Consolidated Annual Financial Statement 2006

Content

Key Figures Overview of the *aap* Group of Companies

SELECTED PROFIT AND LOSS STATEMENT DATA		
	1.1.-12.31.2006	**1.1.-12.31.2005**
Sales	€18,454K	€13,367K
Total Output	€20,184K	€15,634K
Net Profit	€1,594K	€655K
Operating Income	€2,226K	€860K
EBITDA	€3,864K	€2,326K
EBIT	€2,224K	€855K
EBT	€2,130K	€1,076K
EBIT margin	12.1%	6.4%
EBT margin	11.5%	8.0%
DVFA/SG Earnings	€1,594K	€655K
DVFA/SG Earnings per Share	€0.09	€0.04
DVFA/SG Cash Earnings	€3,108K	€2,153K
DVFA/SG Cash Earnings per Share	€0.18	€0.14
SELECTED BALANCE SHEET DATA		
	12.31.2006	**12.31.2005**
Long-term Assets	€15,206K	€14,134K
Thereof deferred taxes	€1,965K	€2,376K
Short-term Assets	€12,766K	€10,947K
Total Assets	€27,972K	€25,081K
Shareholder's Equity	€21,603K	€19,366K
Thereof minority interest	€54K	€4K
Non-current Liabilities	€1,965K	€1,308K
Current Liabilities	€4,404K	€4,407K
Equity Ratio	77%	77%
Employees	161	139

Foreword by the Board of Management

Ladies and Gentlemen,

Dear Shareholders,

Dear Employees and Business Partners,

The *aap* Group can look back on a successful year. With the sales growth in the Biomaterials segment *aap* was able to boost overall sales revenue by 38% to €18.5 million and to more than double its profits.

The conversion of the Group into a biomaterials enterprise in the medical sector, a fast-growing segment within our core areas orthopedics, trauma, spine and dental, is making great strides. In financial year 2006 biomaterials already accounted for two thirds of the Company's sales revenue.

On February 15, 2007 the Extraordinary General Meeting of *aap* shareholders approved a capital increase for the takeover of the Dutch biomaterials group Fame Medical. With this merger *aap* has positioned itself as one of Europe's leading specialists in orthopedic and dental biomaterials with outstanding growth prospects. Both companies are innovation-oriented and concentrate on B2B relations. Our focus is on development, approval and production and on the groundwork for clinical marketing. Distribution is via large industrial partners with worldwide business operations or a growing network of regional distribution partners.

In 2006 *aap* Biomaterials reached key milestones in addition to taking over the Fame Medical Group. The transfer of direct German sales in the Biomaterials segment to Biomet Deutschland marked a further focus on our core activities. Osartis and ADC, the companies acquired in 2005, were integrated successfully and today make a significant contribution toward our total economic performance with innovative products and a high level of development activity. A number of new products in the fields of innovative bone cements for orthopedic and spinal column applications, collagen technology, antibiotics carriers and bone graft substitution have been submitted for approval in Europe and now, for the first time, in the United States too. For several products *aap* has laid the foundations for new partnerships with orthopedics companies that are active in business around the world. The international network of distribution partners was extended decisively, inter alia by securing new distribution partners in Korea, Russia, India, Italy and Latin America. The results of these activities should make their presence felt in the course of 2007.

Substantial progress has also been made in the Company's second division, Trauma and Joint Reconstruction (T/O), although they have yet to have any monetary effect. By completing the modern hip program and developing a new basic technology for innovative plates in the trauma segment *aap* is ready to launch a variety of new products in financial year 2007 that in addition to kick-starting new international distribution partnership should contribute toward double-digit growth. The renewed approval of the trauma program in the United States also opens up further international growth potential for *aap*.

In November 2006 *aap* announced that in the financial year 2007 growth was only likely to be generated in the second half, whereas the first half might prove slightly down on the year (without Fame Group consolidation). After high growth rates in Biomaterials in 2006, leading to initial orders that cannot be repeated in this form, the *aap* Group aims in the full year 2007 to at least reach the previous year's level. By consolidating the Fame Group *aap* anticipates for 2007 sales in excess of €30 million and double-digit EBIT growth.

In connection with the takeover of the Fame Group the Extraordinary General Meeting held in February 2007 approved changes on *aap* Implantate AG's Supervisory Board. From the Fame environment two new members were elected to the Supervisory Board. They are Mr. Marcel Boekhoorn and Mr. Biense Visser. At the same time previous members Dr. Walter Meyer and Dr. Wolfgang Hohensee stepped down, and we would like to take this opportunity to thank them most cordially for their work.

We owe the successful realignment of *aap* in 2006, which is reflected in the good result, first and foremost to a team of more than 150 motivated employees in Berlin, Obernburg and Dieburg.

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

Oliver Bielenstein

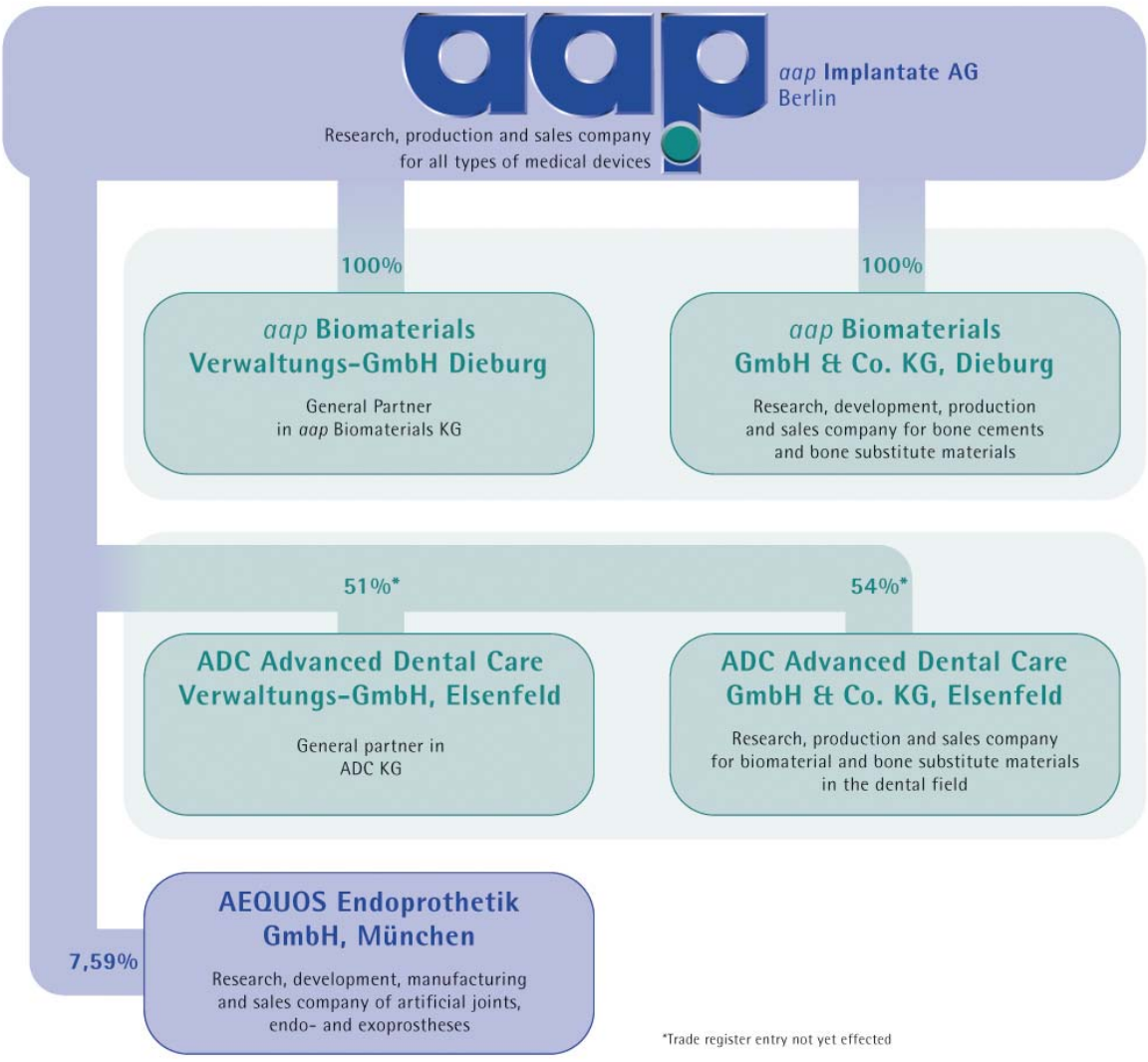
Bruke Seyoum Alemu

aap Implantate AG Company and Group Management Report 2006

In this report on the state of the Group, use will be made of the terms *aap*, *aap* Group, Group or group of companies. Remarks on *aap* Implantate AG results will be described as such.

A) General Terms and Framework Conditions

1. Organizational and Legal Structure



aap Implantate AG is the *aap* Group's parent company. Within the Group there are currently three operative companies: *aap* Implantate AG, *aap* Biomaterials GmbH & Co. KG (previously Coripharm GmbH & Co. KG and Osartis GmbH & Co. KG), and ADC GmbH & Co. KG.

The holding structure originally planned, with a superordinate management holding company for the entire Group, was not implemented in financial year 2006 because of the takeover talks with the Fame Medical Group, but we still intend to go ahead with it.

Subsidiaries

aap Biomaterials GmbH & Co. KG

As of January 1, 2006, aap Implantate AG subsidiary Coripharm GmbH & Co. KG, Dieburg, was renamed aap Biomaterials GmbH & Co. KG. This company combines all of the Group's bone cement and biomaterials activities. At the same time the employees and trading activities of Mebio GmbH, which was previously merged with aap Implantate AG, were transferred to aap Biomaterials. Osartis GmbH & Co. KG was struck off the commercial register as planned on May 22, 2006 and its assets were transferred to aap Biomaterials so that aap Biomaterials now owns the outstanding development and production know-how and the product rights to the innovative bone graft material Ostim® in the trauma, orthopedic and spinal colum areas.

ADC Advanced Dental Care GmbH & Co. KG

aap Implantate AG owns a 54% majority shareholding in ADC, a development aid distribution company that holds the product rights for Ostim® in the dental sector.

Strategic Investments

AEQUOS Endoprothetik GmbH

aap Implantate AG owns a 7.59% shareholding in AEQUOS Endoprothetik GmbH. AEQUOS owns and markets the innovative AEQUOS® knee system partly developed and manufactured by aap Implantate.

Neue Magnetodyn GmbH

aap Implantate AG's 7.12% stake in Neue Magnetodyn GmbH was sold on November 9, 2006 with effect from January 1, 2006.

2. Segments

aap has two business segments, Trauma/Joint Reconstruction (*aap* T/O) und Biomaterials (*aap* Biomaterials). Last financial year the Management Board went over to managing the Group by segments. That is why the end of the financial year 2006 sees the first segment report. This being its first year, the outline will not include comparative figures for 2005.

3. The Most Important Products and Business Processes

Activities in trauma segment focused on the market launch of the new stable-angle plate system and its ongoing extension for small and large fragment treatment.

aap exhibited its product range at the most important international trade fairs, the Arab Health in Dubai and the AAOS in Chicago. Nationally *aap* was represented, as it is every year, at the German Congress for Orthopedic and Accident Surgery and at Medica 2006.

aap has three production locations in Germany. They are in Berlin, Dieburg and Obernburg. In Berlin *aap* Implantate AG manufactures osteosynthesis products, endoprosthetics and instruments for the Trauma/Joint Reconstruction segment. Dieburg is the central production location for bone cements, and biomaterials are produced in Obernburg and Dieburg.

In 2006 *aap* invested €748K in enlarging its bone cement production in Dieburg. Once the investment program is completed, *aap* will have one of the world's most up-to-date and highest-capacity production locations for this niche market.

By shortening the set-up times in production in Berlin, further developments of various products can be integrated into production without impairing the ability to deliver.

To ensure that it retains a long-term production capability *aap* Implantate AG continues to train skilled workers of its own.

4. Material Sales Markets and Competitive Positions

By transferring biomaterials and bone cement distribution in Germany to Biomet Deutschland, *aap* has entirely withdrawn from direct sales in Germany and now sells biometric products only to distributing companies under its own and third-party brand names. This distribution orientation is worldwide. In the nice markets where it operates, *aap* Biomaterials is one of the leading European providers and is expanding its position worldwide. In the years ahead it will increasingly focus on the U.S. market once it has secure FDA approvals for the product portfolio.

While international distribution activities at *aap* T/O have concentrated on Europe and the Middle East, in Germany the focus of distribution continues to be on purchasing and hospital groups.

In the fourth quarter of 2006 the trauma and joint reconstruction product portfolio gained approval in Turkey.

5. Fundamental Legal and Economic Influencing Factors

In most of the world's markets official registration and approval is a precondition for marketing medical devices. Given that *aap* products are intended in principle for worldwide marketing, the quality management system is based on harmonized international standards and European regulations. That being so, the *aap* Group is audited regularly and certificated accordingly so that its products can carry and be marketed with the CE mark.

All companies in the Group are certificated to DIN EN ISO 13485, the standard that is relevant for manufacturers of medical devices, and to the EU directive 93/42/EEC. *aap* Implantate AG is also certificated voluntarily to EN ISO 9001:2000 and has a validated environmental management system. In the course of its business activity all of the relevant environmental protection regulations are observed. Neither *aap* production nor *aap* products pose a direct or indirect threat to the environment.

aap Implantate AG has been reaudited by the FDA and was able to resume the distribution of trauma products in the United States in the third quarter of 2006.

6. Research and Development Activities

Group of Companies

aap invested heavily in research and development in financial year 2006, and 16% of its employees (25 employees) are assigned to R&D. *aap* invests around 9% of its revenue in developing new products.

aap has a fourfold R&D focus in line with its product portfolio:

- Osteosynthesis

- Endoprosthetics
- Bone cements and cementing techniques
- Biomaterials (synthetic bone graft substitutes, collagen technology, antibiotics combinations)

As a matter of principle all products are developed in close collaboration with medical users, and frequently on their initiative. Given that the *aap* product pipeline is subject to close observation by the competition, the following comments can only be general in character.

aap Implantate AG – Trauma/Joint Reconstruction

Along with expanding the trauma product range in the stable-angle plate system area, development in Trauma/Joint Reconstruction concentrated mainly on rounding off the VarioFit® family hip program with the new VarioFit Classic® and VarioCup® products and on revising the Mebio knee.

A genuine innovation in this field is the stable-angle sliding whole technology that can be applied to other plate systems too.

Biomaterials

The focal points of development work at *aap* in 2006 were new bone cements, cements for spinal column applications, new synthetic bone graft substitution materials (calcium-phosphate cements), fleeces and membranes based on collagen technology and carrier materials for antibiotics.

7. Overall Economic and Industry-Specific Framework Conditions

Share and Stock Market

aap Implantate AG Share Price Development

The positive *aap* Implantate AG share price development in 2006 compared with the previous year reflects the Company's success. Accompanied by marked price fluctuations but with a definitely

positive tendency the share price progressed in financial year 2006. From a low-water mark of €1.76 on January 2, 2006 the share reached its highest price for the year – €2.96 – on May 9, 2006. Although the Group's business continued to develop most positively, the share price failed to keep pace with this trend and averaged a little over €2.40 in the first quarter of 2007.

Management Board Assessment of How Overall Economic/Industry-Specific Trends Have Affected the Course of Business

Medical technology is a growing industry due to demographic factors, but in view of cost pressure on the healthcare sector in all Western countries there is significant price pressure on all providers. *aap* countervails this price pressure by focusing on innovative market niches where product functionality is the main consideration.

The submarkets for orthopedic, trauma and spinal column products and for dental implants are growing at a rate of between 5% and 15% per annum. *aap* intends in the long term to grow at a rate significantly higher than that of the industry average.

While *aap* T/O is one of the leading trauma providers in Germany (fifth or sixth place), it is internationally insignificant. *aap* Biomaterials is one of the leading European manufacturers of bone cement and bone graft substitution materials. In terms of production volume, *aap* is one of the world's Top Three bone cement manufacturers

By focusing on B2B business, *aap* Biomaterials is able to grow with its market partners without needing to invest heavily in marketing and distribution. Thanks to its partnership with leading orthopedic industry companies such as Biomet, Smith & Nephew and Heraeus, this strategy is paying dividends.

B) Earnings, Finance and Asset Situation

1. Restructuring and Rationalization Measures

Handover of Distribution in Germany and Austria to Biomet

As of November 1, 2006, *aap* transferred direct distribution of biomaterials in Austria and Germany to Biomet Deutschland GmbH. At the same time, distribution of the Biomet bone cement family that *aap* sold as a sub-distributor was returned in full to Biomet Deutschland. With this move *aap* is relying consistently on its strategy of focusing on B2B partnerships in biomaterials. In view of greater market access and Biomet's high level of professionality in biomaterials, *aap* anticipates a fall in sales in the product segments affected in 2007, but a significant improvement in margins in the years ahead.

Successful Integration of Osartis and ADC

Osartis and ADC, the companies that *aap* acquired in October 2005, were successfully integrated into *aap* Biomaterials. While the assets of Osartis were merged into the *aap* Biomaterials segment, ADC continues to exist as a separate and independent sales company.

2. Company Acquisitions or Disposals

Acquisition of the Fame Medical Group

As of December 11, 2006 *aap* and the Dutch Fame Medical Group signed a Business Combination Agreement regulating the details of the takeover of Fame by *aap*.

aap took over by means of a shares-only transaction a group of four operating companies with a total of 110 employees. They were EMCM (European Medical Contract Manufacturing), Bactimm Analytics, TPI (Tissue Processing International) and FMP (Fame Medical Products). *aap*'s Biomaterials division, which already accounts for around 66% of the *aap* Group's total sales, and the Fame companies to a very large extent do business in the same segments (bone cements, bone graft substitution materials, tissue regeneration), but have a complementary product range. By linking the two groups of companies that have collaborated successfully for several years, *aap* is positioning itself with a wider customer base and an extensive product pipeline in the fast-growing market for dental and orthopedic biomaterials as a leading European provider.

The Extraordinary General Meeting held on February 15, 2007 approved a €8,448,999 capital increase to €25,347,156. The commercial register entry is likely to be delayed due to objections raised and the resulting legal action. The new shares lay the ground for the takeover the Dutch Fame Medical Group.

3. Signing or Ending of Cooperation Agreements and Other Important Contracts

ADC and Heraeus Kulzer Sign Distribution Agreement

ADC Advanced Dental Care, an *aap* Implantate AG subsidiary, signed in March 2006 a long-term distribution contract with Heraeus Kulzer GmbH on world distribution of the *aap* bone graft substitution material Ostim® in the dental sector. Heraeus Kulzer, a Heraeus Group company, is a leading European provider of dental products.

Ostim® is a nanotechnology-based synthetic resorbable bone graft substitution material in which the nanostructure, speed of revascularization and quality of bone transformation very largely correspond to the quality of natural bone. This agreement, which expands existing cooperation substantially, also provides for an Ostim® market launch in the dental sector in the United States. The requisite FDA approval has already been granted. The minimum sales volume envisaged by ADC from the cooperation will, after a one-year introductory phase, be over €1 million per annum and ought to increase further in the years ahead.

In October 2005 *aap* Implantate AG acquired a 54% stake in ADC.

4. Material Changes in Legal or Economic Framework Conditions

In 2006 there were no material changes in legal and economic framework conditions.

5. Changes in Market and Competitive Conditions

In 2006 there were no material change in market and competitive conditions, but medical technology does business in a global market that is subject to strong consolidation pressure and a high density of regulations, and these two trends are gaining steadily in strength.

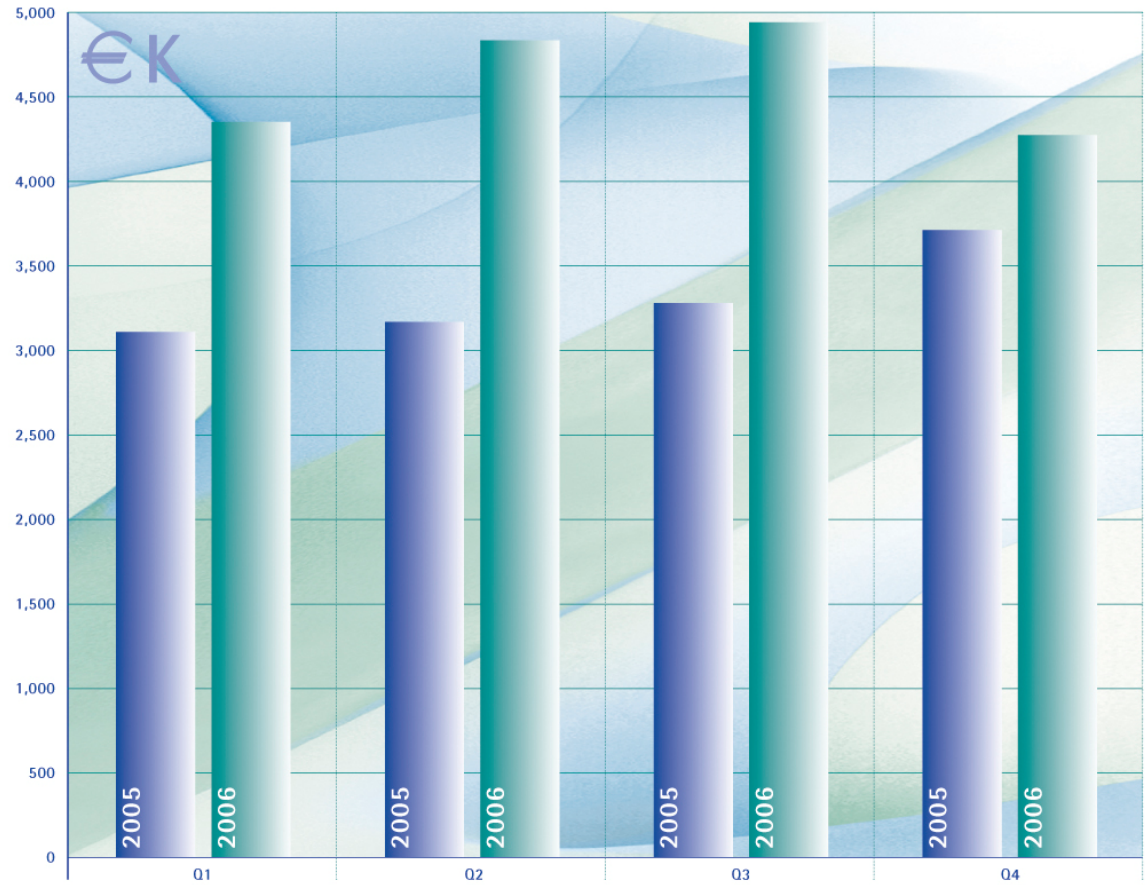
Earnings Position

1. Outline of Results Development/Structure

Earnings Position at Group Level

In financial year 2006 *aap* sales grew by 38% on the year from €13.367 million to €18.454 million. Most of this sales growth by the *aap* Group was due to a massive increase in business with large customers and distributors in the biomaterials segment. Along with large customers Biomet, Smith & Nephew and Heraeus, *aap* has a network of independent local distributors.

In all four quarters, *aap* reports sales growth, in the third quarter by as much as 47% year on year.



Sales 2005 vs. 2006 at Group Level by Quarters

Other operating income totaling €1.033 million (previous year: €1.473 million) consists mainly of proceeds from the disposal of the Magnetodyn GmbH shareholding (€267K) and a further €325K in reinstatement of the fair value of two development projects in the Biomaterials segment. Due to changes in market conditions the future project surpluses have increased significantly and the reasons for past write-downs no longer apply.

Due to the high level of internal value added at *aap* in the Trauma/Joint Reconstruction business segment, *aap* manufactures in-house a large number of the instruments and instrument kits for inserting implants and tools and devices for manufacturing the implants themselves. These expenses, totaling €1.799 million in the reporting period, are capitalized and will be depreciated over their expected useful life.

In keeping with IFRS, *aap* as a research-intensive company, also capitalizes **development costs** for development projects that are on the brink of completion or of market launch (2006: €1.257K, 2005: €865K). The increase on 2005 is a result of expansion of R&D activity in both divisions and a corresponding increase in development work.

aap was able to boost EBITDA by virtue of the positive sales trend from €2.326 million to €3.864 million, a year-on-year EBITDA margin growth from 17% in 2005 to 21% in 2006. EBIT also improved from €855K to €2.224 million.

The equity investment result was nil (previous year: €239K).

aap accordingly reported a €2,133 million profit on ordinary activities after €1.081 million the previous year.

Due to high loss carryovers, the €411K in taxes on income stated in the balance sheet did not lead to actual tax payments. Earnings after taxes were €1.594 million (previous year: €655K), and DVFA/SG earnings per share were €0.09 (previous year: €0.04).

Earnings Position at Individual Company Level

In keeping with the Group's structure, revenue will this year be shown in the Biomaterials segment that last year was allocated to *aap* Implantate AG. As a result, the line of argument at individual company level is based in sales and expenses on "as if" figures. In other words, the latest figures show figures for the previous year excluding Biomaterials revenue.

aap Implantate AG's "as if" sales revenue at €6.319 million shows a slight increase on the previous year.

The €539K of internally produced and capitalized assets consists of machine tools manufactured in-house along with instruments and products used permanently in distribution.

Other operating income rose to €1.530 million (previous year: €1.181 million) and includes both income from research and development subsidies and proceeds from the disposal of the Neue Magnetodyn GmbH shareholding.

As *aap* Implantate AG's financial statements still include various Group functions (distribution, administration, R&D, trade fairs, cost of premises), personnel expenses and other operating expenses increased further in the "as if" view. The Group view is the relevant one.

Group financing is handled by *aap* Implantate AG, which in 2004 also took on high debts incurred by *aap* Biomaterials. That is why *aap* Implantate AG earned correspondingly high interest income.

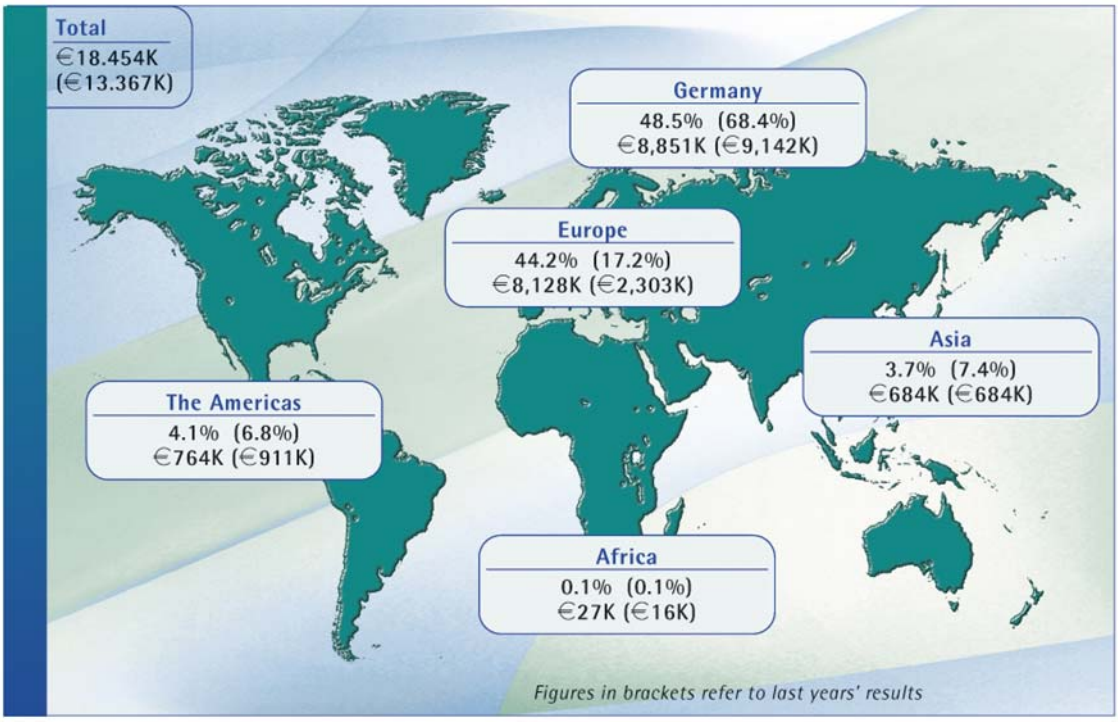
The result of *aap* Implantate AG's ordinary activity according to commercial law regulations was € minus 1.872 million (previous year "as if": € minus 1.017 million).

2. Analysis of the Most Significant Financial and Non-financial Performance Indicators

aap as an innovative growth company sees as its primary performance indicators sales growth on reaching a high level of self-financing, establishing long-term partnerships with leading orthopedic companies and developing new and innovative products. In all three areas *aap* achieved significant successes in 2006 that will lead in the long term to highly profitable double-digit growth rates.

3. Development of Revenue and Order Position

Sales Distribution of the aap Group



Sales 2006 at Group Level by Region

Group sales revenue improved by 38% on the year to €18.454 million (previous year: €13.367 million). Sales in Germany were down, mainly because aap had given up direct sales of biomaterials and bone cements.

The Trauma/Joint Reconstruction segment consists of fracture treatment products for all main areas of the skeleton and joint replacement for shoulders, hips and knees. In 2006 external sales in this segment totaled €6.239 million and were unchanged on the year. The focus in financial year 2006 was on development new trauma and endoprosthetics products and in securing new international distribution partners who are expected to boost sales revenue in 2007.

The mainstay of sales in the Trauma segment continues to be cannulated screws, while in the Orthopedics segment the extended VarioFit® hip family was responsible for the highest sales growth.

The **Biomaterials** segment with the product areas bone cements, infection care, and bone and tissue regeneration continued to develop successfully. In the Biomaterials segment *aap* achieved strong growth in 2006 and boosted sales revenue to €12.215 million. In these fast-growing niche markets *aap* is one of the world's technology leaders. Along with distribution via an international network of partners under its own label, *aap* is also successfully promoting OEM development and production with the aid of blue chip partners such as Smith & Nephew, Biomet and Heraeus. In 2007 *aap* will be able to extend this customer portfolio further.

By entrusting distribution in Germany and Austria to its new distribution partner Biomet Deutschland, *aap* is focusing consistently on a B2B strategy and concentrating on development, production, approvals and clinical marketing.

In financial year 2006 *aap* submitted a number of products for CE approval. They were the innovative Bonos® High Fatigue bone cement family, the vertebroplasty cement Bonos® Inject and the antibiotics carrier collagen fleeces Jason® G. *aap*'s most innovative bone graft substitution material, the nanoparticulate Ostim®, was submitted to the FDA for U.S. market approval.

In addition, a number of approvals were secured in countries with approval agencies of their own, such as Korea and Russia. On the basis of these approvals *aap* will launch these products in 2007.

By means of a brisk increase in international business, especially with OEM biomaterials customers, *aap* was able to further reduce its reliance on the German market.

aap Implantate AG's Sales Distribution

Of its €6.319 million in sales revenue, 74% was earned in Germany. In financial year 2006 *aap* Implantate AG earned most of its internationals sales in Europe (€873K), followed by Asia (€647K).

4. Material Changes in the Structure of Individual Income and Expense Items

Group Level

aap was able to reduce its cost of materials ratio by 15%. This trend will continue in 2007 as the Biomaterials segment's share of business continues to increase. Due to a significant improvement in sales mix, replacing low-margin retail sales by sales of internally produced products with a high added value level such as biomaterials, *aap* continues to anticipate a cost of materials ratio of less than 20%.

Personnel expenses continued to rise organically as planned and as a result of acquisitions from €5.423 million to €7.324 million. As a result of the increase in personnel numbers by 22 to 161 in nearly all operational areas (Distribution, Marketing, Development, Regulatory, Production), the current 36% personnel costs ratio will continue to rise slightly. In 2006 *aap* was able to recruit further industry experts for the Company and thereby boost the Group's performance capability.

As of December 31, 2006 the Group had 161 employees, including 144 full- and 17 part-time staff (previous year: 139, including 123 full- and 16 part-time employees).

The increase in other operating expenses from €4.633 million to €6.080 million was due mainly to higher development, analysis and approval costs and general expenses in connection with increase in business volume.

Depreciation of fixed assets was on a par with the previous year. In the years ahead *aap* anticipates a decline in relative depreciation levels but a slight increase in absolute terms.

Individual Level

The employee headcount at *aap* Implantate AG as of December 31, 2006 was 102, including 96 full- and 6 part-time employees (previous year: 103, including 96 full- and 7 part-timers).

The number of trainees at *aap* Implantate AG continues to be very high. Six percent of employees are production trainees.

Financial Position

Financial Position at Group Level

The *aap* Group's operating cash flow (before investment and financial activity) increased by €1.011 million to €1.729 million (previous year: €718K). The €1.392 million positive cash flow was due mainly to raising a €1.968 million long-term note loan accompanied by the repayment of €576K in short-term loans. €2.436 million in operating cash flow and cash flow from financing activity was invested, partly in expanding bone cement production, in internal development of new and innovative products and in expanding hip system production.

aap will not be paying a dividend for the foreseeable future because existing cash and cash equivalents are being invested in full in company development and expansion.

As of December 31, 2006 the Group's cash and cash equivalents totaled €2.069 million. In addition, *aap* had at its disposal a current account credit line amounting to €1.0 million of which no use had yet been made by the balance sheet date.

aap rates the liquidity situation as good. With the cash and cash equivalents in hand and existing lending commitments, financing is assured for the year ahead. *aap* expects to end the year 2007 with a positive cash flow.

Financial Position of aap *Implantate AG*

In spite of €1.871 million net loss for the year, *aap* Implantate AG enjoys adequate liquidity after calling in inter-company loans from subsidiaries.

Net Worth Position

Net Worth Position at Group Level

In view of the enormous increase in sales revenue, current assets, especially accounts receivable, have risen by €1.819 million to €12.766 million (previous year: €10.947 million).

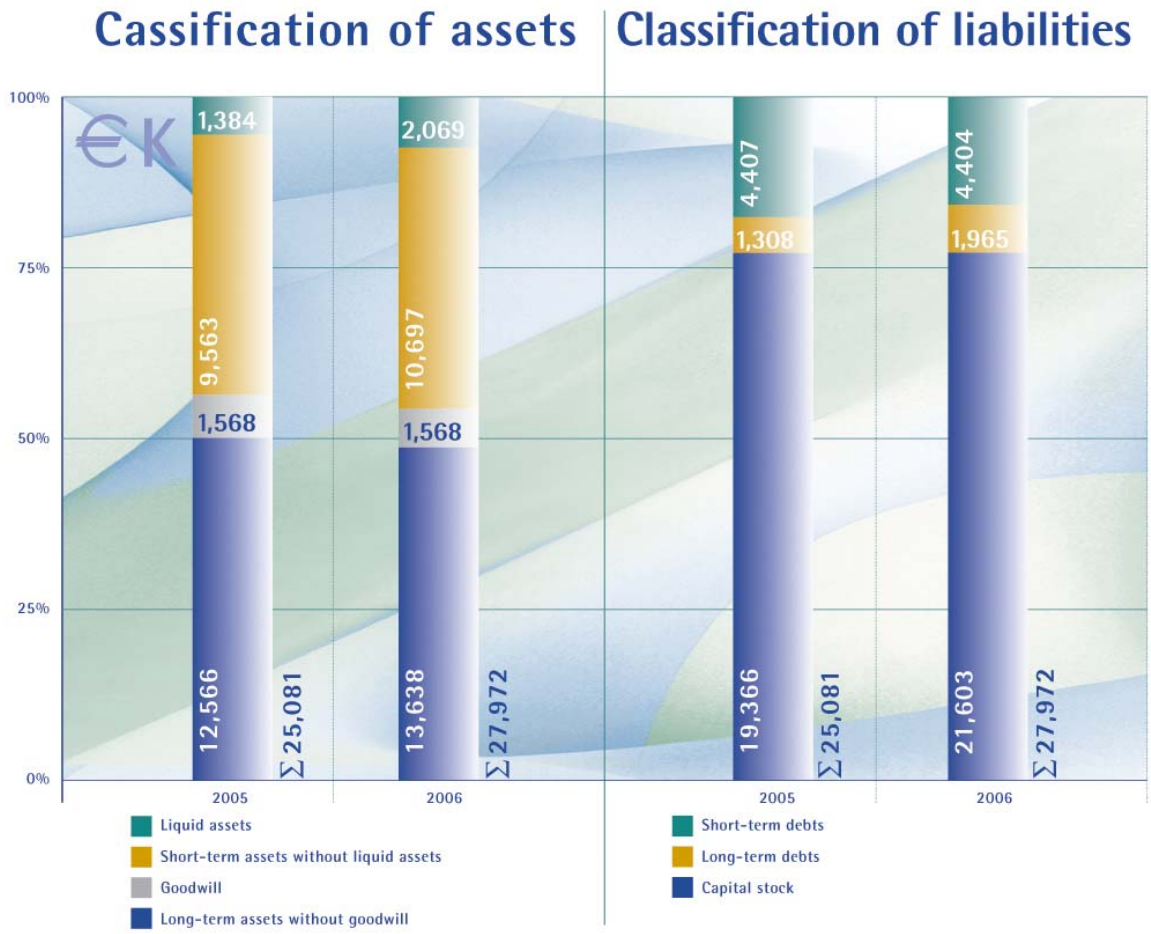
The increase in *aap*'s long-term assets is due to the capitalization of development work totaling €1.257 million and reinstatement of value (€325K) in respect of two development projects in the Biomaterials segment, taking into account €329K in write-downs and the purchase of machinery.

Major changes in the balance sheet picture are based on the raising of a long-term €2 million loan in September 2006 and the increase in current assets due to the growth in the volume of business.

The positive results trend has reduced the backlog of deferred taxes on the assets side.

In spite of organic and acquisition-related growth, the equity ratio remained 77% in 2006.

The development of key items in the consolidated balance sheet to December 31, 2006 compared with the previous year is summarized in the following charts.



Net Worth Position at aap Implantate AG

aap Implantate AG's balance sheet total of €21.385 million was almost unchanged on the year (previous year: €21.631 million). Fundamental changes in the structure of assets have occurred in accounts receivable and other asset items, which fell €830K. The reason was the reduction in loans to allied and associated companies. Conversely, accounts payable increased. Due to the loan repayment, cash and cash equivalents were down €778K on the previous year too.

Inventories at €6.066 million were down slightly on the previous year's €6.147 million. The inventory-sales ratio has declined to about one due to the marked sales decline. The relatively high value of inventories is due to a customary Trauma/Joint Reconstruction segment business model that requires a high level of consignment stock at hospitals.

aap Implantate AG's equity ratio fell slightly as a result of operating losses and borrowing from 80% in 2005 to 74% in 2006.

The €416K increase in provisions is substantially due to higher bonus entitlements on the part of customers and contract partners and to obligations toward employees. Liabilities increased by a total of €1.233 million on the year, due mainly to the raising of a non current note loan.

C) Supplementary Report

Extraordinary General Meeting

On February 15, 2007 *aap* held an extraordinary general meeting in Berlin. The agenda items were the 8,448,999-share capital increase to finance the acquisition of the Fame Medical Group and the appointment of two new Supervisory Board members (Marcel Boekhoorn and Binse Visser) from the ranks of Fame shareholders to take the place of Dr. Wolfgang Hohensee and Dr. Walter Meyer, who resigned to make way for them.

All agenda items were approved by over 99% of the votes cast. Entry of the capital increase into the commercial register will be delayed, however, because five shareholders in all have filed suits against the decisions made by the General Meeting.

D) Risk Report

The risk report is presented for the *aap* Group and for *aap* Implantate AG in equal measure.

1) Risk Management System

In its operative business the *aap* Group is naturally exposed to a large number of risks that are inseparably associated with entrepreneurial activity.

Risk management is an integral part of management at *aap* and is based on three basic components:

- Certificated Quality Management: Clearly structured and documented processes in quality management and quality control are a precondition for marketing medical devices. The aim is risk prevention. The quality assurance system in use at *aap* was certificated by DEKRA (*aap* Implantate AG), TÜV and LGA Bayern (*aap* Biomaterials GmbH & Co. KG).

- Controlling Instruments: Controlling at *aap* briefs the Management Board, Supervisory Board and decision makers in a regular and timely manner on the company's economic position and the status of potential risks by means of key figures and ratios.

- Risk Management System: To identify and assess risks and take suitable counter-measures, *aap* has developed a risk management system that is currently in the course of implementation. A key part of this system is regular recording, systematization and evaluation of possible risks, the likelihood that they will occur and the damage that they might cause. Full implementation in organizational processes in all divisions of the company is planned by 2007.

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

a) Market, Competition, New Products and Technologies

Competition in the market for medical technology in general and for orthopedic and biological implants in particular will continue to increase. That is why there is a fundamental risk of *aap* failing, in comparison with its competitors, to react in time to market trends with new products or adaptations to existing products. That could have negative repercussions on the company's asset, earnings and financial position and lead to deterioration of its market position.

aap faces up to this risk actively by investing heavily in research and development and by means of constant market and technology screening.

Government intervention in the healthcare system may also have a negative effect on the Group's sales volume and earnings position. *aap* counteracts this risk by continuous internationalization of sales and intensive observation of the German healthcare system with a view to anticipating negative developments and counteracting them.

The German hospital landscape that is *aap*'s main customer category is currently in a state of flux. On the customer side concentration is caused by mergers into hospital groups and buying groups, with decisions on purchasing being transferred from the physician to the procurement department.

aap is counteracting this trend actively by signing framework agreements with buying groups and by taking special care of hospital chains.

b) Product Approvals

Strict approval requirements apply in medical technology and healthcare, differing from country to country. Rejection or postponement of approval applications for the company's products such as the delay in FDA reapproval for the United States could have a negative effect on *aap*'s future sales and profits.

To identify such developments in good time and be able to react suitably to them, the company keeps a very close eye on developments in this area and monitors approval procedures in great detail as a part of the quality management system that it implements.

c) Dependence on Customers and Suppliers

aap buys in various products as commercial merchandise (11% of total sales). This partnership naturally involves a greater dependence on these suppliers' quality and readiness to deliver. *aap* takes precautions against this risk to the best of its availability by means of strategic cooperation with a few qualified suppliers.

In 2006 the company's three biggest customers accounted for 45% of *aap*'s sales revenues. OEM will continue to increase in the years ahead. If one of them were to cease to be a customer or to become insolvent, the Group's earnings and financial position could be endangered. In view of the size of these OEM partners we feel this risk is very slight. In addition, we will reduce our dependence on individual customers by gaining new large customers in the years ahead.

aap counteracts this risk by a careful and balanced choice of its major customers for stability and financial strength and by intensive customer relationship care.

d) Patents and Intellectual Property

aap is not aware of any material breaches of patents or other third-party industrial property rights. It cannot, however, be ruled out that third parties might at a future date claim damages from *aap* for breach of industrial property rights. A breach of this kind might delay the shipment of products. If it lost the case, *aap* might be required to pay fees or sign license agreements. In this way a suit filed against *aap* for breach of industrial property rights could have a lasting negative effect on the Group's asset, finance and earnings position.

e) Product Liability Risk

aap's products are determined for use in and, in some instances, permanent placement in the human body. Due to differences in healing properties and in the quality of the doctors that use them, a

malfunction of the products can never be ruled out entirely. No significant product liability claims have yet been made against *aap*, but they cannot be ruled out in the future.

aap takes precautions against possible product liability suits by a maximum of quality control and by taking out product liability insurance cover. There can, however, be no ruling out the possibility that the existing insurance cover might not be sufficient to meet potential claims, especially in the United States.

f) Legal Risks

No legal action against aap is currently in progress. We are, however, aware that suits have been filed to challenge the resolutions adopted by the Extraordinary General Meeting held on February 15, 2007.

3) Further Statements as per § 315 Para. 2 No. 2 of the German Commercial Code (HGB)

Risks posed by changes in price cannot be ruled out entirely. *aap* counters this risk by seeking to switch sales to higher-margin products that it develops and manufactures itself. Its success in doing so is reflected by the gross margin trend (70% in 2005 compared with 80% in 2006).

Active management of receivables minimizes risks arising from possible default on trade receivables. In addition, *aap* regularly makes sufficient risk provision for default. In all, however, the risk can be considered extremely slight. Losses of receivables totaled €28K in the reporting year.

The funding situation of the *aap* Group and *aap* Implantate AG can be deemed satisfactory. On the balance sheet date, December 31, 2006, cash and cash equivalents held totaled €2.069 million. In addition, the company has a €2.5 million overdraft facility. *aap* is subject to no major payment flow fluctuations.

aap does not take out foreign currency cover because the risk is minimal at present. In the future, however, hedging may be required if, for example, more business is denominated in US dollars.

E) Forecast Report

For *aap,* 2006 was an extremely successful year. With the advantage of initial business with new OEM customers in the Biomaterials segment and of organic growth with new and existing customers, enormous sales growth far in excess of market growth was achieved.

In 2007 we anticipate, in spite of the positive consolidation effects of the Fame acquisition, a slight fall in first-half sales due in part to the transfer of direct sales of biomaterials and bone cements in Germany to Biomet and to the postponement of OEM orders until the second half.

We expect, however, that *aap* will achieve sales growth in the full year 2007 too, but mainly in the second half of the financial year with growth generated by existing customers, new products and new industrial partners in biomaterials who have opted for *aap* products and significant sales growth in the T/O segment.

In the course of financial year 2007 *aap* will be launching in both segments, Biomaterials and Trauma/Joint Reconstruction, various new products and product families that will achieve sustained medium-term growth.

Our clear focus in 2007 is on successful integration of the Fame Medical Group and the further development of *aap* into a leading European developer and manufacturer of medical biomaterials. That

will require further investment in research and development, and competence in clinical trials, approvals and product management.

We further anticipate a significant improvement in the revenue and earnings situation in the Trauma/Joint Reconstruction segment from projects launched in 2006 with large international customers and from new hip endoprosthetics and plate osteosynthesis products.

The merger with the Fame Medical Group will enable *aap* to gain, in addition to the critical size required in medical technology, a substantially higher degree of professionalization in production, analytics and approvals competence for biomaterials. The technologies that Fame has contributed (hydrogels, elastomers and tissue processing) will, along with the products and customer relationships, expand the *aap* Biomaterials portfolio into a leading position in Europe and also contribute toward the projected average 20% organic growth.

In the medium term, from 2008, *aap* expects sales growth of more than 15% that should increase further as a result of future acquisitions.

F. Other Information

1. Basics of the Remuneration System (Remuneration Report)

Management Board Remuneration

The remuneration of Management Board members and the structure of the Board are laid down by the Supervisory Board. The aim is to compensate Management Board members in a way that is commensurate with their activity and responsibility and to take into consideration their personal achievement and the Company's economic position, success and future prospects. Directors' contracts have a term until December 31, 2008. Their total cash remuneration consists of a fixed and a variable, performance-related component, the variable component being limited to a ceiling equivalent to the fixed salary component. The variable salary component is based on the revised IFRS EBIT of the segment for which the director in question is responsible. In addition, the remuneration of Management Board members includes remuneration in kind, especially the value of the use of a company car as laid down by German tax regulations and employer's liability insurance premiums. Management Board members are also entitled to a total of 490,000 options from *aap* Implantate AG's 2006 stock option plan. Their allocation is tied to the publication of individual quarterly results.

See Note 6, below, for the consequences of takeover bids for Management Board remuneration.

If *aap* acquires or is merged with another company that accounts for more than 50% of segment revenue, the director in charge of the segment will be granted a further 75,000 options in compensation for the effort and expense involved. These stock options will be granted in accordance with the provisions of the resolution adopted by the Annual General Meeting in 2005.

Management Board remuneration in the financial year 2006 was as follows:

	Remuneration components in € K			
	Fixed	Performance-related	Long-term incentive	Total
Bruke Seyoum Alemu	143	20	6	169
Oliver Bielenstein	145	124	7	276
	288	144	13	445

Remuneration paid to former Management Board members:

	Remuneration components in € K			
	Fixed	Performance-related	Long-term incentive	Total
Uwe Ahrens	164	0	0	164

Supervisory Board Remuneration

Supervisory Board members receive in addition to their expenses a payment of €1,250 each per meeting. The Chairman receives twice that amount, his deputy one and a half times that sum.

Stock Option Program

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

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

- 65% to members of the *aap* Management Board and of the managements of associated companies
- 35% to employees of the Company and of associated companies.

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

The exercise price to be paid per share is based on the average closing price of the *aap* Implantate AG share in XETRA trading (or a comparable successor system) on the Frankfurt stock exchange on the ten trading days prior to the issue date and at least the lowest issue price as per § 9 para. 1 AktG, or no less than each share's €1.00 share of the Company's capital stock.

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

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

2. *Restrictions on Voting Rights and Share Transfers*

The Management Board is aware that a number of investors who were involved in the capital increase in kind of 2004 have joined forces in a pool. Its aim is to coordinate voting at the General Meeting. Restraints on disposal were not agreed. As of December 31, 2006 the pool held more than 50% of *aap* shares.

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

To the best of our knowledge the following direct and indirect holdings of more than 10% (€16,898,157) of *aap* Implantate AG share capital were held as of December 31, 2006:

Jürgen Krebs (Supervisory Board Chairman): 18.2%

4. *Regulations on Amendments to the Articles of Incorporations and the Appointment and Dismissal of Management Board Members*

The Supervisory Board is authorized to make amendments to the Articles of Incorporation that relate only to its wording.

Appointments and dismissals of Management Board members are made by the Supervisory Board, which also determines the number of Management Board members.

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

The Management Board was authorized by the General Meeting held on June 10, 2005 to increase the company's capital stock until June 10, 2010 subject to approval by the Supervisory Board. A subscription right for shareholders can be ruled out. After partial utilization the approved capital now amounts to €5,460,143.

6. *Compensation Arrangements with Management Board Members or Employees in the Event of Takeover Bids*

If there is a takeover bid for the Company, the Management Board may be granted any stock options that have not yet been issued.

If a person or a company or several persons or companies acting in concert as defined by the German Securities Acquisition and Takeover Act (WpÜG) should acquire more than 50% of the Company's share capital, the Management Board members shall be entitled to a bonus corresponding to the product of the number of stock options to which they are entitled according to 5 (above) but which have not yet been allocated at the time of publication of the takeover bid and the difference between the price per share offered in the takeover bid and the weighted average closing XETRA share price on the previous 20 trading days at the Frankfurt stock exchange prior to publication of the takeover bid announcement.

Berlin, March 27, 2007

The Management Board

Oliver Bielenstein Bruke Seyoum Alemu

Consolidated
Annual Financial Statement

Consolidated Income Statement according to IFRS for the Period January 1 to December 31, 2006

		Notes	2006		2005
1.	Sales revenues	(1)		18,454	13,367
2.	Increase in finished goods inventories and work in process			-69	883
3.	Capitalized cost of self-constructed assets			1,799	1,384
4.	Other operating income	(2)		1,033	1,473
5.	Cost of materials				
	a) Cost of raw materials, consumables and supplies, and of purchased materials		-3,661		-4,327
	b) Cost of purchased services		-361		-393
				-4,022	-4,720
6.	Personnel expenses	(3)			
	a) Wages and salaries		-6,206		-4,620
	b) Social security and other pension costs		-1,118		-803
				-7,324	-5,423
7.	Depreciation of intangible fixed assets and tangible assets	(4)		-1,565	-1,471
8.	Other operating expenses	(5), (7)		-6,080	-4,633
9.	Investment Income	(6)		0	239
10.	Other interest and similar income	(6)		10	39
11.	Other interest and similar expenses	(6)		-103	-57
12.	*Results from ordinary activities*			*2,133*	*1,081*
13.	Taxes on income	(8)		-537	-421
14.	Other taxes			-2	-5
15.	*Net profit/loss*			*1,594*	*655*
16.	Share of interest held by parties outside the Group			-54	-4
17.	Loss carryover from previous year			-23,276	-23,927
18.	Consolidated balance sheet loss			-21,736	-23,276

All figures in € K

Consolidated Balance Sheet according to IFRS at December 31, 2006

Assets			Notes	2006		2005
A.		Long-term Assets	(11)			
	I.	Intangible Assets				
		1. Concessions, industrial property rights and similar rights and values, and licenses thereto		1,369		1,478
		2. Goodwill		1,568		1,568
		3. Capitalized services rendered for own account		5,790		4,539
		4. Prepayments made		7		0
					8,734	7,585
	II.	Tangible Assets				
		1. Land and leasehold rights and buildings, including buildings on third-party land		684		781
		2. Plant and machinery		1,511		1,737
		3. Other fixtures and fittings, tools and equipment		1,479		1,258
		4. Prepayments made and construction in progress		290		9
					3,964	3,785
	III.	Financial Assets	(18)			
		1. Other Investments	(21), (23)	356		388
		2. Other Loans		0		0
		3. Prepayments made	(C.2)	187		0
					543	388
	IV.	Deferred Taxes	(12)		1.965	2,376
B.		Short-term Assets				
	I.	Inventories	(13)			
		1. Raw materials and supplies		1,477		1,077
		2. Work in progress		1,698		1,196
		3. Finished goods and goods for resale		3,995		4,652
					7,170	6,925
	II.	Accounts receivable and other Assets	(14), (18)			
		1. Accounts receivable (trade debtors)		2,444		1,524
		2. Due from undertakings with which the company is linked by virtue participating interests		56		168
		3. Other assets		1,027		946
					3,527	2,638
	III.	Checks, Cash in Hand and on Deposit with Deutsche Bundesbank, Postal Giro Balances, Cash in other Banking Accounts			2,069	1,384
					27,972	25,081

Liabilities and Shareholders' Equity			Notes	2006		2005
A.		Capital Stock	(15)			
	I.	Subscribed Capital		16,898		16,519
	II.	Capital Reserve		25,462		25,198
	III.	Revenue Reserve				
		1. Legal reserve		42		42
		2. Other revenue reserve		273		273
	IV.	Revaluation Reserve		608		608
	V.	Consolidated Balance Sheet Profit		-21,736		-23,276
	VI.	Adjustment item for interests held by parties outside the Group		56		2
					21,603	19,366
B.		Long-term Liabilities (above 1 year)	(17), (18)			
		1. Long-term provisions		1,756		271
		2. Advances from customers		50		650
		3. Special items for investment grants		159		187
		4. Other long-term liabilities		0		200
					1,965	1,308
C.		Short-term Liabilities (up to 1 year)	(17)			
		1. Other short-term provisions	(16)	1,256		777
		2. Short-term tax provisions	(16)	125		2
		3. Due to banks		487		579
		4. Advances from customers		600		600
		5. Accounts payable		1,204		925
		6. Contributions made to implement the capital increase agreed		0		625
		7. Special items for investment grants		67		89
		8. Due to undertakings with which the company is linked by virtue of participating interests		10		10
		9. Short-term financial leasing liabilities		0		3
		10. Other short-term liabilities		655		797
					4,404	4,407
					27,972	25,081

All figures in € K

Consolidated Cash Flow Statement according to IFRS

	Notes		2006	2005
	B. 2		€ K	€ K
1.		Net profit for the year	1,594	655
2.		Extraordinary income without effect on payments from the debt waiver	0	-250
3.	G.16	Stock options with effect on payments	18	0
4.		Depreciation of fixed assets including accounting at equity	1,565	1,231
5.		Increase/Decrease in provisions	602	-285
6.		Loss from retirement of fixed asset items	208	184
7.		Profit from retirement of financial assets	-266	30
8.		Write-ups of fixed assets	-324	0
9.		Write-ups of equity investment	0	-213
10.		Decrease in inventories, trade receivables and other assets	-722	-393
11.		Decrease in trade accounts payable and other liabilities	-868	-267
12.		Income from retransfer of special item for investment allowances	-78	26
13.	H.19	*Inflow of funds from current business activity*	1,729	718
14.		Amounts paid out for capital investment	-2,578	-2,398
15.		Payments for the purchase of subsidiaries	0	-41
16.		Inpayments from investment grants	29	0
17.		Inpayments from financial asset disposals	300	0
18.	C.2	Amounts paid out for investment in financial assets	-187	-27
19.		*Outflow of funds from investment activity*	-2,436	-2,466
20.		Inpayments from capital increases and shareholder contributions	0	2.337
21.		Equity procurement transaction costs	0	-45
22.		Inpayments from the take-up of loans	1,968	738
23.		Payments to redeem loans and dormant equity holdings	-576	-1,080
24.		*Inflow of funds from investment activity*	1,392	1,950
25.		Financial resources at start of period	1,384	1,182
26.		Exchange rate-related changes	0	0
27.		Financial resources at end of period	2,069	1,384

All figures in € K

Consolidated Schedule of Assets at December 31, 2006 according to IFRS

				Historical Cost of Acquisition					Cumulative Depreciation					Book Values	
			Status as at 01.01.2006	Additions	Transfers	Retire-ments	Status as at 12.31.2006	Status as at 01.01.2006	Depreciation Fiscal Year	Retirements	Transfers	Status as at 12.31.2006	Write-ups Fiscal Year	Status as at 12.31.2006	Status as at 12.31.2005
A.		Long-term Assets													
	I.	Intangible Assets													
		1. Concessions, industrial property rights and similar rights and values, and licenses thereto	17,466	82	0	0	17,548	15,988	191	0	0	16,179	0	1,369	1,478
		2. Goodwill	5,586	0	0	0	5,586	4,018	0	0	0	4,018	0	1,568	1,568
		3. Capitalized development costs	6,889	1,257	0	1	8,145	2,350	329	-1	0	2,680	325	5,790	
		4. Prepayments made	0	7	0	0	7	0	0	0	0		0	7	4,539
			29,941	1,346	0	1	31,286	22,356	520	-1	0	22,877	325	8,734	7,585
	II.	Tangible Assets													
		1. Land and leasehold rights and buildings, including buildings on third-party land	1,772	0	0	9	1,763	991	97	9	0	1,079	0	684	781
		2. Technical plant and machinery	6,727	321	9	0	7,057	4,990	556	0	0	5,546	0	1,768	1,737
		3. Other fixtures and fittings, tools and equipment	4,652	820	0	931	4,541	3,394	392	724	0	3,062	0	1,479	1,258
		4. Prepayments made and construction in progress	9	290	-9	0	290	0	0	0	0	0	0	33	9
			13,160	1,431	0	940	13,651	9,375	1,045	733	0	9,687	0	3,964	3,785
	III.	Financial Assets													
		1. Other Investments	388	0	0	32	356	0	0	0	0	0	0	356	388
		2. Other Loans	294	0	0	256	38	294	0	256	0	38	0	0	0
		3. Prepayments made	0	187	0	0	187	0	0	0	0	0	0	187	0
			682	187	0	288	581	294	0	256	0	38	0	543	388
		Total	43,783	2,964	0	1.229	45,518	32,025	1,565	988	0	32,602	325	13,241	11,758

All figures in € K

Movement in Equity and Shares of other Shareholders from January 1, 2004 to December 31, 2006 according to IFRS

			Revenue Reserves						
	Subscribed Capital	Capital Reserve	Legal Revenue Reserve	Other Revenue Reserves	Revaluation Reserve	Balance Sheet Loss/Profit	Shares owned by the Group	Shares owned by other Shareholders	Total
Status as at 01.01.2004	4,870	24,420	42	272	0	-23,056	6,548	-274	6,274
Capital Increase	9,739						9,739		9,739
Retransfer arising from the Dissolution of *aap* Implants Inc.						-279	-279	279	0
Transaction Costs		-340					-340		-340
Net Loss for the Year						-135	-135	-5	-140
Status as at 12.31.2004/01.01.2005	14,609	24,080	42	272	0	-23,470	15,533	0	15,533
Capital Increase Aug. 29, 2005	450	286					736		736
Capital Increase Sept. 30, 2005	1,460	877					2,337		2,337
Transaction Costs		-45					-45		-45
Initial Consolidation						-457	-457	-2	-459
Changes in the consolidation entity				1	608		609		609
Net Profit for the Year						651	651	4	655
Status as at 12.31.2005/01.01.2006	16,519	25,198	42	273	608	-23,276	19,364	2	19,366
Capital Increase March 28, 2006	379	246					625		625
Stock Options		18					18		18
Net Profit for the Year						1,540	1,540	54	1,594
Status as at 12.31.2006	16,898	25,462	42	273	608	-21,736	21,547	56	21,603

All figures in € K

Notes to the Consolidated Financial Statements to December 31, 2006 in Accordance with IFRS

A. Company Data

Company Name, Domicile

aap Implantate AG, Berlin

Head Office

Lorenzweg 5, 12099 Berlin, Germany

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. The Group's business activity consists of the research, development, manufacture and sale of implants, medical instruments, bone cements and replacement materials.

B. General Information

1. Basic Principles

The consolidated financial statements of *aap* Implantate AG, Berlin, to December 31, 2005 are drawn up in accordance with the International Financial Reporting Standards as applied in the European Union and with the commercial law provisions of § 315 a Section 1 of the German Commercial Code (HGB). The International Financial Reporting Standards consist of the IFRS newly issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS), and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). As a matter of principle the IFRS that had come into binding force on the balance sheet date were applied in the consolidated financial statements. Segment reporting, however, is already undertaken in accordance with IFRS 8.

The consolidated financial statements of *aap* Implantate AG to December 31, 2006 consist of the consolidated balance, the consolidated income statement, the cash flow statement, the statement of changes in the shareholders' equity and the notes. The notes include the segment reporting and the consolidated statement of changes in equity.

The consolidated financial statements 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 statement are structured in accordance with the IFRS. The consolidated income statement was drawn up using the total costs method.

The consolidated financial statements were denominated in euros. Unless otherwise specified, all amounts are shown in thousands of euros (€ K).

These annual financial statements for the financial year 2006 are based on a reporting period from January 1 to December 31, 2006.

2. Cash Flow Statement

The consolidated flow of funds statement was drawn up as per IAS in accordance with the indirect method. It is structured by payment flows from business, investment and financial activities. Effects of exchange rate fluctuations are shown separately. Net funds as shown in the flow of funds statement tally with the net funds total shown in the balance sheet.

Cash and cash items consist of cash in hand and with banks. There are no restraints on disposal. Inflow and outflow of funds from the acquisition of consolidated companies are listed separately under cash flow from investment activity.

3. Segment Reporting

Segment reporting is undertaken applying IFRS 8 voluntarily. The segments are the Group's primary reporting format and correspond to the internal organizational and reporting structure at the *aap* Group. The Group's structure is aligned to its products and consists of the Trauma/Joint Reconstruction segment and the Biomaterials segment. (F 10).

C. Consolidation Principles

1. Consolidated Entity

The consolidated financial statements include, in addition to the parent company *aap* Implantate AG, all the subsidiaries in which *aap* Implantate AG directly or indirectly holds a controlling interest. Associated companies are included in the accounts on the basis of the equity method. Participating interests are listed at H (20) below.

Subsidiaries:	Holding 2006	Holding 2005
aap Biomaterials GmbH & Co. KG, Dieburg	100%	100%
aap Biomaterials Verwaltungs GmbH, Dieburg	100%	100%
Osartis GmbH & Co. KG, Elsenfeld	-	100%
OSARTIS Verwaltungs GmbH, Elsenfeld	100%	100%
ADC Advanced Dental Care GmbH & Co. KG, Elsenfeld	54%	54%
ADC Advanced Dental Care Verwaltungs GmbH, Elsenfeld	51%	51%

2. Changes in/Acquisition of Holdings

By the terms of a contract dated May 4, 2006 the shareholding in Osartis GmbH & Co. KG, registered under HRA 3658 at the Aschaffenburg district court (Amtsgericht), was transferred as a contribution in kind to *aap* Biomaterials GmbH & Co. KG with effect from May 1, 2006. The transfer included the granting of membership rights.

aap Implantate AG's liable and compulsory capital contribution was increased by €2,967.46 to €95,000.00. The commercial register entry was made on May 22, 2006.

aap Implantate AG concluded on December 11, 2006 a contract on the acquisition of all shares in Fame Holding B.V., Netherlands. The acquisition is to take the form of an issue of 8,448,999 new shares.

The extraordinary general meeting of shareholders held on February 15, 2007 approved the capital increase by contribution in kind. The commercial register entry has yet to take place. Acquisition costs totaling €187K incurred by December 31, 2006 were carried as assets and shown separately under financial assets as prepayments made.

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, 2006.

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.

Consolidated companies draw up their financial statements in their national currency, the euro (€), as the functional currency in which they do most of their business.

5. Capital Consolidation

Financial statements for mergers are prepared on the basis of the purchase method. Capital consolidation is thereby undertaken at the time of purchase by netting out the purchase price against the revalued net assets of the subsidiaries acquired.

Subsidiaries' allowable assets, debts and contingent liabilities are stated at their full market value irrespective of the minority interest. Intangible assets are shown separately from goodwill insofar as they can be separated from the company and result from a contractual or

other right. No initial restructuring reserves are created in the course of purchase price allocation. Any positive remaining differential amounts are capitalized as goodwill. Negative differential amounts arising from initial consolidation are retransferred with effect on results. Capitalized goodwill is not depreciated according to schedule but submitted to an impairment test annually and whenever there are indications of an impairment of value.

Income and expenditure of companies acquired are included in the consolidated financial statements from the time of acquisition.

6. Debt Consolidation

Intra-group receivables and liabilities are 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 expenses are offset. Interim results are eliminated insofar as they are of minor significance.

D. Accounting and Valuation Methods

Intangible assets are shown at acquisition costs less planned depreciation. All intangible assets except goodwill 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 also include costs of borrowing. They 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. Costs of borrowing 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 the reason for any previous non-scheduled depreciation no longer applies. The resulting increase in book value may not exceed the depreciated cost of acquisition or production. Goodwill is not written up.

In accordance with equity accounting, **holdings in associated companies** are first netted out against acquisition costs, and subsequently against updated pro rata net assets. Stated goodwill is shown in the participation's book value. There is no scheduled depreciation of goodwill. The book values of participations are increased or decreased annually by the pro rata

results of the associated companies. Book values are written down off schedule if the sum achievable is less than the book value.

Other holdings listed under **financial investments** come in the "available for disposal" category. They are valued both on first inclusion in the balance sheet and in subsequent periods at market value insofar as the market value can be ascertained reliably. Initial valuation is on the day of fulfillment. Unrealized profits or losses are shown under equity. On disposal, the profit or loss affects results. If substantial objective indications of an asset impairment exist it is written off with effect on results.

Deferred taxation results from valuations at different times in IFRS and tax balance sheets of individual companies and from consolidation events. Deferred taxes on the assets side include tax reduction entitlements arising from anticipated utilization of loss carryovers in later years the realization of which is sufficiently certain. Deferred taxes are based on the rates of taxation that apply or are anticipated at the time of realization taking into account tax regulations valid or passed on the balance sheet date.

Inventories are valued at cost of acquisition or production or at net sale value. Production costs are full costs calculated on the basis of ordinary employment. 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. Lower values on the reporting date due to lower net losses on disposal are stated.

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. Translation differences are reported with effect on results.

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

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

Company stock option programs are shown in the balance sheet as **stock-based remuneration** by means of equity capital instruments.

Stock options granted to employees and executives are stated as personnel expenses on the one hand and as a contribution toward capital reserves on the other. The transfer to capital reserves takes place over a period that corresponds to the contractually agreed blocking period of two years. The market value of the stock options granted is calculated on their grant date accordance with the Black-Scholes option pricing model.

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 likeliest to be determined and are not netted out against claims to reimbursement.

Liabilities are stated at market value on first mention. In subsequent years they are valued at their updated cost of acquisition. Liabilities from financial leasing agreements are carried as liabilities at their market value. Where the cash value of minimum leasing payments is lower than the market value, the cash value will count. Foreign currency liabilities are translated at the repayment exchange rate when the liability was incurred. Translation difference are reported with effect on results

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

Sales revenues are realized when due delivery or performance has been rendered and the risk has been transferred to the customer. This 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.

Discretion must be exercised in applying accounting and evaluation methods to, for example, long-term assets that are up for disposal. It must here be determined whether the assets are saleable in the current condition and their disposal is highly likely. In this case the assets and, if applicable, attendant debts must be stated and evaluated as assets or debts held for disposal.

For 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. These assumptions and estimates relate inter alia to the forward-looking premises assumed in connection with the impairment test for goodwill, to assessments on deriving future economic benefit from a development project, and to the likelihood of realizing tax carryovers.

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

On the basis of facts known when the consolidated financial statements were being compiled, no material change in the assumptions and estimates needs to be assumed, so no adjustment of the book values of the stated assets and debts is to be expected in financial year 2007.

E. Changes in Accounting and Valuation Methods

The International Accounting Standards Boards (ISAB) has both made changes to existing International Financial Reporting Standards and adopted new IFRS standards and interpretations. Applying the mandatory standards for financial year 2006 had no material influence on the consolidated financial statements compared with the previous procedure. Taking considerations of materiality into account, no adjustment of figures for previous years was necessary.

In addition, IFRS 8 was applied voluntarily in the consolidated financial statements for 2006.

IFRS 8	Operating Segments

This standard replaces IAS 14 (Segment Reporting) and makes segment reporting by the so-called management approach mandatory. It requires segments to be identified on the basis of internal management. Demarcation and reporting are based information used internally by the management to run the company and assess its performance. IFRS 8 will only be mandatory for financial years beginning on or after January 1, 2009.

F. Notes on the Profit and Loss Statement

(1) Sales Revenues

	2006	2005
	€ K	€ K
By region		
Germany	8,851	9,143
Other European countries	8,128	2,302
Asia	684	995
The Americas	764	911
Africa	27	16
Total	18,454	13,367

	2006	2005
	€ K	€ K
By lines of business		
Trauma & Joint Reconstruction	6,702	5,907
Biomaterials	12,215	7,460
Transfer/Consolidation	-463	0
Total	18,454	13,367

(2) Other Operating Income

	2006	2005
	€ K	€ K
Revaluation of assets	325	325
Financial asset disposals	267	0
Private car use	128	123
Income from write-back of special item for investment	88	54

allowances and grants		
Retransfer of provisions	48	161
Income from expense allowances	37	61
Income from receivables written off	32	0
Income unrelated to accounting period	31	66
Current asset disposals	7	12
Insurance claims settled	5	36
Proceeds of restructuring	0	561
Negative differential amount from capital consolidation	0	29
Other	65	45
Total	1,033	1,473

Reinstatement of asset values involves capitalized development costs for two projects in the Biomaterials segment. The reasons for depreciation in previous reporting periods no longer apply because the respective utilization values have risen as a result of changed market conditions.

(3) Personnel Expenses

	2006	2005
	€ K	€ K
Wages and salaries	6,206	4,620
Social insurance contributions and expenses for old-age provision and for support	1,118	803
	7,324	5,423

Average headcount over the year	2006	2005
Wage-earners	68	54
Salary-earners	86	67
	154	121

(4) Depreciation

Scheduled depreciation of tangible assets totaled €1.045K (previous year: €995K) and of intangible assets €520K (previous year: €476K).

(5) Other Operating Expenses

	2006	2005
	€ K	€ K
Advertising and travel expenses	977	766
Cost of premises	798	777
Freight charges, packaging material, cost of delivery	669	531
Research costs, analyses, samples, sterilization	552	0
Consulting fees	487	369
Vehicle costs	365	234
Patent fees, other fees	284	214
Repairs and maintenance	229	199

Asset disposals	208	184
Office requisites, telephone, faxes, postage	206	176
Insurance, subscriptions, fiscal/public charges	203	187
Leasing	192	243
Losses and value reductions arising from accounts receivable	135	24
Expenses unrelated to accounting period	125	57
Training costs	77	0
Currency differences	2	1
Other costs	572	671
	6,081	4,633

(6) Financial Result

	2006	2005
	€ K	€ K
Income from other loans	0	0
Other interest and similar income	10	39
Depreciation of financial assets	0	0
Other interest and similar expenditure		
Interest on long-term loans	-79	-27
Interest on current debts to banks	-22	-26
Interest paid to sleeping partners	-2	-3
Write-back of financial costs	0	-1
	-103	-57
	-93	-18

(7) Exchange Rate Differences

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

	2006	2005
	€ K	€ K
Income from exchange rate differences	36	4
Cost of exchange rate differences	-2	-1
	34	-3

(8) Taxes on Income

Income tax expenses to IFRS (cf G. 12) 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.

	2006	2005
	€ K	€ K
Earnings before tax	2,130	1,076
Theoretical tax expense (income) 39% (previous year: 39%)	-829	-419
Tax effects on		
• Realization of negative differential amounts from capital consolidation	0	11

• Results/Depreciation of companies with balance sheets drawn up on the basis of equity accounting	0	93
• Permanent differences	-99	-144
• Equity capital transaction costs	0	29
• Non-tax-deductible expenses and additional trade tax	-20	-11
• Differences in tax rate	-20	17
• Tax-free income	14	2
• Utilization of loss carryovers	313	0
• Tax-free disposal proceeds	104	0
Total adjustments	292	-3
Income tax expenses to IFRS	-537	-422
Effective tax rate in %	25%	39%

Income tax expenses to IFRS include €126K in actual income tax.

(9) Earnings per Share as per IAS 33

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

	2006	2005
Result for the period in € K	1,540	651
Number of shares ('000s)	16,898	15,237
Earnings per share in €	0.09	0.04

Diluted earnings per share correspond in financial year 2005 to the undiluted earnings per share.

	2006	2005
Result for the period in € K	1,540	651
Number of diluted shares ('000s)	16,898	15,237
Earnings per share in €	0.09	0.04

(10) Segment Reporting

The segments are the Group's primary reporting format and correspond to the internal organizational and reporting structure at the *aap* Group. The Group's structure is aligned to its products and consists of the Trauma/Joint Reconstruction segment and the Biomaterials segment. Previous year's figures do not apply because the Group in previous periods did business neither in heterogeneous segments nor in geographical regions with a different structure of risks and opportunities.

Biomaterials

The Biomaterials segment consists of the product and competence areas:
- Bone cements and accessories
- Infection care
- Bone graft substitution
- Tissue regeneration

Trauma/Joint Reconstruction

The Trauma/Joint Construction segment consists of the Group's activities in endoprosthetics (joint replacement) and osteosynthesis (healing of fractures).

Segment Data in € K	Biomaterials	Trauma/Joint Reconstruction	Segments	Transfer/ Consolidation	Group
Sales revenue	12,215	6,702	18,917	-463	18,454
External	12,215	6,239	18,454	0	18,454
Internal	0	463	463	-463	0
Inventory changes	-281	212	-69	0	-69
Internally produced and capitalized assets	576	1,223	1,799	0	1,799
Total economic performance	**12,510**	**8,137**	**20,647**	**-463**	**20,184**
Other operating income	469	297	766	267	1,033
Cost of materials	-2,528	-1,957	-4,485	463	-4,022
Personnel expenses	-3,287	-3,754	-7,041	-283	-7,324
Depreciation	-629	-895	-1,524	-41	-1,565
Other operating expenses	-3,298	-2,650	-5,948	-132	-6,080
Other taxes	-3	1	-2	0	-2
Operating expenses	-9,276	-8,958	-18,234	-274	-17,960
Operating result	**3,234**	**-821**	**3,844**	**-189**	**2,224**
Financial result	0	0	0	-93	-93
Result before taxes on income	3,234	-821	2,413	-282	2,131
Taxes on income	0	0	0	-537	-537
Result	3,234	-821	2,413	-819	1,594
Gross assets	10,344	13,906	24,250	3,722	27,972
Liabilities	1,419	2,595	4,014	2,411	6,425
Investments	973	1,783	2,756	9	2,765
Change in provisions	77	292	369	234	603

Note on Segment Data:
Internal revenue is inter-segment sales. They are carried at market prices. The reconciliation and consolidation column eliminates inter-segment transactions, values that do not relate to segment data and general internal and financial services expenses. Segment accounting

principles correspond to those applied to the consolidated financial statements (cf. D). The measure of the profitability of individual segments is the operating result.

Segment assets and liabilities can be reconciled as follows with the gross assets and liabilities as shown in the consolidated balance sheet.

Segment Assets in € K	**2006**
Consolidated gross assets	27,972
Other financial investments	-543
Financial accounts payable	-646
Deferred taxes	-1,965
Other	-568
	24,250

Segment Liabilities in € K	**2006**
Consolidated gross liabilities	6,425
Financial liabilities	-1,994
Minority interests	-56
Tax provisions	-125
Other	-236
	4,014

G. Notes on the Balance Sheet

(11) Long-term Fixed Assets

For movement in non current fixed assets please see the attached consolidated schedule of assets. Of the additions shown in the financial year, self-made assets accounted for €1,799K.

1. Intangible Assets (excluding Development Costs and Goodwill).

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

Useful economic life is as follows:	Years
Industrial property rights and similar rights and values	3 - 20

2. Development Costs

In the reporting period development costs totaling €1.257 million (previous year: €865K) were capitalized. They include €134K in directly attributable loan capital costs determined on the basis of the Group's average financing cost rate of 6.2%. Development costs relate essentially to the following projects:

- Collagen fleece
- Bone cement with antibiotic

- HF cement
- Stable-angle plates
- Recon plate
- Knee implant

In addition, €377K in research and further development costs (previous year: €546K) was carried as expenses. Depreciation in the reporting period totaled €330K (previous year: €240K), of which nil (previous year: nil) was extraordinary depreciation. Write-ups totaled €325K (previous year: nil).

3. Tangible Fixed Assets

Tangible fixed assets are depreciated in a straight line from historic cost of acquisition or cost of 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 fixed assets on December 31, 2006 was €66K (previous year: €74K).

4. Financial Assets

Other Participating Interests		2006		2005	
		€ K	Holding in %	€ K	Holding in %
1.	Neue Magnetodyn GmbH, Munich (GEOT Gesellschaft für Elektro-Osteo-Therapie mbH, Munich)	0	0	32	7.12
2.	AEQUOS Endoprothetik GmbH, Munich	356	7.59	356	11.2
3.	Cybernetic Vision AG Health Monitoring Technologies, Berlin	0	5.69	0	5.69
Total		356		388	

The shareholding in Neue Magnetodyn GmbH, Munich, with a nominal value of €32K (relative 7.12%) was sold in the reporting year. The stated value of the AEQUOS Endoprothetik GmbH shareholding is the market value.

(12) Deferred Taxes

Tax accruals carried as assets totaling €1,965K (previous year: €2,376K) 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:

	2006	2005
	€ K	€ K
Corporate income tax, including solidarity surcharge	2,010	2,145
Trade tax	1,742	1,450
	3,752	3,595

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

Deferred tax credit claims totaling €390K (previous year: €390K) relate to items that are offset directly against equity. Deferred tax liabilities totaling €2,297K (previous year: €1,765K) 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. The corporation and trade tax loss carryovers for which no deferred tax entitlements were capitalized as assets amounted to about €4.163 million and €5.239 million respectively at the end of the reporting year.

To calculate trade earnings tax, the IFRS result for the year was taken as the starting point and trade earnings were calculated by means of trade tax additions and deductions. Trade tax is charged at roughly 17% after taking tax deductibility into account. 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 calculated on the basis of an average tax rate of 39% for the Group.

(13) Inventories

To state inventories at net sale value, value adjustments totaling €60K (previous year: €48K) were undertaken in the year under review. Value markdowns amounting to €1,659K (previous year: €2,464K) were made. There were no extraordinary markdowns (previous year: nil).

(14) Accounts Receivable and Other Assets

In € K	12.31.06	Of which due in > 1 year	12.31.05	Of which due in > 1 year
Trade receivables				
- Based on percentage of completion	0	0	103	0
Of which already paid	0	0	0	0
- Other receivables	2,444	0	1,421	0
	2,444	0	1,524	0
Claims against other companies with which *aap* has a participation relationship	56	0	168	0
Other assets				
- Tax refund claims	116	0	136	0
- Warranty claims	646	0	646	0
- Other	265	4	164	4
	1,027	4	946	4
	3,527	4	2,638	4

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.

Other assets consist of €0K in discounts (previous year: €4K).

(15) Equity

On December 31, 2006 the company's capital stock amounted to €16,898,157 and was divided into 16,898,157 individual bearer shares.

By the terms of a December 14, 2005 Management Board decision approved the same day by the Supervisory Board, the company's capital stock was to be increased from Approved Capital by €379,000 to €16,898,157 from €16,519,157 by issuing 379,000 new bearer shares, each with an arithmetical share of €1 in the capital stock. The share issue excluded a rights entitlement for shareholders and was to be paid for in kind.

The contribution in question was partnership shares with a nominal value of €54,000 in ADC Advanced Dental Care GmbH & Co. KG, Elsenfeld, entered into the Commercial Register of the Aschaffenburg district court with the registration number HRA 3954, and a partnership share with a nominal value of €12,500 in ADC Advanced Dental Care Verwaltungs GmbH, Elsenfeld, entered into the Commercial Register of the Aschaffenburg district court with the registration number HRB 8174. The shares are entitled to profits from January 1, 2005.

The capital increase was registered on March 28, 2006.

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

Transaction costs totaling nil (previous year: €45K) were carried in the balance sheet as a deduction from equity.

Conditional Capital

The General Meeting held on June 30, 2006 approved a conditional capital increase of up to 1,200,000 new individual bearer shares in the Company. The new shares are entitled to profits from the beginning of the financial year in which they are issued. The Conditional Capital 2006/I serves the purpose of fulfilling option rights exercised by December 31, 2008 on the basis of the authorization by the General Meeting held on June 30, 2006.

The General Meeting held on June 30, 2006 approved a conditional €6,000,000 increase in the Company's capital stock by the issue of up to 6,000,000 individual bearer shares (Conditional Capital II). This conditional capital increase is solely for the purpose of issuing shares to the holders of options or convertible bonds issued by the Company until June 29, 2011. The conditional capital increase also serves the purpose – by the terms of the convertible bond issue – of issuing shares to holders of convertible bonds with compulsory conversion. The new shares will be entitled to a share in profits from the beginning of the financial year in which they are created by the exercise of option or conversion rights or the fulfillment of conversion obligations. The Management Board is authorized, subject to Supervisory Board approval, to specify the further details of implementation of the conditional capital increase. the

conditional capitals 2000/I and 2001/I were canceled by a resolution adopted at the General Meeting held on June 30, 2006.

Authorizations

1. Stock Options

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

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

- 65% to members of the *aap* Management Board and of the managements of associated companies
- 35% to employees of the Company and of associated companies.

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

The exercise price to be paid per share is based on the average closing price of the *aap* Implantate AG share in XETRA trading (or a comparable successor system) on the Frankfurt stock exchange on the ten trading days prior to the issue date and at least the lowest issue price as per § 9 para. 1 AktG, or no less than each share's €1.00 share of the Company's capital stock.

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

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

2. Stock Warrants and/or Convertible Bonds

The General Meeting held on June 30, 2006 authorized the Management Board to issue by June 29, 2011 on one or more occasions, subject to approval by the Supervisory Board, bearer stock warrants and/or convertible bonds up to a total face value of €6,000,000 with a term to maturity of up to ten years and to grant the holders of stock warrants option rights and the holders of convertible bonds conversion rights to up to 6,000,000 individual bearer shares in the Company by the stock warrant or convertible bond terms and conditions of issue.

Stock warrants and/or convertible bonds with conversion rights or obligations are to be offered for sale to shareholders. The Management Board is, however, authorized, subject to approval by the Supervisory Board, to waive the existing shareholders' subscription right to any residual amounts that result from the subscription ratio to the extent that may be necessary to ensure that the holders of existing or pending option or conversion rights are able to buy as many shares in *aap* Implantate AG as they are entitled to buy.

The conversion or option price for a share must be at least 80% of the average closing price of the *aap* Implantate AG share in XETRA trading (or a comparable successor system) on the Frankfurt stock exchange on the ten trading days prior to the Management Board's decision to issue the convertible bonds or stock warrants without prejudice to § 9 para. 1 AktG.

Approved Capital

The General Meeting held on June 10, 2005 authorized the Management Board to increase the company's capital stock by June 10, 2010 on one or more occasions by up to €7,300,000 in cash or kind and to lay down the terms and conditions of the share issue. Subject to Supervisory Board approval, subscription rights for existing shareholders may be ruled out

a) to balance residual amounts,

b) if the capital increase in cash does not exceed 10% of the capital stock and the issue price of the new shares is not substantially lower than the market price (§ 186 Section 3 Sentence 4 AktG),

c) to issue shares in return for contributions as part of an acquisition of companies, parts of companies or participations in companies (including conversions by the terms of the Conversion Act),

d) to issue shares to strategic partners,

e) to serve conversion or subscription rights held by holders of stock options, convertible bonds, stock warrants and/or participation certificates,

f) to issue shares to employees and directors of the Company and to employees and management of associated companies as part of a stock option plan,

g) in payment for consulting services,

h) to issue shares to lenders in place of interest payments in cash or in addition thereto (so-called equity kickers), especially in connection with mezzanine financing,

i) to repay loans or other liabilities.

After partial utilization the Approved Capital now totals only €5,460,143.

Please see the schedule of equity.

(16) Share Price-Based Remuneration

In the reporting year a share price-based remuneration system with equity capital adjustment was introduced throughout the Group for employees of *aap* Implantate AG and associated companies (cf. G (15)).

Date of undertaking: November 22, 2006

Number of options granted: 385,000

Exercise price: €2.28

The average current market value of the newly issued options was € 1.14. The stated market value was determined using a Black/Scholes standard model based on risk-free interest rate of 5% and the historic volatility of the *aap* share. The cost of share price-based remuneration in the reporting period was €18K.

Stock Options	2006 Tranche
Options outstanding at the beginning of the financial year	0
Options issued during the financial year	385,000
Lapsed	0
Exercised	0
Outstanding at the end of the financial year	385,000
Exercisable at the end of the financial year	0

(17) Short-term Reserves

	As at 01.01.06 € K	Con-sumption € K	Write-back € K	Additions € K	As at 12.31.06 € K
Provisions for taxes	2	-2	0	125	125
Other provisions					
• Commitments to employees	186	-186	0	401	401
• Bonuses paid	76	-66	-10	402	402
• Commission	26	-15	-11	53	53
• Licenses	91	-91	0	50	50
• Cost of annual financial statements, audit	126	-125	-1	133	133
• Employers' liability insurance	37	-36	-1	42	42
• Bills outstanding	216	-209	-7	175	175
• Warranties	18	0	-18	0	0
	778	-730	-48	1,381	1,381

All of the stated reserves have terms of up to one year.

(18) Liabilities

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

	12.31.06 Total	Time to maturity: Up to 1 year	1-5 years	More than 5 years	Previous year
	€ K	€ K	€ K	€ K	€ K
Amounts owed to banks	2,243	487	1,756	0	850
Prepayments received	650	600	50	0	1,250
Trade payables	1,204	1,204	0	0	925
Contributions made to implement the capital increased agreed (G (15))	0	0	0	0	625
Special investment grant item	226	67	159	0	276
Liabilities to associated companies	10	10	0	0	10
Financial leasing liabilities	0	0	0	0	3
Other liabilities	655	655	0	0	997
of which					
(Social security-related)	(9)	(9)	(0)	(0)	(153)
(Taxes)	(167)	(167)	(0)	(0)	(192)
	4,988	3,023	1,965	0	4,936

Of long-term liabilities (time to maturity > 1 year) totaling €1.965 million, €1.756 million (previous year: €271K) was subject to interest. The average interest charge was around 6.2% (previous year: 2.75%).

H. Other Information

(19) Reporting on Financial Instruments

The *aap* Group holds only primary financial instruments. On the assets side they consist mainly of participating interests, receivables and cash assets. Financial assets that are available for disposal are stated at market value, other financial assets at the depreciated cost of acquisition. Market values are established on the basis of acknowledged evaluation methods.

On the liabilities side the primary financial instruments consist mainly of liabilities stated at cost of acquisition. Holdings of primary financial instruments are shown in the balance sheet. The level of financial assets corresponds to the maximum risk of default. Where default risks are apparent, they are covered by value adjustments.

(20) Cash Flow Statement

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

Interest income €10K (previous year: €15K)

Interest expenses €78K (previous year: €44K)

Income tax paid totaled €5K (previous year: €87K); income tax refunded was €6K (previous year: nil).

(21) Participating interests

I. Allied Companies (§ 271 para. 2 HGB)

	Name	Domicile	Participation	Equity	Result
			%	€ K	€ K
1.	*aap* Biomaterials GmbH & Co. KG	Dieburg	100	391	1,539
2.	*aap* Biomaterials Verwaltungs-GmbH	Dieburg	100	41	3
3.	OSARTIS Verwaltungs GmbH	Elsenfeld	100	26	-1
4.	ADC Advanced Dental Care GmbH & Co. KG	Elsenfeld	54	104	117
5.	ADC Advanced Dental Care Verwaltungs GmbH	Elsenfeld	51	17	1

This information relates to the annual financial statements according to IFRS.

The shareholding in Osartis GmbH & Co. KG was transferred by the terms of a contract dated May 4, 2006 as a contribution in kind to *aap* Biomaterials GmbH & Co. KG (C.2.).

II. Participating Interests

	Name	Domicile	Participation	Equity	Result
			%	€ K	€ K
6.	AEQUOS Endoprothetik GmbH	Munich	7.59	1.975	1.154
7.	Cybernetic Vision AG Health Monitoring Technologies	Berlin	5.96	-	-

This figure relates to the interim annual financial statements to December 31, 2006 of AEQUOS Endoprothetik GmbH in accordance with the German Commercial Code (HGB).

Insolvency proceedings were initiated on December 1, 2000 in respect of the assets of Cybernetic Vision AG and have yet to be concluded.

(22) Other Financial Commitments

Other financial commitments as defined by § 285 No. 3 HGB result from rental agreements totaling €2,701K, of which €644K is due within a year and the remaining €2,057K is due within two to five years.

Further financial commitments from leasing agreements total €497K, of which €296K is due in 2007 and from the remaining €201K is €188K due within two to five years.

Minimum leasing payments	Operational Leasing Nominal value in € K
Payable within 1 year	296
Payable in 1 to 5 years	188
Payable after more than 5 years	13
	497

The operational leasing agreements relate to short-term contracts for cars and in some cases provide for options to extend or buy.

Contingent liabilities totaling €51K exist in relation to investment grants received. The terms of the grants specify that financial assets must continue to be shown at the Berlin works for at least five years after completion of the investment project. The goods manufactured may not be sold primarily at the national level.

(23) Related Enterprises and Persons

Related enterprises were *aap* GmbH and AEQUOS Endoprothetik GmbH. In financial year 2006 business was conducted that led to the following items in the accounts:

	aap GmbH	AEQUOS Endoprothetik GmbH
	€ K	€ K
Trade receivables from companies with which a participating relationship exists		56
Earnings		315
Liabilities loans	-10	

Transactions are undertaken on market terms and conditions.

The consulting services of Supervisory Board member Dr. Wolfgang Hohensee were used in connection with the acquisition of Fame Holding B.V. (C.2). Remuneration with effect on payments in financial year 2006 totaled €40K.

Frau Dr. med. Schnettler provides consulting services to the Company and also receives payment as a co-developer. Remuneration with effect on payments in financial year 2006 totaled €22K.

(24) Management Board, Supervisory Board

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

Mr. Bruke Seyoum Alemu, Dipl.-Ing., Berlin,

Mr. Oliver Bielenstein, lic. oec. HSG, Berlin

Management remuneration totaled €445K.

The Company has taken out D&O insurance cover for the management. Premiums paid in 2006 totaled €28K.

Members of the Management Board hold no supervisory board directorships.

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

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

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

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

Mr. Uwe Ahrens, Dipl.-Ing., Berlin (since June 30, 2006)

Dr. Wolfgang Hohensee, attorney, Berlin (since June 30, 2006 to February 15, 2007)

Dr. phil. nat. Walter Meyer, management consultant, Thun near Bern, Switzerland (since June 30, 2006 to February 15, 2007)

The General Meeting held on June 30, 2006 resolved to increase the number of Supervisory Board members to six. The new members were elected until the end of the General Meeting that resolves to approve the Board's actions for the financial year 2006.

The other Supervisory Board members were elected for the full term of office permitted by the Company's Articles of Incorporation, until the end of the General Meeting that resolves to approve the Board's actions for the financial year 2007. The Supervisory Board members Dr. Walter Meyer and Dr. Wolfgang Hohensee resigned as directors at the end of the Extraordinary General Meeting held on February 15, 2007. The Extraordinary General Meeting elected Messrs Marcel Boekhoorn, Nijmegen, Netherlands, and Biense Visser, Utrecht, Netherlands, to the Supervisory Board. Their term runs from the end of the Extraordinary General Meeting held on February 15, 2007 to the end of the General Meeting that resolves to approve the Board's actions for the financial year 2007.

Supervisory Board remuneration in the financial year totaled €41K as follows:

Mr. Jürgen Krebs	€15K
Mr. Rubino Di Girolamo	€11K
Prof. Dr. Dr. med. Reinhard Schnettler	€7.5K
Mr. Uwe Ahrens	€2.5K
Dr. Wolfgang Hohensee	€2.5K
Dr. Walter Meyer	€2.5K

Payments made totaled €7.5K.

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–
	MainFirst Financial Service AG	
	Reviderm AG	
	Mistral Fund Limited	
Mr. Rubino Di Girolamo	Deepblue Holding AG	–Administrative Board Chairman–
	Bastei Privatfinanz AG	
Prof. Dr. Dr. med. Reinhard Schnettler	Kliniken des Main-Taunus-Kreises GmbH (since January 1, 2007)	
Mr. Uwe Ahrens, Berlin	Heliocentris Fuel Cells AG	
Dr. Wolfgang Hohensee	Emness Technology AG	–Supervisory Board Chairman–
	VGH Capital B.V.	

Supervisory Board and Management Board members held the following shares and options:

	Shares		Options	
	2006	2005	2006	2005
Supervisory Board				
Jürgen W. Krebs	3,076,200	2,941,200	0	0
Rubino Di Girolamo	1,420,000	1,347,142	0	0
Prof. Dr. Dr. med. Reinhard Schnettler	166,094	68,094	0	0
Uwe Ahrens (since June 30, 2006)	1,363,142	-	0	0
Dr. Wolfgang Hohensee (since June 30, 2006)	46,000	-	0	0
Dr. Walter Meyer (since June 30, 2006)	115,000	-	0	0
Management Board				
Uwe Ahrens (as a Management Board member until September 30, 2005)	-	1,666,949	0	0
Bruke Seyoum Alemu	35,000	35,000	125,000	0
Oliver Bielenstein	490,548	484,548	150,000	0

(25) Auditor's Fees

Auditor's fees stated as expenses in the financial year totaled:

a) For auditing the annual financial statements	€55,000.00

b) Other certificates or evaluation services	€32,340.00

(26) 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 available to shareholders.

(27) Publication

The Company's Management Board will approve the publication of these consolidated financial statements to December 31, 2006 on March 30, 2007.

Berlin, March 2007

The Management Board

Oliver Bielenstein

Bruke Seyoum Alemu

Audit Certificate

We have audited the consolidated financial statements drawn up by *aap* Implantate Aktiengesellschaft, comprising the balance sheet, income statement, statement of changes in equity, capital flow statement and notes to the consolidated financial statements, and the report on the situation of the Company and the Group for the financial year January 1, 2006 to December 31, 2006. Drawing up the financial statements and the report on the situation of the Company and the Group in accordance with IFRS as applied in the EU and with the additional commercial law provisions of § 315 a Section 1 of the German Commercial Code (HGB) is the responsibility of *aap* Implantate Aktiengesellschaft's Management Board. Our task is to pass judgment, on the basis of our audit, on the consolidated financial statements 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 with due regard for 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 consolidated financial statements, taking into account the principles of proper accounting and the situation report for the *aap* Implantate Aktiengesellschaft Company and Group. In determining audit activities, knowledge about the company's business activities and economic and legal environment is taken into account, as are expectations of possible errors. As a part of the audit, the effectiveness of the accounting-related internal audit system and the evidence provided for the information given in the consolidated financial statements and in the report on the situation of the *aap* Implantate Aktiengesellschaft Company and Group are assessed mainly on the basis of spot checks.

The audit comprises assessing the annual financial statements of the companies included in the consolidated annual report, delimitation of the consolidation entity, the accounting principles applied and the fundamental assessments made by the Management Board, as well as forming an opinion on the overall picture presented in the financial statements and in 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 led to no objections.

In our opinion, based on what we learnt in the course of the audit, the consolidated financial statements comply with IFRS as applied in the EU and with the additional commercial law provisions of § 315 a Section 1 of the German Commercial Code and convey, with due regard to these regulations, a picture of the Group's assets, financial and earnings position that is in accordance with the actual circumstances. The report on the situation of the Company and the Group tallies with the consolidated financial statements, conveys an accurate idea of the company's situation and accurately describes the risks and opportunities of future development.

Berlin, March 28, 2007

Dr. Röver & Partner KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Gertrud R. Bergmann
Auditor

Bettina Grothe
Auditor