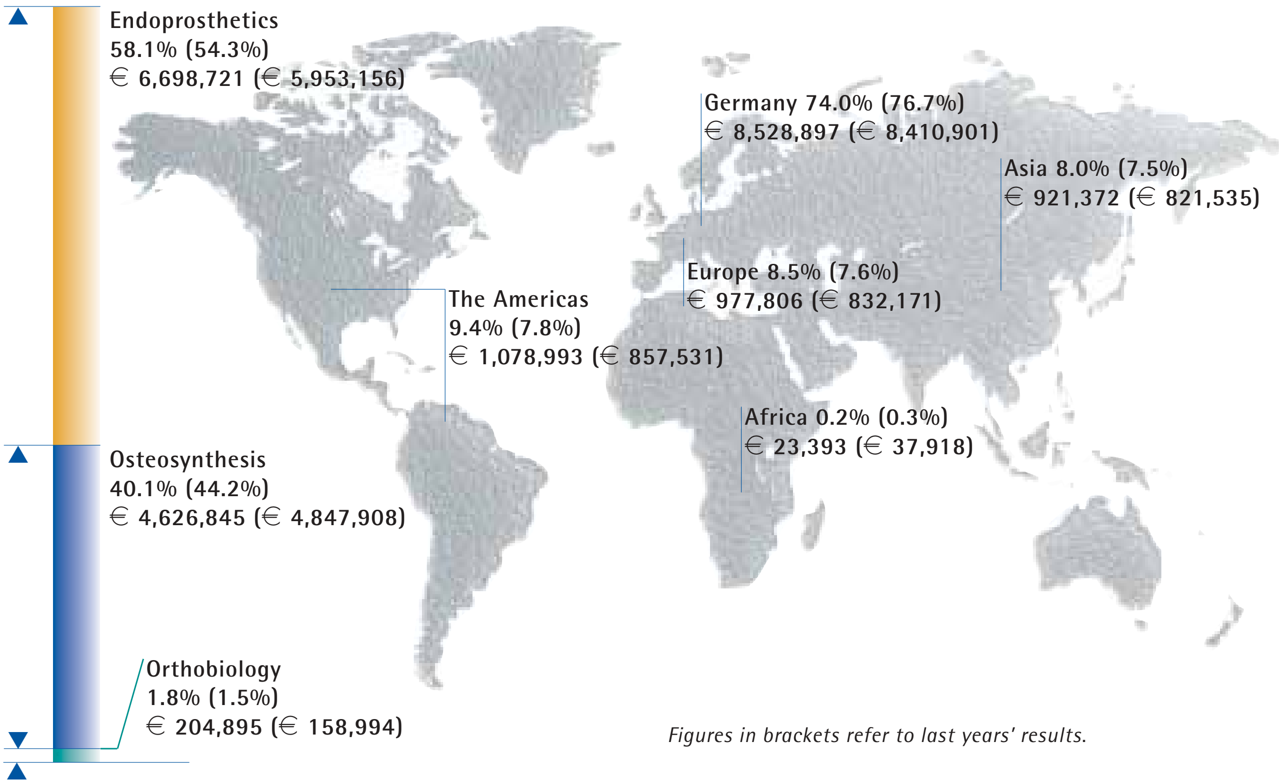
At December 31, 2004 the Group had 109 employees on its payroll, including 99 full- and 10 part-time employees (previous year inclusive Mebio GmbH: 102, including 89 full- and 11 part-time employees and 2 casual workers).

At *aap* Implantate AG the number of employees at December 31, 2004 was 100, including 91 full-time and 9 part-time staff (previous year: 90, including 78 full- and 10 part-time employees and 2 casual workers).

The number of trainees at *aap* • mebio continues to be very high. 12% of employees are trainees and highly qualified junior staff for the production area.

Products, Markets and Sales

Sales distribution at Group level



Figures in brackets refer to last years' results.

Endoprosthetics, including bone cement and cementing techniques, and osteosynthesis are the Group's main lines of business. Orthobiological products still account for only a small proportion of sales, but one that shows a tendency toward strong growth. Osteosynthesis was especially hard hit by the first-half sales decline. The third line of business, orthobiology, accounted for a mere 1.8% of sales (previous year: 1.5%), so its share of sales is still insignificant.

Sales distribution at *aap* Implantate AG

The main lines of business at *aap* Implantate AG in the financial year 2004 were endoprosthetics and osteosynthesis. Their respective shares of total sales were 52.8% (previous year: 50.6%) and 45.2% (previous year: 47.8%).

The lion's share of sales totaling € 10.3 million (81.6%, previous year: 83.3%) was achieved in Germany. It amounted to € 8.4 million and was unchanged on the year (previous year: € 8.4 million). Other sales broke down as follows: Asia 9.0% (previous year: 8.4%), Europe 7.9% (previous year: 6.4%), the Americas 1.3% (previous year: 1.6%) and Africa 0.2% (previous year: 0.4%).

At December 31, 2004, orders in hand totaled € 209,000 (previous year: € 262,000). Our company aim at supplying its customers around the clock and accordingly maintains inventories at a relatively low level as a matter of principle

Sales and marketing activities

Customer uncertainty arising from *aap* • mebio's poor financial position was counteracted after the capital increase by intensive marketing and public relations activities (mailshots, customer visits, trade fair attendance). As a part of the restructuring program, sales and marketing capacities were increased, field sales was segmented and operational structures were adapted. *aap* • mebio's sales and marketing organization more than doubled in size in the financial year 2004 as a result of new hirings.

Business relationships that were marking time in other countries were also reactivated by intensified sales and marketing activities. Additional sales partners were recruited in Finland, Italy, Jordan, South Africa, Korea and Australia.

Since the closure of U.S. subsidiary *aap* Implants, Inc. in August 2004, *aap* • mebio's plan has been to forge co-marketing partnerships to work the world's largest orthopedics market in the future. These partnerships are intended to help with setting up new sales channels for selected innovative products.

In February 2005 *aap* • mebio signed a comprehensive contract for the first half of 2005 with our longstanding sales partner in China, a strategically important market.

Product marketing in 2004 concentrated mainly on revising the corporate design and all of the sales promotion material and on launching or relaunching the product highlights angle-stable plates, VarioFit®, PerOssal® and Ostim®.

The annual convention of the German Society for Accident Surgery, held along with the German Orthopedics Congress, was – as always – the most important national trade fair for the company, and the product presentation to medical specialists was a success. *aap* • mebio was also represented at the annual conference of North German Orthopedics/Osteology, at the South German Orthopedics Congress, at Arab Health in Dubai and at the AAOS in San Francisco.

Along with direct customer and distributor business, marketing the company's production and product know-how to third parties is growing in importance. In addition to its longstanding partnership with Smith & Nephew in the cement sector, at the end of 2004 with an other international partner the company signed a large-scale contract lasting several years to supply cementing technology. Thereby *aap* • mebio laying the groundwork for further extension of this line of business.

Research and Development

Osteosynthesis

After the launch of angle-stable plates in the second quarter, the range of plates on offer was extended to different parts of the body. In a next step, further product optimizations and an expansion of the range of uses are to be undertaken. Angle-stable reconstruction plates with compression capabilities and limited bone contact are under development for hips, pelvis, forearm and collar bone.

The osteosynthesis R&D team also concentrated on developing a new dynamic hip nail and an intramedullary nail for use with femoral head fractures.

Endoprosthetics

Design adjustments were made to the standard range of endoprosthetic implants and the instruments that go with them. Implant tools for use in hip and knee endoprosthetics were also revised and are now at the clinical trial stage. Development of an monocondylar knee endoprosthesis was likewise continued.

In the bone cement area the focus of development activity is on completing a new, high-fatigue bone cement (HF cement) with and without an admixture of antibiotics. Approval is anticipated in the first half of financial year 2006.

Orthobiology

In biomaterials, development concentrated on development, production and approval of PerOssal® with antibiotics additives. Clinical studies were undertaken to optimize material properties and prepare for series production. The product launch is in April 2005. A further focus is on developing synthetic ceramics as a bone substitute and additional bone replacement antibiotics and stem cell carriers. Preparations are also under way for securing U.S. market approval for Ostim® and PerOssal®.

As part of a project financed by the German Ministry of Education, Science, Research and Technology, test lots were manufactured jointly with a partner company and subjected to mechanical tests for the development of carrier materials for artificial cartilage and bone tissue.

In October 2004, a new Scientific Advisory Council was set up to support and accelerate development and market maturity of new products.

Production and Procurement

In view of *aap* • mebio's tight financial situation in the first half of 2004, various investments were postponed in osteosynthesis and endoprosthetics production in Berlin and in bone cement and biomaterials production in Dieburg. They are now to be made in the course of the current financial year. These measures, planned and in part already initiated, will enable *aap* • mebio to cut production costs, in some cases enormously, while increasing quality and reducing throughput times.

Due to a shortage of high-grade steel in the world market *aap* • mebio had to accept price increases and long delivery times for implant steel and titanium. Along with manufacturing products that it sells itself, *aap* • mebio is carrying out contract work in Berlin for a knee system.

Quality and Environmental Management

The trauma products previously approved in China were reregistered in financial year 2004.

The annual DEKRA review audit confirmed that *aap* Implantate AG has a functioning quality management system. *aap* • mebio subsidiary Coripharm has also passed the TÜV audit and received confirmation of its CE and EN ISO 13485:2000 certification.

All of the adjustments to *aap* Implantate AG's quality management system demanded in the July 2004 warning letter issued by the U.S. Food and Drug Administration (FDA) were undertaken. The FDA has yet to respond.

FDA inspections and TÜV certification went ahead successfully in bone cements, cementing technology and bone replacement materials.

In bone cement, Smith & Nephew have received for the *aap* • mebio product VERSABOND™ with antibiotics both FDA approval and the European CE approval in financial year 2004. Since mid-2004 it has been on sale accordingly not only in the United States, Canada and Australia but also in Europe.

The bone replacement material Cerabone® was reapproved in accordance with new EU regulations at the beginning of February 2005.

Outlook and Prospects

After balance sheet restructuring and stabilization of the company in 2004, the financial year 2005 will be of crucial importance for *aap* • mebio. The company has initiated various measures to realize significant growth in all segments in 2005.

Accident surgery and orthopedics grow closer, confirming the *aap* • mebio business model, and the company's wide alignment here shows itself to be a clear advantage, given that the company's large customer base is a target group for all product areas.

In the majority of its product areas, *aap* • mebio already has a pipeline of innovative products with a bright future. The preconditions for successfully taking these products to market and achieving clearly double-digit organic sales growth have been accomplished. The new products VarioFit®, angle-stable plates, Ostim® and PerOssal® should make significant contributions toward sales for the first time in 2005.

In the first quarter of 2005 *aap* • mebio was also able to complete various large orders for business customers, to gain new large customers and thereby to enlarge its sales base markedly for 2005.

Reapproval of the osteosynthesis range in China marks the beginning of a recovery in another important export market for *aap* • mebio. The company has had a presence in this market for five years. Asia is the Group's third-largest foreign market after the United States.

Risks inherent in future corporate developments

Changes in the market for bone cements as a result of concentration endeavors on the part of competitors constitute both risks and opportunities for *aap* • mebio. The company is a leading provider in Germany with development and production capacities of its own for both bone cements and cementing techniques and may therefore benefit from consolidation tendencies. It already sells its products to large customers (Smith & Nephew) and plan on continue to pursue growth in this area. Today, *aap* • mebio sells in Germany and Austria the bought-in Palacos® R cement family.

Cost pressure in the German healthcare market will continue to grow, exerting further pressure on the market and prices. *aap* • mebio anticipates, along with further consolidation pressure at hospitals, continued concentration tendencies on the supplier side. The company is well prepared for any such process with its high level of market penetration in Germany for a company of its size and with the quality and innovative character of its new product systems.

In order to finance future growth the company might show additional capital requirements which can not be generated via internal cash flows. The executive management intends to raise external debt to a limited extend if necessary. Alternatively shareholders of the company have agreed to provide liquidity if required.

Consolidation tendencies and cost pressure at German hospitals are creating new opportunities for the company. With its wide product range, *aap* • mebio ranks alongside major U.S. corporations as one of the few osteosynthesis providers who are able to make comprehensive offers and thereby stand to benefit from the trend toward a reduction in the number of suppliers.

Probable company development

In the financial year 2005, *aap* • mebio plan on carrying out a number of product launches and relaunches and thereby building up new growth motors. The company has laid the foundations for successful growth by gaining a number of large customers and recruiting outstanding med-tech specialists, especially in sales and R&D. Massive investments having been made in the future, restructuring and sales growth should lead in the years ahead to above-average profitability.

Berlin, March 23, 2005

The Management Board

Uwe Ahrens
Chairman of the Board

Oliver Bielenstein
Member of the Board

Bruke Seyoum Alemu
Member of the Board

ANNUAL FINANCIAL STATEMENT

of the Group

Consolidated Income Statement according to IFRS

	Notes	1.1.-31.12.2004	1.1.-31.12.2003
		€	T€
1. Sales revenues	(1)	11,530,461	10,960
2. Increase in finished goods inventories and work in process		-172,211	-68
3. Capitalized cost of self-constructed assets		1,212,822	1,699
4. Other operating income	(2)	1,993,463	552
5. Cost of materials			
a) Cost of raw materials, consumables and supplies, and of purchased materials		-4,242,396	-3,899
b) Cost of purchased services		-122,571	-178
		-4,364,967	**-4,076**
6. Personnel expenses	(3)		
a) Wages and salaries		-3,413,606	-3,264
b) Social security and other pension costs		-644,982	-605
		-4,058,588	**-3,869**
7. Depreciation	(4)		
a) of intangible fixed assets and tangible assets		-1,518,761	-3,510
b) on current assets		0	-853
		-1,518,761	**-4,363**
8. Other operating expenses	(5), (8)	-4,936,940	-5,480
9. Investment income	(6)	-110,479	-98
10. Income from loans of financial assets	(7)	959	17
11. Other interest and similar income	(7)	29,766	27
12. Depreciation on financial assets	(7)	-294,322	0
13. Other interest and similar expenses	(7)	-569,565	-1,167
14. Results from ordinary activities		**-1,258,362**	**-5,866**
15. Extraordinary income		7,418,331	0
16. Extraordinary expenses		-4,874,590	-11,608
17. Extraordinary result	**(9)**	**2,543,741**	**-11,608**
18. Taxes on income	(10)	-1,423,644	2,049
19. Other taxes		-1,399	3
20. Net loss for the year		**-139,664**	**-15,422**
21. Share of interests held by parties outside the Group		4,846	6
22. Reclassification of share of interests held by parties outside the Group		-279,431	0
23. Loss carryover from previous year		-23,055,545	-7,639
24. Consolidated balance sheet loss		**-23,469,794**	**-23,055**

T€ corresponds to € 1.000

Consolidated Cash Flow Statement according to IFRS

	Notes	1.1.-31.12.2004	1.1.-31.12.2003
		T€	T€
1. Net loss for the year	B.2	-140	-15,422
2. Extraordinary income without effect on payments from the debt waiver	F.9	-7,379	0
3. Extraordinary expenditure without effect on payments		4,875	11,236
		-2,504	**11,236**
4. Depreciation of fixed assets including accounting at equity		1,629	3,608
5. Depreciation on financial assets		294	0
6. Decrease/increase in provisions		-1,073	868
7. Loss from retirement of fixed asset items		9	100
8. Decrease in inventories, trade receivables and other assets		1,896	1,270
9. Decrease/increase in trade accounts payable and other liabilities		-2,120	193
10. Income from retransfer of special item for investment allowances		-124	-118
11. Inflow/outflow of funds from current business activity	**H.19**	**-2,133**	**1,735**
12. Amounts paid out for capital investment		-1,200	-1,921
13. Amounts paid out for investment in financial assets		-30	-3
14. Inflow/outflow of funds from investment activity		**-1,230**	**-1,924**
15. Inpayments form capital increases and shareholder contributions		9,739	200
16. Equity procurement transaction costs		-340	-87
17. Inpayments from the take-up of loans		836	996
18. Payments to redeem loans and dormant equity holdings		-5,775	-1,288
19. Inflow/outflow of funds from investment activity		**4,460**	**-179**
20. Financial resources at start of period		85	690
21. Exchange rate-related changes		0	-237
22. Financial resources at end of period		**1,182**	**85**

T€ corresponds to € 1.000

Consolidated Balance Sheet according to IFRS

ASSETS	Notes	31.12.2004	31.12.2003
		€	T€
A. Fixed Assets	**(12)**		
I. Intangible assets			
1. Concessions, industrial property rights and similar rights and values, and licenses thereto		1,483,599	5,553
2. Goodwill		1	0
3. Capitalized services rendered for own account		3,191,303	3,162
		4,674,903	**8,715**
II. Tangible assets			
1. Land and leasehold rights and buildings, including buildings on third-party land		863,919	958
2. Plant and machinery		1,522,785	1,811
3. Other fixtures and fittings, tools and equipment		1,011,052	970
		3,397,756	**3,739**
III. Financial assets			
1. Investments valued at equity	(20), (23)	172,934	284
2. Loans to companies in which an equity interest is held		30,000	0
3. Other loans		0	293
		202,934	**577**
B. Current assets			
I. Inventories	(13)		
1. Raw materials and supplies		907,120	885
2. Work in progress		678,045	1,070
3. Finished goods and goods for resale		4,368,168	4,825
		5,953,333	**6,780**
II. Accounts receivable and other assets	(14)		
1. Accounts receivable (trade debtors)		965,171	736
2. Due from undertakings with which the company is linked by virtue of participating interests		546,473	357
3. Other assets		1,039,710	2,085
		2,551,354	**3,178**
III. Checks, cash in hand and on deposit with Deutsche Bundesbank, postal giro balances, cash in other banking accounts		1,182,228	85
C. Prepayments and accrued income	**(15)**	**2,485,017**	**3,629**
Total		**20,447,525**	**26,703**

T€ corresponds to € 1.000

LIABILITIES	Notes	31.12.2004	31.12.2003
		€	T€
A. Capital Stock	**(16)**		
I. Subscribed capital		14,608,587	4,870
II. Capital reserve		24,080,152	24,420
III. Revenue reserve			
1. Legal reserve		41,704	42
2. Other revenue reserve		272,208	272
IV. Net loss for the year		-23,469,794	-23,056
V. Adjustment item for interests held by parties outside the Group		0	-275
		15,532,857	**6,273**
B. Long-term liabilities (above 1 year)	**(18)**		
1. Special items for investment grants		109,640	374
2. Long-term provisions		137,618	5,792
3. Due to banks		3,475	69
4. Other long-term liabilities		71,481	1,495
		322,214	**7,730**
C. Short-term liabilities (up to 1 year)	**(17), (18)**		
1. Short-term provisions		904,285	1,894
2. Short-term tax provisions		86,643	0
3. Due to banks		826,255	4,757
4. Short-term financial leasing liabilities		65,409	221
5. Advances from customers		0	488
6. Accounts payable		1,308,364	2,277
7. Due to undertakings with which the company is linked by virtue of participating interests		202,088	10
8. Other liabilities		1,199,410	3,053
		4,592,454	**12,700**
Total		**20,447,525**	**26,703**

Liabilities arising from contingencies (21) € 184,000 (previous year: € 1.040 million)

T€ corresponds to € 1.000

Consolidated Schedule of Assets according to IFRS

	HISTORIC COST OF ACQUISITION			
	STATUS AS AT 1.1.2004	ADDITIONS	RETIREMENTS	STATUS AS AT 31.12.2004
	€	€	€	€
A. Fixed assets				
I. Intangible assets				
1. Industrial property rights and similar rights and values	17,193,512	44,865	3,711	17,234,666
2. Goodwill	4,018,037	0	0	4,018,037
3. Capitalized development costs	4,467,809	554,500	0	5,022,309
	25,679,358	**599,365**	**3,711**	**26,275,012**
II. Tangible assets				
1. Land and buildings	1,746,609	0	0	1,746,609
2. Technical plant and machinery	5,657,957	202,768	0	5,860,725
3. Other fixtures and fittings, tools and equipment	3,980,186	398,319	81,669	4,296,836
	11,384,752	**601,087**	**81,669**	**11,904,170**
III. Financial assets				
1. Participations	679,300	0	0	679,300
2. Loans to companies in which an equity interest is held	0	30,000	0	30,000
3. Other lendings	293,363	959	0	294,322
	972,663	**30,959**	**0**	**1,003,622**
Total	**38,036,773**	**1,231,411**	**85,380**	**39,182,804**

Movement in Equity and Shares of Other Shareholders according to IFRS

			REVENUE RESERVES	
	SUBSCRIBED CAPITAL	CAPITAL RESERVE	STATUTORY REVENUE RESERVES	OTHER REVENUE RESERVES
	€	€	€	€
Status as at 01.01.2001	**3,800,000**	**9,370,989**	**41,704**	**272,208**
Capital Increase	964,265	13,788,982	-	-
Transfer according to § 272 Abs. 2 Nr. 2 HGB	-	803,992	-	-
Deficit for the year	-	-	-	-
Status as at 31.12.2001/01.01.2002	**4,764,265**	**23,963,963**	**41,704**	**272,208**
Transfer according to § 272 Abs. 2 Nr. 2 HGB	-	579,404	-	-
Deficit for the year	-	-	-	-
Status as at 31.12.2002/01.01.2003	**4,764,265**	**24,543,367**	**41,704**	**272,208**
Capital Increase	105,264	94,736	-	-
Transaction Costs	-	-217,900	-	-
Deficit for the year	-	-	-	-
Status as at 31.12.2003/01.01.2004	**4,869,529**	**24,420,203**	**41,704**	**272,208**
Capital Increase	9,739,058	-	-	-
Transaction Costs	-	-340,051	-	-
Deficit for the year	-	-	-	-
Retransfer arising from the dissolution of *aap* Implants, Inc.	-	-	-	-
Status as at 31.12.2004	**14,608,587**	**24,080,152**	**41,704**	**272,208**

Conditional Capital: € 96,000 (previous year: € 476,000)

	CUMULATIVE DEPRECIATION					BOOK VALUES	
	STATUS AS AT 1.1.2004	DEPRECIATIONS FISCAL YEAR	EXTRAORDINARY ADJUSTMENTS	RETIREMENTS	STATUS AS AT 31.12.2004	STATUS AS AT 31.12.2004	STATUS AS AT 31.12.2003
	€	€	€	€	€	€	€
	11,640,713	439,358	3,674,705	3,709	15,751,067	1,483,599	5,552,799
	4,018,036	0	0	0	4,018,036	1	1
	1,305,699	146,249	379,058	0	1,831,006	3,191,303	3,162,110
	16,964,448	**585,607**	**4,053,763**	**3,709**	**21,600,109**	**4,674,903**	**8,714,910**
	788,088	94,602	0	0	882,690	863,919	958,521
	3,847,240	490,700	0	0	4,337,940	1,522,785	1,810,717
	3,010,265	347,852	0	72,333	3,285,784	1,011,052	969,921
	7,645,593	**933,154**	**0**	**72,333**	**8,506,414**	**3,397,756**	**3,739,159**
	395,887	110,479	0	0	506,366	172,934	283,413
	0	0	0	0	0	30,000	0
	0	294,322	0	0	294,322	0	293,363
	395,887	**404,801**	**0**	**0**	**800,688**	**202,934**	**576,776**
	25,005,928	**1,923,562**	**4,053,763**	**76,042**	**30,907,211**	**8,275,593**	**13,030,845**

	BALANCE SHEET PROFIT/LOSS	SHARES OWNED BY THE GROUP	SHARES OWNED BY OTHER SHAREHOLDERS	TOTAL
	€	€	€	€
	162,198	**13,647,099**	**-157,835**	**13,489,264**
	-	14,753,247	-	14,753,247
	-	803,992	-	803,992
	-3,372,166	-3,372,166	-20,693	-3,392,859
	-3,209,968	**25,832,172**	**-178,528**	**25,653,644**
	-	579,404	-	579,404
	-4,429,276	-4,429,276	-90,456	-4,519,732
	-7,639,244	**21,982,300**	**-268,984**	**21,713,316**
	-	200,000	-	200,000
	-	-217,900	-	-217,900
	-15,416,302	-15,416,301	-5,601	-15,421,902
	-23,055,546	**6,548,099**	**-274,585**	**6,273,514**
	-	9,739,058	-	9,739,058
	-	-340,051	-	-340,051
	-134,818	-134,818	-4,846	-139,664
	-279,431	-279,431	279,431	-
	-23,469,795	**15,532,857**	**0**	**15,532,857**

Notes to the Consolidated Financial Statements

A. Company Data

Company name, domicile

aap Implantate AG, Berlin

Head office

12099 Berlin, Lorenzweg 5

Commercial register

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

Stock market listing

aap Implantate AG has been listed on the regulated market since May 10, 1999 and traded in the Frankfurt Stock Exchange's Neuer Markt segment under Security ID number 506 660. On May 16, 2003, the Company was admitted to the market's Prime Standard segment, which has further regulatory requirements.

Incorporation by modifying conversion

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

Type of business

aap Implantate AG is a medical sector enterprise. Its lines of business include osteosynthesis, endoprosthetics, orthobiology and the provision of research and development services in these fields.

B. General information

1. Basic principles

The consolidated financial statements of *aap* Implantate AG, Berlin to December 31, 2004 are drawn up in conformity with International Financial Reporting Standards (IFRS). These include the IFRS newly issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). The IFRS that had come into binding force on the balance sheet date were applied in the consolidated financial statements.

The consolidated financial statements comply with European Union Directive 83/349. In line with § 292 a of the German Commercial Code (Handelsgesetzbuch/HGB), these financial statements drawn up in accordance with IFRS have a discharging effect. The rules of German Accounting Standard 1 have been observed.

The consolidated financial statements of *aap* Implantate AG to December 31, 2004 are based on the financial statements of the companies in the group. These were drawn up applying uniform accounting and valuation methods as used by the parent company in accordance with the HGB and the German Stock Corporation Act (Aktiengesetz). The transfer to IFRS was effected at individual company level.

The consolidated balance sheet and the consolidated profit and loss statements are structured in accordance with IFRS regulations.

The consolidated profit and loss account was drawn up using the total costs method.

All amounts are in euros (€), the national currency of the parent company.

These financial statements cover the financial year 2004 on the basis of the reporting period January 1 to December 31.

2. Kapitalflussrechnung

The consolidated cash flow statement was drawn up by the indirect method, in conformity with IAS 7. It is broken down by payment flows resulting from business, investment and financing activity. The effects of exchange rate fluctuations are shown separately. The amount of liquid funds in the cash flow statement accords with the sum total of liquid funds in the balance sheet.

Liquid funds comprise cash in hand and credit balances at banks. There are temporary restraints on disposal for a period of less than one year over an amount of € 800,000. Extraordinary income and expenditure is shown separately under the outflow/inflow of funds from current business activities. The other items affected are adjusted accordingly.

3. Segment reporting

The business activities of the *aap* Implantate Group in financial year 2004 did not extend to heterogeneous lines of business or to geographical segments with differing opportunity-risk structures. Therefore we have not reported by segment in accordance with IAS 14.

Nonetheless, the information in the notes includes a breakdown of sales revenues by region and segment.

C. Consolidation Principles

1. Consolidated entity

aap Implantate AG, Berlin	Parent company	Holding
	2004	**2003**
CORIPHARM Medizinprodukte GmbH & Co. KG, Dieburg	100%	100%
CORIPHARM Medizinprodukte-Verwaltungs GmbH, Dieburg	100%	100%
CORIMED Kundenorientierte Medizinprodukte GmbH, Dieburg	-	100%
MEBIO Medizinische Biomaterialien Vertriebs GmbH, Dieburg	-	100%
aap Implants Inc., Plymouth, USA	-	90%

aap Implants, Inc. was dissolved and removed from the register in the year under review.

2. Merger

Under an agreement dated August 24, 2004 and with the approval of the shareholders' meeting of MEBIO Medizinische Biomaterialien Vertriebs GmbH on the same day it was resolved to merge MEBIO Medizinische Biomaterialien Vertriebs GmbH (Darmstadt district court, Commercial Register page 32556, previously Corimed Kundenorientierte Medizinprodukte GmbH) with *aap* Implantate AG with effect from January 1, 2004. The business activities of MEBIO Medizinische Biomaterialien Vertriebs GmbH were run on *aap* Implantate AG's account with effect from January 1, 2004. There was no capital increase under § 54 subsection 1 clause 1 item 1 of the German Conversion Act (UmwG).

The assets of MEBIO Medizinische Biomaterialien Vertriebs GmbH were transferred to *aap* Implantate AG as a whole along with all rights and duties without any quid pro quo. No special rights or advantages were given.

The merger of the two companies was recorded in the Commercial Register on October 5, 2004.

On the basis of a merger agreement dated February 20, 2004 and approval by meetings of shareholders of the two companies on the same day, MEBIO Medizinische Biomaterialien Vertriebs GmbH (Dieburg district court, Commercial Register page 32602) was merged as a whole into Corimed Kundenorientierte Medizinprodukte GmbH (Darmstadt district court, Commercial Register page 32556) by transfer of assets and dissolved but not wound up.

The merger of the two companies was recorded in the Commercial Register on March 2, 2004.

3. Reporting date of the consolidated financial statements

The financial year of the companies included is the calendar year. Accordingly, the consolidated financial statements were prepared to December 31, 2004.

4. Accounting and valuation method

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.

5. Capital consolidation

Capital consolidation was effected by offsetting the book values of participations against the pro rata revalued equity of the subsidiaries at the time of acquisition.

Where advisable, accrued differences were allocated to assets. The remaining accrued differences were capitalized as goodwill and amortized to affect the operating result over a 15-year period, corresponding to their future economic utility.

6. Debt consolidation

Intra-group receivables and liabilities were offset. Any balancing differences that arose in the reporting period were recorded as affecting earnings.

7. Consolidation of earnings

In the context of earnings consolidation, internal sales and intra-group income and expenditure were offset. Interim results were eliminated unless they were of minor significance.

D. Accounting and Valuation Methods

Intangible assets are shown at acquisition costs less planned depreciation. All intangible assets have an ascertainable useful life and were therefore depreciated according to schedule.

Development costs are capitalized as intangible assets if a newly developed product or process can be clearly demarcated, is technically realizable and if the company plans to use it itself or to market it. Further prerequisites for capitalization are the likelihood of deriving future economic benefit and a reliable valuation of the asset.
Capitalized development costs include the cost of loan capital.
Capitalized development costs are depreciated according to schedule in a straight line over their useful life, as a rule between 5 and 10 years from the date they were put to use. Research costs are recorded as expenses in the period in which they were incurred.

Tangible fixed assets are valued at cost of acquisition or production and, where depreciable, taking into account scheduled depreciation. The production costs of tangible fixed assets include the full costs.
Loan capital costs are not capitalized as part of acquisition or production costs.
Movable assets up to a value of € 410.00 are written down in full in the year of acquisition.

Tangible fixed assets rented by financial leasing are capitalized at current market value or at the lower cash value of the lease installments and depreciated in a straight line over their foreseeable service life.

Intangible assets and tangible fixed assets are depreciated off schedule if the sum obtainable for the asset is less than the book value. Assets are written up if and when there is no longer a reason for any previous non-scheduled depreciation.

Financial assets are reported in the balance sheet at acquisition costs or at depreciated book value. The shares of associated enterprises balanced by the equity accounting method are reported in the balance sheet at pro rata equity plus goodwill. Goodwill is amortized in a straight line over a 15- and 20-year period.

Lendings that are subject to interest at the usual market rate are reported in the balance sheet at their nominal value.

Inventories are valued at cost of acquisition or production or at net sale value. Production costs comprise full costs and are calculated on the basis of standard activity.
In detail, production costs include in addition to directly attributable costs appropriate proportions of essential production overheads. These include material and manufacturing overheads and production-related administrative costs as well as straight-line depreciation of production plant and equipment.
Loan capital costs are not capitalized as part of acquisition or production costs.
Valuation is based on the FIFO assumed sequence of consumption.
Inventory risks arising from diminished usability are taken account of by means of appropriate write-downs.

Production orders for specific customers are reported in the balance sheet applying the percentage of completion method. The sum to be capitalized is shown under receivables. The stage of performance is determined according to expenses incurred and project phases that have been demonstrably completed. The pro rata contractual proceeds are shown under sales revenues as proceeds from orders.

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 translated at the exchange rate at the time of first posting unless there was a lower exchange rate on the reporting date.

Investment allowances and **investment grants** received are carried as lia-bilities 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.

Provisions are set up 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 most likely to be determined.

Tax accruals are shown as arising from temporary differences in the IFRS and tax balance sheets and from consolidation transactions. Deferred tax credits include tax reduction claims arising from the anticipated benefit in subsequent years of existing losses carried forward where there is a sufficient degree of certainty that they can be realized. Tax accruals are calculated on the basis of tax rates applicable or expected at the time of realization.

Prepayments received from customers are carried as liabilities.

Liabilities are shown at the repayment figure. Liabilities arising from financial leasing agreements are reported as liabilities at the cash value of the leasing installments.
Foreign-currency liabilities are translated at the repayment exchange rate when the liability was incurred or at the higher selling rate on the balance-sheet date.

Accruals comprise outlay and income that are expenses and earnings after the reporting date.

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 volume of commitment stated in respect of contingent liabilities is in line with the extent of liabilities on the balance sheet date.

Sales revenues are realized when the due delivery or performance has been rendered and the risk has been transferred to the customer. This arrangement does not apply to order-related income that results from applying the percentage-of-completion method. Customer discounts and rebates and returned goods are taken into account in the appropriate period in line with the sales revenues on which they are based.

In the case of some items, drawing up the consolidated financial statements entails making estimates and assumptions that affect the statement and level of assets, debts and contingent liabilities and of income and expenses reported. Actual amounts may diverge from these **estimated values**.

Based on rescue agreements entered into with a group of financial investors and the *aap* group's creditors in May 2004, the Management Board undertook a critical review of existing business strategy and developed a recovery package of which substantial parts were implemented during the financial year. In addition to the implementation of recovery measures (strategic focus and recapitalization), *aap*'s strategic realignment necessitated appropriate adjustments to balance-sheet values that affect expenses. These are shown under the **extraordinary result.**

E. Special Notes in accordance with § 292 a HGB

The accounting, valuation and consolidation methods applied in accordance with IFRS differ substantially from German commercial law regulations in the following accounting-related respects

Intangible assets

IFRS requires even self-made intangible assets to be capitalized if the prerequisites for capitalization are fulfilled. HGB prohibits capitalization.

Production costs

According to IFRS, production costs include production-related costs. Under HGB, the total costs approach includes general administrative costs.

Production orders for specific customers

In the event of production orders for specific customers, HGB stipulates that as a matter of principle profit can only be realized after delivery and acceptance of the complete order. IFRS requires profit to be realized pro rata to the percentage of completion.

Inventories

In divergence from HGB, IFRS stipulates that only the sales market is to be taken into account for the lower valuation.

Tax accruals

HGB requires all tax accruals on temporary differences between trading balance sheet and tax balance sheet results to be ascertained in accordance with the timing concept. According to IFRS, tax accruals must be ascertained on all temporary differences between the amounts stated in the tax balance sheet and in the consolidated balance sheet. In contrast to HGB, tax accruals must also be shown for quasi-permanent differences and for losses carried forward for tax purposes.

Cost of procuring equity

IFRS states that the external costs of equity procurement, less the associated earnings benefits, should be shown in the balance sheet as a deduction from equity that does not affect the operating result. HGB requires transaction costs of this kind to be recorded as affecting expenses.

Provisions

IFRS states that provisions are to be made if the probability of a claim occurring is greater than 50%. Provisions are set at the fulfillment amount. In contrast, HGB requires provisions to be set at the level required on the balance sheet date according to sound business judgment.

F. Notes on the Profit and Loss Statement

(1) Sales revenues

	2004	2003
	T€	T€
By region		
Germany	8,529	8,411
Asia	921	822
Africa	23	38
North and South America	1,079	857
Europe	978	832
Group total as per IAS	11,530	10,960

	2004	2003
	T€	T€
By segment		
Endoprosthetics	6,699	5,953
Osteosynthesis	4,627	4,848
Orthobiology	204	159
R & D services	0	0
Group total as per IAS	11,530	10,960

(2) Other operating income

	2004	2003
	T€	T€
Private car use	89	60
Income from re-transfer of provisions	1,316	86
Income from write-back of special item for investment allowances and grants	124	35
Income from written-off receivables	100	0
Income from expense allowances	50	28
Income from the disposal of current assets	12	69
Insurance claims	6	8
Income form reduction in individual value adjustment of receivables	81	28
Income unrelated to accounting period	102	38
Other	113	201
	1,993	553

(3) Personnel expenses

	2004	2003
	T€	T€
Wages and salaries (of which stock options issued)	3,414 (0)	3,264 (0)
Social insurance contributions and expenses for old-age provision and for support	645	605
	4,059	3,869

Average payroll during the year	2004	2003
Wage earners	47	51
Salary earners	57	51
	104	102

(4) Depreciation

Scheduled depreciation of tangible assets totaled € 933,000 (previous year: € 1,263,000) and of intangible assets € 586,000 (previous year: € 1,948,000); of this, € 0 (previous year: € 264,000) was goodwill amortization resulting from capital consolidation.

Extraordinary adjustments totaling € 4.054 million (previous year: € 10.392 million) are shown in the extraordinary results (cf note 9).

(5) Other operating expenses

	2004	2003
	T€	T€
Advertising and travel costs	592	570
Cost of premises	573	729
Consulting fees	722	960
Leasing	174	137
Office requisites, telephone, fax, postage	162	156
Freight charges, packaging material, cost of delivery	415	690
Vehicle costs	157	134
Repairs and maintenance	157	106
Insurances, subscriptions, fiscal/public charges	234	204
Losses and value reductions arising from accounts receivable	751	57
Patent fees, other fees	249	201
Litigation costs and risks	0	765
Currency differences	27	237
Expenses unrelated to accounting period	72	198
Losses on disposal of fixed assets	342	0
Other costs	310	335
	4,937	5,479

(6) Result of participating interests

This includes the pro rata result of participating interests accounted for by the equity method in OSARTIS GmbH & Co. KG and GEOT Gesellschaft für Elektro-Osteo-Therapie mbH, totaling € minus 67,000 (previous year: € minus 55,000) and amortization of € 44,000 (previous year: € 44,000) on the goodwill acquired.

(7) Financial result

	2004	2003
	T€	T€
Income from other lendings	1	17
Other interest and similar income	30	27
Depreciation of financial assets	–294	0
Other interest and similar expenditure		
Interest on long-term loans	–318	–593
Interest on current debts to banks	–149	–331
Interest to sleeping partners	–85	–164
Write-back of financing costs	–11	–29
Other interest expenses	– 7	–50
	-570	-1,167
	-833	-1,123

(8) Exchange rate differences

Exchange rate differences affecting the operating result in the accounting period were:

	2004	2003
	T€	T€
Income from exchange rate differences	36	19
Cost of exchange rate differences	-27	-237
	-9	-218

(9) Extraordinary result

In May/June 2004, the Company entered into agreements with the group of investors and the group's main creditors on the early repayment of debts totaling approximately € 10.7 million owed to banks by *aap* Implantate AG and its subsidiaries CORIPHARM GmbH & Co. KG and MEBIO Medizinische Biomaterialien Vertriebs GmbH. It was agreed that a reduced sum of approx. € 5 million would be repaid and that the securities given would be released. These agreements were implemented at the end of August 2004.

Further compositions were entered into with dormant equity providers and the contributing MEBIO/CORIPHARM group companies.

In this connection, the reporting company also agreed to waive claims of its own. Overall, these release agreements had the following effects on the operating result:

	T€
Extraordinary income	7,418
Extraordinary expenses	-89
Result of the debt waiver	7,329

In the year under review, the reorganization and strategic realignment of the *aap* Group necessitated extraordinary balance sheet adjustments totaling € 3,675,000 for rights and licenses, € 379,000 for capitalized development costs and € 640,000 for inventories.

In addition, extraordinary expenses totaling € 92,000 result from abandonment of the company's own business activities in the US.

.

(10) Income tax

Income tax expenses as per IFRS (cf G. 15) can be translated to the theoretical tax expense as follows. This is based on a tax rate of 39% (previous year: 39%), comprising German corporate income tax, plus solidarity surcharge, and trade tax.

	2004 T€	2003 T€
Pre-tax earnings	1,284	-17,472
Theoretical tax expense (income) 39% (previous year: 39%)	-499	-6,815
Tax effects on		
Depreciation of at equity accounted companies (previous year: Amortization of goodwill resulting from capital consolidation and companies included by the equity method)	-43	-1,328
Permanent differences	-1,093	-2,491
Write back of deferred tax credits resulting from adjustment of loss carryovers by subsidiaries and temporary differences between tax balance sheet and commercial balance sheet	216	-887
Non-tax-deductible expenses and trade earnings tax additions	-36	-73
Results of associated companies	0	-29
Tax-free income	32	43
Total adjustments	-924	-4,765
Income tax expense as per IFRS	-1,423	2,050
Effective tax rate in %	111%	12%

(11) Earnings per share as per IAS 33

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

Diluted earnings per share take into account the weighted average potential number of shares as a result of the 178,748 stock options issued on December 1, 2000 that were valid until December 1, 2004.

	2004	2003
Result for the period T€	-140	-15,422
Number of shares ('000s)	8,522	4,817
Earnings per share €	-0.02	-3.20

	2004	2003
Result for the period T€	-140	-15,422
Diluted number of shares ('000s)	8,686	4,996
Earnings per share €	-0.02	-3.09

G. Notes on the balance sheet

(12) Fixed assets

For movements in fixed assets please see the consolidated schedule of assets. Of the additions shown in the financial year, € 1,213,000 was allocated to self-made assets. Extraordinary depreciation totaling € 4,054,000 was undertaken in the period under review (cf G. 9).

1. Intangible assets

Intangible assets acquired in return for payment are depreciated in a straight line pro rata to the historic cost of acquisition.

Useful economic life is as follows:

	Years
Industrial property rights and similar rights and values	3–20
Goodwill	15

Book values of intangible assets that are given as security for liabilities amount to € 0 (previous year: € 4,487,000). Extraordinary depreciation € 3,676,000 was undertaken.

2. Development costs

In the reporting period, development costs totaling € 555,000 were capitalized (previous year: €1,339,000). They include directly attributable loan capital costs of € 67,000, ascertained on the basis of the group's average financing cost rate of 8%. Development costs relate essentially to the following projects:

- Bone cement with antibiotic
- HF cement
- CS pellets - absorbable bone replacement
- Angle-stable plates
- Dynamic hip pin

In addition, research and further development costs totaling € 348,000 (previous year: € 123,000) were recorded as expenses.

Depreciation in the reporting period totaled € 525,000 (previous year: € 1,117,000), of which € 379,000 was extraordinary depreciation (previous year: € 726,000).

3. Tangible assets

Tangible assets are depreciated in a straight line from historic cost of acquisition or production.

Useful economic life is, on average, as follows:

	Years
Land and buildings	50
Technical plant and machinery	5–10
Other plant, office and business equipment	5–10

The book value of leased tangible assets on December 31, 2004 was € 753,000 (previous year: € 907,000).

4. Financial assets

	2004 T€	2004 %	2003 T€	2003 %
Participating interests				
1. OSARTIS GmbH & Co. KG, Obernburg	150	49.0	246	49.0
2. GEOT Gesellschaft für Elektro-Osteo-Therapie mbH, München	23	30.0	38	30.0
3. HJS Gelenk-System GmbH, München	0	11.9	0	0
4. Cybernetic Vision AG Health Monitoring Technologies, Berlin	0	5.69	0	5.69
Loans from undertakings with which the company is linked by virtue of participating interests	30		0	
Other loans	0		293	
Total	**203**		**577**	

(13) Inventories

In order to set inventories at net sale value, value adjustments totaling € 6,000 were undertaken in the year under review. In addition, extraordinary value markdowns of € 59,000 and € 640,000 were undertaken to take account of reduced saleability (cf F. 9).

(14) Accounts receivable and other assets

	31.12.2004	of which due in > 1 year	31.12.2003	of which due in > 1 year
	T€	T€	T€	T€
Trade receivables				
Based on percentage of completion	91	0	0	0
Of which already paid	-75	0	0	0
Other	949	0	736	0
	965	**0**	**736**	**0**
Receivables from associated companies	546	387	357	268
Other assets				
Tax refund claims	229	0	102	0
Warranty claims	548	0	1,747	0
Other	263	2	237	35
	1,040	2	2,086	35
	2,551	**389**	**3,179**	**303**

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 Other Assets item includes discounts totaling € 2,000 (previous year: € 1,000).

(15) Deferred taxation

Tax accruals carried as assets totaling € 2,485,000 (previous year: € 3,629,000) include the following capitalized tax credit entitlements arising, according to the present business plan, from the anticipated utilization of existing loss carryovers in the years ahead:

	2004	2003
	T€	T€
Corporate income tax, including solidarity surcharge	2,176	2,852
Trade tax	1,368	2,015
	3,544	**4,867**

There is a sufficient degree of certainty that these loss carryovers will be realized.

Deferred tax credit claims totaling € 216,000 (previous year: € 139,000) relate to items that are offset directly against equity. Deferred tax liabilities totaling € 1,571,000 (previous year: € 2,096,000) result from consolidation (elimination of interim results and debt consolidation including currency differences) and from temporary differences between tax values and amounts stated for balance-sheet items in accordance with IFRS.

To calculate trade earnings tax, the IFRS result for the year was taken as the starting point and trade earnings were ascertained by way of trade tax additions and deductions. Trade tax is charged at roughly 17% after taking into account tax deductibility. Deferred corporate income tax was determined on the basis of a tax rate of 25% plus a 5.5% solidarity surcharge on corporate income tax due.

Deferred tax credits arising in connection with consolidation were ascertained on the basis of an group average tax rate of 39%.

(16) Equity

Capital stock

On December 31, 2004, the company's capital stock was € 14,608,587. This was divided into 14,608,587 individual bearer shares.

The General Meeting held on July 19, 2004 resolved to increase the company's capital stock by € 9,739,058, from € 4,869,529 to € 14,608,587 by a capital increase in return for cash deposits and to do this by issuing 9,739,058 new bearer shares, each with an arithmetical share of € 1 in capital stock. The new shares were offered for subscription to company shareholders by way of indirect subscription rights in a ratio of 1:2. The issue price was € 1.00 per share.
This capital increase was recorded in the Commercial Register on August 13, 2004.

The statutory reserve totaled € 41,703.95 at the end of the financial year and, together with the capital reserve, exceeded one tenth of capital stock.

Transaction costs

Transaction costs totaling € 340,000 (previous year: € 218,000) were carried in the balance sheet as a deduction from equity.

Conditional capital

The General Meeting held on May 29, 2001 approved a conditional capital increase of € 96,000 by the issue of up to 96,000 individual bearer shares.
The new shares are entitled to profit from the start of the financial year in which they are issued.
The conditional capital is solely for the purpose of granting stock options to employees and management of the company or of an associated company, as follows:

2001

- 17.1% to board members of the company and associated companies
- 25% to senior executives
- 57.9% to employees of the company and of associated companies

Stock options are granted in accordance with the provisions laid down in the 2001 stock option plan.

The resolution on a conditional capital increase adopted by the General Meeting on June 30, 2000 stipulates that a maximum of 380,000 stock options can be issued within four years and six months from the date of the Commercial Register entry (July 12, 2000). The 256,727 stock options agreed under the 2000 stock option plan have now lapsed due to passage of time (four-year term from December 1, 2000). No further stock options were issued.

Stock options

	Tranche 2000
Number originally issued	256,727
Status as at Dec. 31, 2003	178,748
No. lapsed in 2004	178,748
Status as at Dec. 31, 2004	0

Stock subscription price: roughly € 15

Authorized capital

The Management Board is authorized with the Supervisory Board's approval to increase the company's equity by March 31, 2005 on one or more occasions by up to € 2,380,000 against deposits in cash or kind and to specify the terms and conditions on which shares are issued.

This may include ruling out subscription rights for existing shareholders,

a) to balance residual amounts
b) to issue shares to employees of the company,
c) to acquire participating interests in enterprises or from enterprises or parts of enterprises in return for company stock,
d) if a capital increase in cash does not exceed 10% of capital stock and the issue price for the shares is not substantially lower than their stock market price,
e) to meet the costs of raising capital and paying for services,
f) to issue shares for purposes of reorganization.

Please note the equity outline in the notes.

(18) Liabilities

Times to maturity of liabilities, broken down by balance sheet heading, are as follows:

Time to maturity	31.12.2004 total	up to1 year	1-5 years	more than 5 years	previous year
	T€	T€	T€	T€	T€
Amounts owed to banks	964	826	93	45	10,549
Prepayments received on orders	0	0	0	0	488
Trade receivables	1,308	1,308	0	0	2,276
Liabilities to associated companies	202	202	0	0	10
Financial leasing liabilities	69	66	3	0	290
Other liabilities	1,271	1,199	72	0	4,548
of which					
(social security-related)	(108)	(108)	(0)	(0)	(149)
(taxes)	(113)	(113)	(0)	(0)	(201)
	3,814	3,601	168	45	18,161

Of the amounts owed to banks, € 800,000 is secured by pledging fixed-term accounts.

Of long-term liabilities (time to maturity > 1 year) totaling € 213,000, € 141,000 (previous year: € 7,296,000) was subject to interest. The average interest charge was around 6.9% (previous year: 6.8%).

(17) Current provisions

	Status as at 01.01.2004	Take-up	Retransfer	Transfer	Status as at 31.12.2004
	T€	T€	T€	T€	T€
Tax provisions	25	0	0	62	87
Commitments to employees	112	98	3	146	157
Bonuses awarded	41	41	0	50	50
Commission	10	10	0	10	10
Licenses	106	8	0	49	147
Financial statement, audit costs	132	120	8	126	130
Employer's liability	32	25	7	28	28
Unpaid invoices	190	107	83	178	178
Other contingent liabilities	0	0	0	140	140
Share listing	250	0	250	0	0
Litigation costs and risks	765	0	765	30	30
Contingencies	200	0	200	0	0
Warranties	31	0	0	3	34
	1,894	409	1,316	822	991

All provisions shown have a term of up to one year.

H. Other information

(19) Cash flow statement

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

Interest income	€ 12,000
	(previous year: € 12,000)
Interest expenses	€ 498,000
	(previous year: € 962,000)

Income tax paid amounts to € 0 (previous year: € 0); income tax refunded was € 0 (previous year: € 0).

(20) Participating interests

I. Allied companies (§ 271 sub-section 2 HGB)

Name	Domicile	Participation	Equity	Result
		%	T€	T€
1. CORIPHARM Medizinprodukte Verwaltungs- GmbH	Dieburg	100	35	2
2. CORIPHARM Medizinprodukte GmbH & Co. KG	Dieburg	100	-1,332	-103

This information relates to the financial statements in accordance with IFRS.

II. Associated companies

Name	Domicile	Participation %	Equity T€	Result T€
3. OSARTIS GmbH & Co. KG	Obernburg	49	-872	-130

The figures are based on IFRS values as at December 31, 2004, these in turn being based on a managerial analysis drawn up in accordance with the provisions of the German commercial code (Handelsgesetzbuch, HGB).

Name	Domicile	Participation %	Equity T€	Result T€
4. OSARTIS Verwaltungs GmbH	Obernburg	49	-	-
5. GEOT Gesellschaft für Elektro-Osteo-Therapie mbH	München	30	-358	-8

The figures for GEOT Gesellschaft für Elektro-Osteo-Therapie mbH are based on an interim managerial analysis to December 31, 2004 in accordance with the provisions of the German commercial code (Handelsgesetzbuch, HGB).

III. Participating interests

Name	Domicile	Participation %	Equity T€	Result T€
6. HJS Gelenk-System GmbH	München	11.9	-	-
7. Cybernetic Vision AG Health Monitoring Technologies	Berlin	5.96	-	-

Insolvency proceedings were initiated on December 1, 2000 in respect of the assets of Cybernetic Vision AG.

(21) Contingencies

CORIPHARM Medizinprodukte GmbH & Co. KG has given an absolute guarantee limited to a maximum of € 184,000 for the liabilities of OSARTIS GmbH & Co. KG.

(22) Other financial commitments

Other financial commitments as defined by § 285 No. 3 HGB arise from rental agreements totaling € 1,773,000, of which € 549,000 falls due within one year, while € 1,050,000 is payable in two to five years € 174 in more than five years.

By contractual agreement, the purchase price for the holding in GEOT Gesellschaft für Elektro-Osteotherapie mbH will rise from € 184,000 by 15% of the sum by which the enterprise value of the company on December 31, 2002 and December 31, 2004 exceeds the valuation of € 614,000 on which the purchase price was based. The purchase price is limited to a maximum of € 675,000. The enterprise value has yet to be assessed, leaving a pending financial obligation of between € 0 and € 491,000 from the equity holding acquired.

There are other financial commitments totaling € 519,000 under leasing agreements of which € 279,000 is payable in 2005 and € 240,000 in 2006 to 2008.

Minimum lease payments

	Financial leasing Nominal value T€	Cash value T€	Operational leasing Nominal value T€
Payable within 1 year	66	66	213
Payable in 1 to 5 years	3	3	237
Payable after more than 5 years	0	0	0
	69	**69**	**450**

Commitments arising from financing leasing relate mainly to installment purchase agreements for production machines and a computer system. The operational leasing agreements relate to short-term contracts for cars and in some cases provide for options to extend or purchase.

(23) Related enterprises and persons

Related enterprises consist of OSARTIS GmbH & Co. KG and GEOT as associated enterprises. During fiscal year 2003 business with them resulted in the following balance-sheet items:

	OSARTIS KG T€	GEOT T€
Lendings	30	0
Trade receivables	0	5
Prepayments	30	0
Other assets	14	0
Loans	357	0
Revenues	1	4
Interest	14	0
Accounts payable for goods and services	-14	0
Cost of materials	-28	0

Mr. Uwe Ahrens in 2000 loaned the reporting company a total of € 2,556,000 to finance the acquisition of shares in the MEBIO-CORIPHARM Group. Interest incurred in the financial year totaled € 34,000. The loans run until May 30, 2006 and they were not repaid in 2004. The balance on December 31, 2004 was € 770,000. Interest is payable at the 3-month Euribor rate.

(24) Management Board, Supervisory Board

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

Mr. Uwe Ahrens, Dipl.-Ing., Berlin,
Mr. Bruke Seyoum Alemu, Dipl.-Ing., Berlin,
Mr. Oliver Bielenstein, Berlin
(since May 27, 2004)

Management remuneration totaled € 380,407.74.

The Company has taken out D & O insurance for the management. Premiums paid in 2004 amounted to € 27,960.00.

The 78,182 stock options issued to Management Board members lapsed without compensation in the year under review.

The members of the Management Board hold the following supervisory board and advisory board directorships:

Mr. Uwe Ahrens:

bmp AG Venture Capital & Network Management, Berlin
STM Medizintechnik GmbH
(Advisory board member until April 21, 2004)
HJS Gelenk-System GmbH
(Advisory board member until June 1, 2004)

The members of the company's Supervisory Board in the year under review were:

Mr. Lothar Just, accountant and tax adviser, Berlin (Chairman)

Mr. Klaus Kosakowski, Dipl. Volkswirt, Berlin (Vice-Chairman)

Mr. Dieter Borrmann, Dipl. Ingenieur, Berlin

Dr. Friedrich-Leopold Freiherr von Stechow, businessman, Berlin

Dr. Heinz Helge Schauwecker, senior medical consultant and university teacher, Berlin

Prof. Dr. Dr. Reinhard Schnettler, university professor, Giessen

The Supervisory Board members were elected for the full term of office under the company statute until the end of the General Meeting that resolved to approve the Board's actions in the financial year 2003. The General Meeting held on July 19, 2004 resolved to approve the Supervisory Board's actions.

The General Meeting held on July 19, 2004 resolved to reduce the number of Supervisory Board members to three. The General Meeting on July 19, 2004 elected a new Supervisory Board with the following members:

Mr. Jürgen W. Krebs, business management specialist, Kilchberg near Zürich, Switzerland (Chairman)

Mr. Rubino Di Girolamo, business management specialist, Oberägeri near Zug, Switzerland (Deputy Chairman)

Prof. Dr. Dr. med. Reinhard Schnettler, university professor, Giessen

The Supervisory Board members were elected for the full terms of office permitted under the company statute, until the end of the General Meeting that resolves to approve the Supervisory Board's actions for the year 2007. Dr. Wolfgang Hohensee, Frankfurt am Main, was elected as a substitute for all three Supervisory Board members.

Supervisory Board remuneration totaled € 46,635.36 in the financial year. Of this, € 21,000 paid out, and € 5,000 was offset.

Members of the Supervisory Board hold the following Supervisory Board directorships in addition to their work on behalf of *aap* Implantate AG:

Mr. Jürgen W. Krebs

Merval Holding AG, Administrative Board Chairman, Reviderm AG

Mr. Rubino Di Girolamo

Deepblue Holding AG, Administrative Board President

Gnothis SA (until September 30, 2004), Administrative Board President

M2 Capital AG, Administrative Board President

(Former) Members of the Supervisory Board and the Management Board hold the following shares:

	Shares		Options	
Supervisory Board	**2004**	**2003**	**2004**	**2003**
Jürgen W. Krebs	2,800,000	0	0	0
Rubino Di Girolamo	1,230,000	0	0	0
Prof. Dr. Dr. Reinhard Schnettler	68,094	28,094	0	0
Lothar Just	0	0	0	0
Klaus Kosakowski	3,000	3,000	0	0
Dr. Heinz Helge Schauwecker	0	0	0	0
Dieter Borrmann	0	0	0	0
Prof. Dr. Friedrich-Leopold Freiherr v. Stechow	0	0	0	0
Prof. Dr. Dr. h. c. Horst Cotta	10,000	10,000	0	0
Management Board				
Uwe Ahrens	1,358,436	1,358,436	0	44,676
Oliver Bielenstein	469,889	0	0	0
Bruke Seyoum Alemu	26,520	11,520	0	33,506

(25) Statement on the German Corporate Governance Code

aap Implantate AG has issued a declaration of compliance with the German Corporate Governance Code in accordance with § 161 AktG and made it accessible to shareholders.

(26) Publication

On March 31, 2005 the Company's Management Board will approved these consolidated financial statements to December 31, 2004 for publication.

Berlin, March 23, 2005
The Management Board

Uwe Ahrens
Vorstandsvorsitzender

Oliver Bielenstein
Vorstand

Bruke Seyoum Alemu
Vorstand

Auditor's Certification

We have audited the consolidated financial statements drawn up by *aap* Implantate Aktiengesellschaft, comprising balance sheet, profit and loss statement, statement of changes in equity, cash flow statement and notes, for the financial year from January 1, 2004 to December 31, 2004.

The drawing up and content of the financial statements is the responsibility of the management board of *aap* Implantate Aktiengesellschaft. Our task is to assess, on the basis of our audit, whether the consolidated financial statements accord with the International Financial Reporting Standards (IFRS).

We conducted our audit of the consolidated financial statements in accordance with German audit regulations and the principles of orderly accounting laid down by the Institute of German Certified Public Accountants (IDW), also taking into account the International Standards on Auditing (ISA). These state that the audit is to be planned and executed in such a way as to be able to judge with sufficient certainty whether the consolidated financial statements are free from material misstatements. In determining the audit activities, knowledge of the group's business activities and about its economic and legal environment is taken into account, as are expectations of possible errors. As part of the audit, evidence for the amounts stated and for information given in the consolidated financial statements is assessed on the basis of random checks.

The audit includes an evaluation of the accounting principles applied and of the fundamental estimates made by the management board, as well as forming an opinion of the overall picture presented in the consolidated financial statements. We are of the opinion that our audit forms a sufficiently sound basis for our judgment.

In our considered opinion, the consolidated financial statements in accordance with IFRS convey a picture of the group's asset, financial and earnings position and of payment flows during the financial year that accurately reflects the actual situation.

Our audit, which also covered the report on the situation of the company and the group drawn up by the management board for the financial year from January 1, 2004 to December 31, 2004, led to no objections. It is our conviction that the report on the situation of the company and the group, together with the other information in the consolidated financial statements, overall give an accurate idea of the group's situation and accurately describe the risks of future development.
We also certify that the consolidated financial statements and the report on the situation of the company and group for the financial year from January 1, 2004 to December 31, 2004 fulfill the prerequisites for the company to be exempted from drawing up consolidated financial statements and a report on the situation of the company and the group in accordance with German law.

Berlin, March 24, 2005

Dr. Röver & Partner KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Helmut Schuhmann
Auditor

Bettina Grothe
Auditor

Annual Financial Statement

of *aap* Implantate AG

Balance Sheet

ASSETS	Notes	31.12.2004	Previous year adjusted*	Previous year
		€	T€	T€
A. Fixed assets	**(4)**			
I. Intangible assets				
1. Industrial property rights and similar rights and values		499,886	1,466	868
2. Goodwill		1	0	0
		499,887	**1,466**	**868**
II. Tangible assets				
1. Land and buildings		500,541	508	507
2. Plant and machinery		1,241,561	1,441	1,440
3. Other fixtures and fittings tools and equipment		841,398	729	596
4. Prepayments made		0	0	0
		2,583,500	**2,678**	**2,543**
III. Financial assets	(5)			
1. Shares in affiliated companies		713,261	302	896
2. Loans to affiliated companies		5,362,550	2,539	2,731
3. Investments	(15)	206,813	207	207
4. Loans to companies in which an equity interest is held		30,000	0	0
5. Other loans		0	293	293
		6,312,624	**3,341**	**4,127**
B. Current assets				
I. Inventories	(6)			
1. Raw materials and supplies		647,823	623	623
2. Work in process		805,901	936	936
3. Finished goods and goods for resale		4,434,988	5,063	4,431
		5,888,712	**6,622**	**5,990**
II. Accounts receivable and other assets				
1. Accounts receivable		723,881	607	406
2. Due to affiliated companies	(5)	1,144,653	193	778
3. Due to companies in which an equity interest is held		145,229	0	0
4. Other assets		941,484	1,956	1,851
		2,955,247	**2,756**	**3,035**
III. Checks, cash on hand and on deposit with Deutsche Bundesbank, postal giro balances, in other banking accounts		1,140,778	78	77
C. Prepayments and accrued income	**(7)**	13,533	41	38
Total		**19,394,281**	**16,982**	**16,678**

T€ correspond to € 1,000

EQUITY AND LIABILITIES	Notes	31.12.2004	Previous year adjusted*	Previous year
		€	T€	T€
A. Capital stock	**(8)**			
I. Subscribed capital		14,608,587	4,870	4,870
II. Capital reserve		10,849,121	10,849	10,849
III. Revenue reserve				
1. Legal reserve		41,704	42	42
2. Other revenue reserves		218,890	219	219
		260,594	**261**	**261**
IV. Balance sheet loss for the year		-10,703,469	-13,387	-12,114
		15,014,833	**2,593**	**3,866**
B. Special item for investment grants toward fixed assets		72,905	257	257
C. Provisions				
1. Provisions for taxation		85,350	24	0
2. Other provisions	(9)	800,070	1,798	1,717
		885,420	**1,822**	**1,717**
D. Liabilities	**(10)**			
1. Due to banks		963,873	7,835	7,380
2. Advances from customers		75,000	148	148
3. Accounts payable		943,381	1,823	1,245
4. Due to affiliated companies		5,487	35	215
5. Due to companies in which an equity interest is held		202,088	10	10
6. Other liabilities thereof taxes: € 102,765 (previous year: T€ 64) Thereof social security: € 97,187 (previous year: T€ 101)		1,231,294	2,459	1,840
		3,421,123	**12,310**	**10,838**
Total		**19,394,281**	**16,982**	**16,678**

*The adjusted figures for the previous year incorporate figures for Mebio Medizinische Biomaterialien Vertriebs GmbH and Corimed Kundenorientierte Medizinprodukte GmbH.

Liabilities arising from contingencies € 0 (previous year: € 1,305,817)

Thereof due to affiliated companies € 0 (previous year: € 450,000)

T€ correspond to € 1,000

Income Statement

	Notes	1.1.-31.12.2004	Previous year adjusted*	Previous year
		€	T€	T€
1. Sales revenues	(11)	10,281,216	10,107	5,485
2. Decrease in finished goods inventories and work in process		-71,543	-239	-239
3. Capitalized cost of self-constructed assets		713,930	392	392
4. Total operating performance		**10,923,603**	**10,260**	**5,638**
5. Other operating income		1,907,977	444	731
6. Cost of materials				
a) Cost of raw materials, consumables and supplies and of purchased materials		-4,211,808	-4,180	-1,137
b) Cost of purchased services		-99,748	-103	-103
		-4,311,556	**-4,283**	**-1,240**
7. Personnel expenses	(13)			
a) Wages and salaries		-2,933,458	-2,726	-2,368
b) Social security and other pension costs		-550,555	-508	-448
		-3,484,013	**-3,234**	**-2,816**
8. Depreciations				
a) of intangible fixed assets of fixed and tangible assets and capitalized start-up and business expansion expenses - thereof extraordinary depreciation as per § 253 (2) S.3 HGB € 777,164		-957,691	-1,535	-1,389
b) of current assets to the extent that it exceeds normal company depreciation		-88,090	-853	-853
9. Other operating expenses	(11)	-4,775,491	-4,876	-4,302
10. Investment income		142,222	144	187
11. Other interest and similar income - thereof from affiliated companies: € 113,300 (previous year: € 0)		127,363	77	28
12. Amortization of financial assets and investments classified as current assets		-294,322	-84	-84
13. Other interest and similar expenses		-381,092	-787	-681
14. Result of ordinary business activities		**-1,191,090**	**-4,727**	**-4,781**
15. Extraordinary income		5,464,143	0	0
16. Extraordinary expenses		-2,680,715	-3,327[1]	-2,023
17. Extraordinary result		**2,783,428**	**-3,327**	**-2,023**
18. Taxes on income		-62,706	-23	0
19. Other taxes		-1,199	-1	-1
20. Net income/loss for the year		**1,528,433**	**-8,078**	**-6,805**
21. Loss carryover		-12,231,902	-5,309	-5,309
22. Balance sheet loss		**-10,703,469**	**-13,387**	**-12,114**

*The adjusted figures for the previous year incorporate figures for Mebio Medizinische Biomaterialien Vertriebs GmbH and Corimed Kundenorientierte Medizinprodukte GmbH.

[1] including, for reasons of comparability, a € 1.273 million fictitious merger loss.

T€ correspond to € 1,000

I. Notes to the Financial Statements

(1) General information

The financial statements to December 31, 2004 are drawn up in conformity with German Commercial Code (Handelsgesetzbuch, HGB) regulations.

General regulations §§ 238 to 263 for all traders and supplementary regulations for large corporations according to §§ 264 ff have been observed.

The consolidated profit and loss statement is drawn up using the total costs method.

The profit and loss statement is laid out in conformity with §§ 266 and 275 HGB.

(2) Merger

Under an agreement dated August 24, 2004 and with the approval of the shareholders' meeting of MEBIO Medizinische Biomaterialien Vertriebs GmbH held on the same day, it was resolved to merge MEBIO Medizinische Biomaterialien Vertriebs GmbH (Darmstadt district court, Commercial Register page 32556, previously Corimed Kundenorientierte Medizinprodukte GmbH) with *aap* Implantate AG with effect from January 1, 2004. As of January 1, 2004, the business activities of MEBIO Medizinische Biomaterialien Vertriebs GmbH were conducted on *aap* Implantate AG's account. There was no capital increase under § 54 sub-section 1 clause 1 item 1 of the German Conversion Act (Umwandlungsgesetz, UmwG).

The assets of MEBIO Medizinische Biomaterialien Vertriebs GmbH were transferred to *aap* Implantate AG as a whole along with all rights and duties without quid pro quo. No special rights or advantages were accorded.

The merger was recorded in the Commercial Register of both companies on October 5, 2004.

On the basis of a merger agreement dated February 2, 2004 and approval by meetings of shareholders of the two companies on the same day, MEBIO Medizinische Biomaterialien Vertriebs GmbH (Dieburg district court, Commercial Register page 32602) was merged as a whole into Corimed Kundenorientierte Medizinprodukte GmbH (Darmstadt district court, Commercial Register page 32556) by transfer of assets and dissolved but not wound up.

The merger was recorded in the Commercial Register for both companies on March 2, 2004.

Both mergers were effected in accordance with § 24 UmwG at book values on the basis of the Corimed Kundenorientierte Medizinprodukte GmbH balance sheet on December 31, 2003 and the MEBIO Medizinische Biomaterialien Vertriebs GmbH balance sheet on June 30, 2003 as the closing balance sheets. The difference between the book values of the assets and debts taken over and the book value of the merged holdings resulted in a merger loss that is shown separately in the profit and loss statement.

To ensure comparability, both the *aap* Implantate AG figures to December 31, 2003 and the figures to December 31, 2003 adjusted to include the figures for MEBIO Medizinische Biomaterialien Vertriebs GmbH and Corimed Kundenorientierte Medizinprodukte GmbH to December 31, 2003 are reported as previous-year figures. No capital consolidation was undertaken for this purpose. No set-off effects were taken into account.

(3) Accounting and valuation methods

Intangible assets acquired for a consideration are reported at cost of acquisition and depreciated according to schedule. Permanent reductions in value are taken account of by way of extraordinary write-downs.

Tangible fixed assets are valued at cost of acquisition or production and, where depreciable, taking into account scheduled depreciation.

Capitalized goods and services for own account were valued at cost of production. The extent of production costs corresponds to the amount reported for finished products.

Movable assets are depreciated in a straight line over the shortest useful life permitted under tax regulations. Assets with an acquisition cost of less than € 410 are depreciated fully in the year of accession (§ 6 sub-section 2 German Income Tax Act [Einkommensteuergesetz, EStG]).

Disposals are charged off at acquisition cost less accrued depreciation at the time of retirement.

Shares in associated companies and **participating interests** are reported at acquisition cost or at the lower values attributable to them. **Lendings** subject to interest are reported in the balance sheet at nominal value.

Inventories are valued at cost of acquisition or production or at the value attributable on the balance-sheet date. **Raw materials and supplies** were valued at cost prices, observing the strict principle of the lower of cost or market in accordance with § 253 sub-section 3 of the German Commercial Code (Handelsgesetzbuch, HGB).

Unfinished and finished products were valued at cost of production. This includes individual costs that are required to be capitalized under § 255 sub-section 2 clause 2 HGB and appropriation proportion of necessary material and production overheads in accordance with § 255 sub-section 2 clause 3 HGB and of any wear and tear that is occasioned by production. General administrative costs are included in production costs in accordance with § 255 sub-section 2 clause 4 HGB. Interest on loan capital is not taken into account.

In order to follow the principle of the lower of cost of market as required by § 253 sub-section 3 HGB, write-downs were undertaken to reflect limited usability.

Receivables and other assets are valued at face value or at the lower value on the reporting date in accordance with § 253 sub-section 3 clause 2 HGB. Interest-free receivables with a term of more than one year are reported at cash value. The general credit risk is taken account of by a flat-rate deduction of 3% from all receivables for which no individual adjustments have been made.

Investment allowances are carried as liabilities under the heading **special investment allowance items**. They are written down in a straight line, with the resulting effect on earnings, in accordance with the useful economic life of the assets they helped to acquire.

Stock options granted to employees and management were reported in accordance with the position paper of the German Standardization Council (DSR) both as personnel expenses and as a transfer to capital reserves as per § 272 sub-section 2 item 2 HGB.

Transfer to capital reserves was undertaken over a performance period corresponding to the contractually agreed lock-up period of two years. Stock options issued were valued at the time of issue on the basis of the Black/Scholes option pricing model.

In creating **provisions**, appropriate account was taken of recognizable risks and reported liabilities. They are set at the value that prudent commercial judgment deems necessary.

Liabilities are reported at the repayment amount.

Liabilities were translated into foreign currency at the repayment exchange rate when the liability was incurred or at the higher buying rate on the balance sheet date.

Contingent liabilities are possible or existing commitments based on past events that are not likely to involve an outflow of funds. They are not recorded in the balance sheet. The volume of commitment stated in respect of contingent liabilities is in line with the extent of liability on the balance sheet date.

II. Notes to the Balance Sheet and the Profit and Loss Statement

(4) Expenses for expanding business operations and fixed assets

For movements in fixed assets in 2004, see the schedule of fixed assets.

(5) Financial assets

The shares in CORIPHARM Medizinprodukte GmbH & Co. KG, CORIPHARM Medizinprodukte Verwaltungs-GmbH, CORIMED Kundenorientierte Medizinprodukte GmbH, OSARTIS GmbH & Co. KG and OSARTIS Verwaltungs-GmbH transferred to the Company on October 1, 2000 were reported at the nominal value of the registered shares in *aap* Implantate AG to be issued to the transferring parties plus the cash payment made. Acquisition costs were reduced because of a contractual entitlement to purchase price reductions due to breaches of warranty. The reporting company incurred subsequent acquisition costs of € 411,000 in the financial year 2004 as a result of waiving amounts receivable from CORIPHARM Medizinprodukte GmbH & Co. KG.
The participating interest in Corimed Kundenorientierte Medizinprodukte GmbH is no longer reported in the year under review due to the merger of this company (cf Note 2).

(6) Current assets

Inventories were depreciated by €103,000 and € 256,000 in the year under review to reflect reduced marketability.

Accounts receivable from associated companies include receivables arising from day-to-day business.

Other assets includes a breach of warranty claim amounting to € 548,000 against the contributing partners of the shares in CORIPHARM Medizinprodukte GmbH & Co. KG, CORIPHARM Medizinprodukte Verwaltungs-GmbH and CORIMED Kundenorientierte Medizinprodukte GmbH.

(7) Accruals and deferrals

Discounts totaling € 2,000 are shown.

(8) Equity

The Company's **capital stock** on December 31, 2004 was € 14,608,587.00. It was divided into 14,608,587 individual bearer shares.

By resolution of the Annual Meeting of Shareholders held on July 19, 2004 the Company's capital stock was increased by € 9,739,058.00, from € 4,869,529.00 to € 14,608,587.00. This capital increase against cash deposits was effected by issuing 9,739,058 new bearer shares, each with an arithmetical share of € 1.00 in capital stock. The new shares were offered to Company shareholders for subscription in a ratio of 1:2 by way of direct subscription rights. The issue price was € 1.00 per share. The capital increase was recorded in the commercial register on August 13, 2004.

The statutory reserve totaled € 41,703.95 at the end of the financial year and, together with capital reserve, exceeded one tenth of capital stock.

Conditional capital

The Annual Meeting of Shareholders held on May 29, 2001 approved a conditional increase of up to € 96,000.00 in capital stock by the issue of up to 96,000 individual bearer shares. New shares are entitled to share in profit from the start of the financial year during which they were issued. The conditional capital is solely for the purpose of awarding stock options to employees and management of the Company or of an associated company, as follows:

2001
- 17.1% to board members and senior executives of the company and of associated companies
- 25% to senior executives
- 57.9% to employees of the company and of associated companies

Stock options are granted in accordance with the relevant provisions of the 2001 stock option plan.

On the basis of the resolution adopted by the Annual Meeting of Shareholders held on June 30, 2000 on a conditional capital increase, a maximum of 380,000 stock options could be issued within a period of four years and six months from the date of entry in the commercial register (July 12, 2000). The 256,727 stock option agreements concluded within the framework of the 2000 stock option plan have now lapsed (four-year term from December 1, 2000). No further stock options were issued.

Stock options

	2000 Tranche
Number originally issued	256,727
Status as at 31.12.2003	178,748
Number lapsed in 2004	178,748
Status as at 31.12.2004	0

Stock subscription price: roughly € 15

Authorized capital

The Management Board is authorized, subject to approval by the Supervisory Board, to increase the company's equity by March 31, 2005 on one or more occasions by up to € 2,380,000.00 against deposits in cash or kind and to specify the terms and conditions on which shares are issued.

This may include ruling out subscription rights for existing shareholders,

a) to offset residual amounts,
b) to issue shares to employees of the company,
c) to acquire participating interests in enterprises or of enterprises or parts of enterprises in return for company stock,
d) if a capital increase in cash does not exceed 10% of the equity capital and the issue price for the shares is not substantially lower than their market price,
e) to meet the costs of raising capital and paying for services,
f) to issue shares for reorganization purposes.

Please see the schedule of equity.

(9) Provisions

Please see the schedule of provisions for movements in other provisions during the financial year.

(10) Liabilities

Please see the schedule of liabilities for the times to maturity of liabilities, broken down by balance-sheet heading.

(11) Sales revenues

Sales revenues are apportioned to geographically defined markets as follows:

	2004	2003
	T€	T€
Germany	8,570	4,115
European Union	775	460
Other countries	1,123	1,025
Sales deductions	-187	-115
	10,281	**5,485**

(12) Depreciation of current assets

Depreciation of current assets in excess of the depreciation customary in the Company relates to accounts receivables from *aap* Implants, Inc. (€ 88,000).

(13) Breakdown of personnel by group:

	2004	2003
	T€	T€
Average number of employees:	93	80
of which Blue-collar workers	46	49
Salaried employees	47	31
Full-time	87	70
Part-time	6	7
Casual	0	3
	93	**80**
Administration	27	15
Sales	19	13
Production	44	49
Development	3	3
	93	**80**

(14) Extraordinary result

In May/June 2004, the Company concluded agreements with a group of financial investors and previously involved banks on the early repayment of debts totaling roughly € 10.7 million owed to banks by *aap* Implantate AG and its subsidiaries CORIPHARM GmbH & Co. KG and MEBIO Medizinische Biomaterialien Vertriebs GmbH. These involved redemption at a reduced figure of roughly € 5 million and release of securities pledged. The investors had undertaken to guarantee a € 8 million equity injection to increase capital. These agreements were implemented at the end of August 2004.

Other settlements were agreed with dormant partners and contributing shareholders in the MEBIO/CORIPHARM group of companies. In this connection, the reporting company also agreed not to assert its own claims.

Overall, these release agreements have the following effects on results:

	T€
Extraordinary earnings	5,464
Extraordinary expenses	-16
Result of debt repayment waivers	**5,448**

The reorganization concept and the Company's strategic realignment, which involves focusing especially on core competences, made adjustments to balance sheet figures necessary that led to extraordinary write-downs totaling € 1,509,000 in the year under review. Of these write-downs, € 778,000 relates to rights and licenses and € 640,000 to inventories.

In addition, expenses of € 92,000 were incurred as a result of cessation our own business activity in the United States.

The merger of MEBIO Medizinische Biomaterialien Vertriebs GmbH and Corimed Kundenorientierte Medizinprodukte GmbH into the reporting company resulted in extraordinary expenditure totaling €1,155,000 (cf Note 2).

III. Other information

(15) Participating interests

I. Allied enterprises (§ 271 sub-section 2 HGB)

Name	Domicile	Holding	Equity	Result
		%	T€	T€
1. CORIPHARM Medizinprodukte Verwaltungs- GmbH	Dieburg	100	35	2
2. CORIPHARM Medizinprodukte GmbH & Co. KG	Dieburg	100	-5,048	-1,108

aap Implants, Inc., USA was dissolved and closed down in the year under review.

II. Associated enterprises

Name	Domicile	Holding	Equity	Result
		%	T€	T€
3. OSARTIS GmbH & Co. KG	Obernburg	49	-1,418	-229
4. OSARTIS Verwaltungs GmbH	Obernburg	49	-	-
5. GEOT Gesellschaft für Elektro-Osteo-Therapie mbH	München	30	-358	-8

This information relates to managerial analyses as at December 31, 2004.

III. Participating interests

Name	Domicile	Holding	Equity	Result
		%	T€	T€
6. HJS Gelenk-System GmbH	München	11.9	-	-
7. Cybernetic Vision AG Health Monitoring Technologies	Berlin	5.96	-	-

On December 1, 2000, insolvency proceedings were initiated in respect of the assets of Cybernetic Vision AG.

(16) Other financial commitments

Other financial commitments as defined by § 285 No. 3 HGB arise from rental agreements totaling € 826,000, of which € 376,00 falls due within one year, while the remaining € 429,000 is payable within two to five years and € 21,000 in more than five years.

Leasing agreements give rise to other financial commitments totaling € 436,000, of which € 2,056,000 is payable in 2005 and € 230,000 in 2006 to 2008.

By contractual agreement, the purchase price for the holding in GEOT Gesellschaft für Elektro-Osteotherapie mbH will rise from € 184,000 by 15% of the sum by which the enterprise value of the company on December 31, 2002 and December 31, 2004 exceeds the valuation of € 614,000 on which the purchase price was based. The purchase price is limited to a maximum of € 675,000. As yet, the enterprise value has not been ascertained. A pending financial liability of between € 0 and € 491,000 therefore exists that results from the acquisition of this participation.

(17) Management Board, Supervisory Board

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

Mr. Uwe Ahrens, Dipl.-Ing., Berlin,
Mr. Bruke Seyoum Alemu, Dipl.-Ing., Berlin,
Mr. Oliver Bielenstein, Lic. Oec., Berlin (from May 27, 2004)

Management remuneration totaled € 380,407.74.

The Company took out D&O insurance for the management. Premiums in 2004 totaled € 27,960.00.
A total of 78,182 stock options awarded to Management Board members lapsed without compensation in the year under review.

Members of the **Management Board** hold the following supervisory board directorships and advisory board memberships:

Mr. Uwe Ahrens:
bmp AG Venture Capital & Network Management, Berlin
STM Medizintechnik GmbH
(Advisory Board member until April 21, 2004)
HJS Gelenk-System GmbH
(Advisory Board member until June 1, 2004)

The members of the company's **Supervisory Board** in the year under review were:

Mr. Lothar Just,
accountant and tax adviser, Berlin
(Chairman)
Mr. Klaus Kosakowski,
Dipl. Volkswirt, Berlin (Vice-Chairman)
Mr. Dieter Borrmann, Dipl. Ingenieur, Berlin
Dr. Friedrich-Leopold Freiherr von Stechow,
businessman, Berlin
Prof. Dr. Heinz Helge Schauwecker,
senior medical consultant and university lecturer, Berlin
Prof. Prof. Dr. Dr. med. Reinhard Schnettler,
university professor, Giessen

The Supervisory Board members were elected for the full term of office under the company's articles of association until the end of the General Meeting that resolves to discharge them for fiscal 2003. The Annual Meeting of Shareholders held on July 19, 2004 resolved to discharge the Supervisory Board.

Since then, the Board has consisted of the following members:

Mr. Jürgen W. Krebs,
economist, Kilchberg near Zürich,
Switzerland(Chairman)
Mr. Rubino Di Girolamo,
economist, Oberägeri near Zug, Switzerland
(Deputy Chairman)
Prof. Dr. Dr. med. Reinhard Schnettler, university professor, Gießen

These Supervisory Board members were elected for the full term of office under the Company's articles of association, until the end of the Annual Meeting of Shareholders that resolves to discharge the Board for the financial year 2007. Dr. Wolfgang Hohensee, attorney, Frankfurt am Main, was elected as deputy to all three members.

Supervisory Board remuneration in the financial year totaled € 47,000. Disbursements totaling € 21,000 were made and the sum of € 5,000 was offset.

Members of the Supervisory Board hold the following Supervisory Board directorships in addition to their work on behalf of *aap* Implantate AG

Mr. Jürgen W. Krebs
Merval Holding AG
Chairman, Board of Directors
Mr. Rubino Di Girolamo
Deepblue Holding AG
President, Board of Directors
Gnothis SA (bis 30.09.04)
President, Board of Directors
M2 Capital AG
President, Board of Directorst

The (former) members of the Supervisory Board and the Management Board hold the following shares:

	Shares		Options	
Supervisory Board	**2004**	**2003**	**2004**	**2003**
Jürgen W. Krebs	2,800,000	0	0	0
Rubino Di Girolamo	1,230,000	0	0	0
Prof. Dr. Dr. Reinhard Schnettler	68,094	28,094	0	0
Lothar Just	0	0	0	0
Klaus Kosakowski	3,000	3,000	0	0
Dr. Heinz Helge Schauwecker	0	0	0	0
Dieter Borrmann	0	0	0	0
Prof. Dr. Friedrich-Leopold Freiherr v. Stechow	0	0	0	0
Prof. Dr. Dr. h. c. Horst Cotta	10,000	10,000	0	0
Management Board				
Uwe Ahrens	1,358,436	1,358,436	0	44,676
Oliver Bielenstein	469,889	0	0	0
Bruke Seyoum Alemu	26,520	11,520	0	33,506

(18) Statement on the German Corporate Governance Code

The Company has issued a statement of conformity with the German Corporate Governance Code as prescribed by § 161 of the German Stock Corporation Act (Aktiengesetz, AktG) and made it accessible to shareholders.

Berlin, March 23, 2004
The Management Board

Uwe Ahrens
Chairman of the Board

Oliver Bielenstein
Member of the Board

Bruke Seyoum Alemu
Member of the Board

Development of Capital Stock

	Subscribed capital	Capital reserve	Revenue Reserves Legal	Revenue Reserves Other	Balance sheet loss	Total
	€	€	€	€	€	€
As at 01.01.2003	4,764,265	10,754,385	41,704	218,890	-5,308,811	10,470,433
Capital increase	105,264	-	-	-	-	105,264
Shareholder contribution as per § 272 Par. 2 No. 2 HGB	-	94,736	-	-	-	94,736
Net loss for the year	-	-	-	-	-6,805,240	-6,805,240
As at 31.12.2003/01.01.2004	4,869,529	10,849,121	41,704	218,890	-12,114,051	3,865,193
Loss carryover resulting from merger	-	-	-	-	-117,851	-117,851
Capital increase	9,739,058	-	-	-	-	9,739,058
Net income for the year	-	-	-	-	1,528,433	1,528,433
As at 31.12.2004	**14,608,587**	**10,849,121**	**41,704**	**218,890**	**-10,703,469**	**15,014,833**

Conditional capital: € 96,000 (previous year: € 476,000)

T€ corresponds to € 1.000

Schedule of Provisions

	As at 01.01.2004	Additions due to merger	Take-up	Retransfer	Transfer	As at 31.12.2004
	€	€	€	€	€	€
Commitments to employees	102,000	14,350	98,902	6,768	138,300	148,980
Bonuses and commission	51,000	0	50,520	480	40,100	40,100
Unpaid invoices	248,790	30,800	104,535	77,365	194,660	292,350
Financial statements and audit	100,000	12,500	107,641	2,479	111,760	114,140
Warranties	0	23,700	0	0	800	24,500
Provision for impending losses	200,000	0	0	200,000	0	0
Litigation risks and costs	765,000	0	0	765,000	10,000	10,000
Contingent liabilities	0	0	0	0	170,000	170,000
Share listing	250,000	0	0	250,000	0	0
	1,716,790	**81,350**	**361,598**	**1,302,092**	**665,620**	**800,070**

Schedule of Fixed Asset Movements

HISTORICAL COSTS

	AS AT 01.01.2004	ADDITIONS RESULTING FROM MERGER	DISPOSALS RESULTING FROM MERGER	ADDITIONS	DISPOSALS	AS AT 31.12.2004
	€	€	€	€	€	€
A. Start-up and business expansion expenses	639,085	0	0	0	0	639,085
B. Fixed assets						
I. Intangible assets						
1. Industrial property rights and similar rights and values	2,521,931	958,656	0	43,536	3,711	3,520,412
2. Goodwill	51,130	0	0	0	0	51,130
	2,573,061	**958,656**	**0**	**43,536**	**3,711**	**3,571,542**
II. Tangible assets						
1. Land and buildings	863,707	9,338	0	0	0	873,046
2. Plant and machinery	5,716,758	3,541	0	222,688	0	5,942,987
3. Other fixtures and fittings, tools and equipment	2,004,905	462,832	0	769,127	414,372	2,822,492
	8,585,370	**475,711**	**0**	**991,815**	**414,372**	**9,638,525**
III. Financial assets						
1. Shares in affiliated companies	895,967	0	-593,638	410,932	0	713,261
2. Loans to affiliated companies	2,730,722	617,978	-809,202	2,823,052	0	5,362,550
3. Investments	290,878	0	0	0	0	290,878
4. Loans to companies in which an equity interest is held	0	0	0	30,000	0	30,000
5. Other loans	293,363	0	0	959	0	294,322
	4,210,930	**617,978**	**-1,402,840**	**3,264,943**	**0**	**6,691,011**
TOTAL	**16,008,446**	**2,052,345**	**-1,402,840**	**4,300,294**	**418,083**	**20,540,163**

	ACCUMULATED DEPRECIATION						BOOK VALUES	
	AS AT 01.01.2004	ADDITIONS RESULTING FROM MERGER	DISPOSALS RESULTING FROM MERGER	EXTRAORDINARY DEPRECIATION	DISPOSALS	AS AT 31.12.2004	AS AT 31.12.2004	AS AT 31.12.2003
	€	€	€	€	€	€	€	€
	639,085	0	0	0	0	639,085	0	0
	1,654,333	360,324	232,414	777,164	3,709	3,020,526	499,886	867,597
	51,130	0	0	0	0	51,130	1	1
	1,705,463	**360,324**	**232,414**	**777,164**	**3,709**	**3,071,656**	**499,887**	**867,598**
	356,355	9,043	7,106	0	0	372,505	500,541	507,352
	4,276,519	2,951	421,956	0	0	4,701,426	1,241,561	1,440,238
	1,409,013	329,594	296,215	0	53,728	1,981,094	841,398	595,892
	6,041,887	**341,588**	**725,277**	**0**	**53,728**	**7,055,025**	**2,583,500**	**2,543,482**
	0	0	0	0	0	0	713,261	895,967
	0	0	0	0	0	0	5,362,550	2,730,722
	84,065	0	0	0	0	84,065	206,813	206,813
	0	0	0	0	0	0	30,000	0
	0	0	294,322	0	0	294,322	0	293,363
	84,065	**0**	**294,322**	**0**	**0**	**378,387**	**6,312,624**	**4,126,865**
	8,470,500	**701,912**	**1,252,013**	**777,164**	**57,437**	**11,144,153**	**9,396,011**	**7,537,945**

Schedule of Liabilities

	31.12.2004 Total	Due within up to 1 year	1-5 years	more than 5 years	Previous Year	Previous Year adjusted
	€	€	€	€	T€	T€
Due to banks	963,873	826,255	92,880	44,738	7,380	7,835
Advances from customers	75,000	75,000	0	0	148	148
Accounts payable	943,381	943,381	0	0	1,245	1,823
Due to affiliated companies	5,487	5,487	0	0	215	35
thereof accounts payable	(5,487)	(5,487)	0	0	(215)	(35)
Due to companies in which an equity interest is held	202,088	202,088	0	0	10	10
Other liabilities	1,231,294	1,156,339	74,956	0	1,840	2,459
Thereof leasing	(68,884)	(65,409)	(3,475)	(0)	(290)	(290)
taxes	(102,765)	(102,765)	(0)	(0)	(64)	(64)
social security	(97,187)	(97,187)	(0)	(0)	(101)	(101)
	3,421,123	**3,208,550**	**167,836**	**44,738**	**10,838**	**12,310**

Liabilities due to banks are secured to € 800,000 (previous year: € 0)
by pledging of a fixed deposit account.

Auditor's Certification

We have audited the financial statements including the accounting and the report on the situation of the *aap* Implantate Aktiengesellschaft company and group for the financial year January 1, 2004 to December 31, 2004. Accounting and drawing up the financial statements and the report on the situation of the *aap* Implantate Aktiengesellschaft company and group according to the provisions of German commercial law is the responsibility of the company's legal representatives. Our task is to pass judgment, on the basis of our audit, on the financial statements including the accounting and the report on the situation of the *aap* Implantate Aktiengesellschaft company and group.

We carried out our audit of the financial statements drawn up in accordance with § 317 HGB observing the German principles of proper auditing laid down by the Institute of Auditors (IDW). These state that the audit is to be planned and executed in such a way as to be able to identify with a sufficient degree of certainty inaccuracies and infringements that have a material effect on the picture of the assets, financial and earnings position conveyed by the financial statements, taking into account the principles of proper accounting and the situation report for the *aap* Implantate Aktiengesellschaft company and group. In determining the audit activities, knowledge of the company's business activities and economic and legal environment are taken into account, as are expectations of possible errors.

As part of the audit, the effectiveness of the accounting-related internal audit system and evidence for the information given in the accounts, the financial statements and the report on the situation of the *aap* Implantate Aktiengesellschaft company and group are assessed mainly on the basis of random checks.

The audit includes an assessment of the accounting principles applied and of the fundamental estimates made by the legal representatives as well as forming an opinion of the overall picture presented in the financial statements and the report on the situation of the *aap* Implantate Aktiengesellschaft company and group. We are of the opinion that our audit forms a sufficiently sound basis for our judgment.

Our audit resulted in no objections.

We are convinced that the financial statements in compliance with the principles of proper accounting convey a picture of the company's assets, financial and earnings position that is in accordance with the actual circumstances. Overall, the report on the situation of the *aap* company and group conveys an accurate idea of the company's situation and accurately describes the risks of future development.

Berlin, March 23, 2005

Dr. Röver & Partner KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Helmut Schuhmann
Auditorr

Bettina Grothe
Auditor

Results adjusted to DVFA/SG according to IFRS

	1.1.-31.12.2004	1.1.-31.12.2003
	T€	T€
1. Net loss/income for the year	-140	-15,422
2. Adjustments according to DVFA/SG	-422	11,236
3. Consolidated DVFA/SG result	-562	-4,186
4. Payable to third parties	0	6
5. Consolidated DVFA/SG result for *aap* Implantate AG stockholders	-562	-4,180
	€	€
Consolidated DVFA/SG earnings per share for *aap* Implantate AG stockholders	-0.07	-3.20

T€ corresponds to € 1.000

Cash Earnings adjusted to DVFA/SG according to IFRS

	1.1.-31.12.2004	1.1.-31.12.2003
	T€	T€
1. Net loss/income for the year	-140	-15,422
2. Depreciations on fixed assets	1,519	3,510
3. Depreciation on special item for investment allowances	-124	-152
4. Adjustments according to DVFA/SG	-422	11,236
5. Consolidated DVFA/SG cash earnings	833	-828
6. Payable to third parties	0	6
7. DVFA/SG cash earnings for *aap* Implantate AG stockholders	**833**	**-822**
	€	€
DVFA/SG cash earnings per share for *aap* Implantate AG stockholders	0.10	-0.17

T€ corresponds to € 1.000

Report by the Supervisory Board for the Financial Year 2004

For *aap* Implantate AG the focus of financial year 2004 was on ensuring the company's continued existence, resolving its debt situation, changing its capital structure and expanding its company organization.

The € 9.7 million capital increase secured in August 2004 enabled the company to reduce its debt burden drastically and to ensure its continued operating existence.

Due to changes in shareholder structure, changes took place on both the Management and the Supervisory Board. The Annual General Meeting of shareholders held on July 19, 2004 elected Rubino Di Girolamo and Jürgen Krebs as new members of the Supervisory Board. Of its previous six members only Prof. Dr. Dr. Reinhard Schnettler remained on what was now a three-member board. At the first meeting of the new Supervisory Board after the AGM, Mr. Krebs was elected as chairman and Mr. Di Girolamo as vice-chairman. The Supervisory Board would like to thank its former members Lothar Just, Klaus Kosakowski, Dr. Heinz Helge Schauwecker, Dieter Borrmann and Prof. Dr. Friedrich-Leopold Freiherr von Stechow for their commitment and hard work in the company's interest.

In the period under review the Supervisory Board met on four occasions prior to the July 19, 2004 AGM. All members of the board attended at least half the meetings. After the AGM a further five meetings of the Supervisory Board were held in financial year 2004. Only at one of these meetings was a member unable to attend. Outside of these meetings the Management Board reported regularly to the new Supervisory Board chairman and the new vice-chairman, who at many Management Board meetings and in one-to-one talks provided advice and support on important company and group matters. Prof. Dr. Dr. Schnettler here deserves special thanks for his support and his contribution in terms of medical technology know-how.

The Supervisory Board performed its statutory duties and duties laid down in the articles of incorporation, closely following the running of the group by the Management Board. It was briefed regularly and fully by the Management Board orally and in writing on the economic and financial position, the group's development and, above all, on matters of operating activities and their implementation and further development, and on all other important business transactions. The Supervisory Board discussed this information intensively with the Management Board and made the decisions required of it by law and by the articles of incorporation.

The Supervisory Board that held office until the 2004 AGM outlined comprehensively the main focus of its activity in its report for the financial year 2003. It dealt especially with the group's tight liquidity situation, measures initiated and implemented to improve the situation and management planning for 2004 submitted by the Management Board. Deviations from earlier plans and targets were explained it in detail by the Management Board.

In the second half of 2004 the focus was on advice with regard to the structure of a new sales organization, resolving many legal disputes, hiring new personnel for the company organization, prioritizing product development and further development, integrating IT in Berlin and Dieburg and improving integration of the two locations. The improvement in integration was reflected by the new corporate design and the *aap* • mebio brand. Strategic and operational enterprise plans were drawn up and redefined in workshops. In August a revised budget was drawn up and nearly kept to by the year's end. Oliver Bielenstein, the new CFO since May 28, 2004, was also appointed as the new managing director at the Dieburg location.

Auditors and tax accountants Dr. Röver & Partner KG, Berlin, audited the financial statements for the financial year 2004 drawn up by the Management Board, the management report and the consolidated financial statement, with its discharging effect as per § 292a of the German commercial code (HGB), including the consolidated management report, and gave them their unqualified certification. The annual financial statement and management report, consolidated financial statement and consolidated management report and the auditor's reports were submitted to the Supervisory Board. They were discussed in detail. The auditor who signed the auditor's report attended the Supervisory Board's discussion of the documents submitted, reported to the Supervisory Board on the fundamental audit findings and was on hand to answer questions.

The Supervisory Board reviewed the annual financial statement and management report and the consolidated financial statement and consolidated management report. The findings of its review did not lead to objections being raised. The Supervisory Board endorsed the financial statement for the year ending December 31, 2004, which is thereby approved.

The Supervisory Board would like to thank all employees, including those who have left the company, and members of the Management Board for their work in the year under review, and their families for the understanding shown for what, at times, was a high workload handled by their partners.

We would also like to take this opportunity of thanking our customers, suppliers and banks for their confidence and accommodation, plus a special thank you to new and former members of the Advisory Board for their hard work.

We face further challenges in 2005 but look forward to them optimistically and are convinced that the measures undertaken so far are a step in the right direction.

Berlin, March 30, 2005

The Supervisory Board

Legal Note

This Annual Report contains forward-looking statements. They include forecasts on products, sales and company earnings, *aap* • mebio plans for the financial year 2005 as regards research and development activities and the expansion of sales, and expectations relating to the reaching of certain milestones in the development of new products. These statements are based on estimates by the management, on assumptions made by *aap* • mebio, and on information currently available to the Company. A number of factors that the Company cannot reliably foresee could cause actual results, including the financial position, sales and earnings of *aap* • mebio, to diverge substantially from those assumed expressly or implicitly in the statements.

Forward-looking statements are only valid on the date they are made. The Company neither intends nor undertakes to update forward-looking statements or to adjust them to future events or developments.

Lorenzweg 5 • 12099 Berlin
Germany

Fon +49 30 75019-0
Fax +49 30 75019-222

customer.service@*aap*.de
www.*aap*.de

Errors and omissions excepted.

Design and Composing:
deSIGN graphic - Wolfram Passlack

aap **Implantate AG**
Lorenzweg 5 • 12099 Berlin
Germany

Fon +49 30 75019-0
Fax +49 30 75019-222

customer.service@*aap*.de
www.*aap*.de

Subsidiary Dieburg
Lagerstraße 11-15 • 64807 Dieburg
Germany

Fon +49 6071 929-0
Fax +49 6071 929-100

info@mebio.de

CORIPHARM
Medizinprodukte GmbH & Co KG
Lagerstraße 11-15 • 64807 Dieburg
Germany

Fon +49 6071 929-0
Fax +49 6071 929-100

info@coripharm.de
www.coripharm.de

OSARTIS
GmbH & Co. KG
Industrie Center Obernburg
63784 Obernburg
Germany

Fon +49 6022 812002
Fax +49 6022 812004

info@osartis.de
www.osartis.de