Consolidated Annual Financial Statement 2008

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Foreword by the Board of Management

Ladies and Gentlemen,

Dear Shareholders,

Dear Employees and Business Partners,

In the financial year 2008 the *aap* Group was able to boost sales by 14% to €31.9 million. EBIT was below our expectations at -€4.640 million; it was also below the previous year's €2.951 million. The decidedly negative 2008 result was due mainly to €5.155 million in extraordinary value adjustments on intangible assets with no effect on liquidity, to €525K in restructuring expenses as well as to €555K in other value adjustments on current assets with no effect on liquidity. While the Trauma & Orthopaedics division reported well above-average 35% sales growth on the previous year, the Biomaterials division's anticipated performance failed to materialize due to changes in customers' order behavior (inventory reductions) as a result of the economic environment and to delays in planned approvals of new products.

Although our sector's correlation to general economic trends is limited, *aap* was also confronted, contrary to our original expectations, by the problematic environment of the financial crisis and economic recession. The number of cases and use of our products may not have fallen, but as a result of inventory reductions by customers and poorer payment behavior sales were postponed until 2009 in a limited number of cases, and pressure on our operating margin was also apparent.

At the beginning of September, *aap* was able to place a 5% capital increase successfully, mainly with institutional investors.

At the Annual General Meeting in Berlin on September 29, 2008 all motions were approved by a substantial majority. At the constituent meeting of the Supervisory Board held immediately after the Annual General Meeting, Rubino di Girolamo was re-elected as Supervisory Board chairman.

To take into account business development that failed to live up to expectations and the difficult economic environment, and against the background of a revision of the strategy that involved an operational separation of the Trauma & Orthopaedics and Biomaterials divisions within the Group, *aap* had already identified at the end of the financial year 2008 a number of cost reduction and restructuring measures. In the first quarter of 2009 *aap* decided to close its Düsseldorf location, to focus on the Ortho/Trauma/Spine segment and to part with the Dental distribution accordingly.

A number of year-end changes also occurred in the Company's executive bodies. In preparation for his move from the Supervisory Board to the Management Board, Biense Visser stepped down from the Supervisory Board on November 30, 2008. His place was taken by Ronald Meersschaert, who was elected as a substitute member of the Supervisory Board at the Annual General Meeting.

On December 31, 2008 Oliver Bielenstein retired from the Management Board by mutual agreement both as Board member in charge of the medical biomaterials division and as Chief Financial Officer. The Management Board and Supervisory Board would like to take this opportunity of thanking him once more for his commitment over the past four years and for his successful development of the Biomaterials division.

In recent years *aap* has on average grown organically and by means of acquisitions by about 30% per annum. In spite of the financial year 2008 failing to live up to our expectations, we still see *aap* as an innovative growth company with good international distribution networks and accrued global partnerships that with the aid of the restructuring and cost reduction measures already initiated will continue to have high growth potential in the years ahead.

We would like to thank our 315 employees in Germany and the Netherlands for their work and our shareholders and business partners for the confidence they have shown in us, and we look forward to further fruitful cooperation.

Biense Visser

Bruke Seyoum Alemu

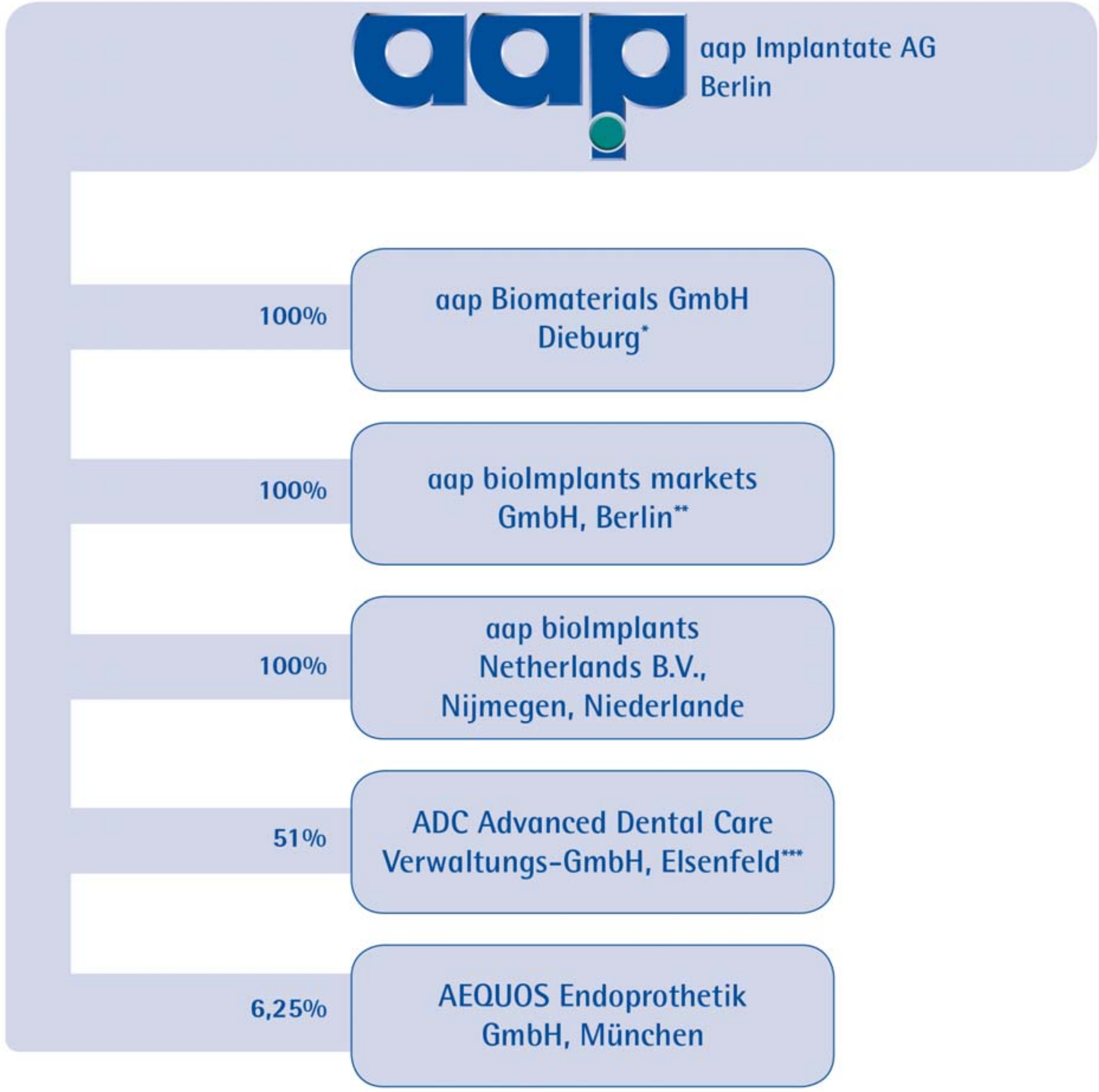
aap Group Management Report 2008

In this report on the state of the Group, use will be made of the terms "*aap*", "*aap* Group", "Group" or "group of companies".

In the following figures, technical rounding differences could exist, which have no impact on the entire statement.

A) General Terms and Framework Conditions

1. Organizational and Legal Structure



* Merger and change of name registered on February 4, 2009
** Relocation registered on March 16, 2009
*** Accretion of assets and liabilities of ADC Advanced Dental Care GmbH & Co. KG as at July 1, 2008

aap Implantate AG is the *aap* Group's parent company. As of December 31, 2008 the Group consisted in commercial terms of five operative companies: *aap* Implantate AG, *aap* Biomaterials GmbH, *aap* bio implants markets GmbH, ADC Advanced Dental Care Verwaltungs-GmbH (ADC GmbH), and *aap* bio implants Netherlands B.V. subsidiaries European Medical Contract Manufacturing (EMCM) B.V., Bactimm B.V., and Farmalyse B.V.

Subsidiaries

aap Biomaterials GmbH

aap Biomaterials GmbH combines all German development and production activities in the field of medicinal biomaterials. The company is domiciled in Dieburg, near Frankfurt am Main, with a further location in Obernburg, near Aschaffenburg. The merger of *aap* Biomaterials GmbH & Co. KG with *aap* Biomaterials Verwaltungs-GmbH from July 1, 2008 and the change of name of the Verwaltungs-GmbH to *aap* Biomaterials GmbH were entered in the commercial register on February 4, 2009.

aap bio implants markets GmbH

aap bio implants markets GmbH combines all of the marketing and distribution functions of the *aap* bio implants group. The transfer of domicile from Düsseldorf to Berlin was entered in the commercial register on March 16, 2009.

aap bio implants Netherlands B.V.

This is the holding company of the Dutch group of companies. It is domiciled in Nijmegen.

European Medical Contract Manufacturing (EMCM) B.V.

EMCM, domiciled in Nijmegen, combines the Dutch development and production functions in the area of medicinal biomaterials.

Bactimm B.V. und Farmalyse B.V.

Bactimm, specialized in microbiological analysis and domiciled in Nijmegen, and Farmalyse, specialized in chemical analysis and domiciled in Zaandam, are companies that undertake analytics for the *aap* bio implants group and for third parties.

Other wholly owned subsidiaries of *aap* bio implants Netherlands B.V. are Tissue Processing International B.V. (TPI), which holds a tissue and bone bank licence, and Broockeville Corporation N.V., which owns the Dutch companies' patents.

ADC Advanced Dental Care Verwaltungs-GmbH

aap Implantate AG owns a 54% majority shareholding in ADC, a distribution company in the dental sector. To simplify corporate structure the ADC GmbH & KG was contributed economical effective from July 1, 2008 to the ADC Verwaltungs-GmbH and is to trade as ADC Advanced Dental Care GmbH while retaining the ownership structure. At the same time a domicile transfer from Elsenfeld to Dieburg was agreed. The KG was deleted from the register on April 2, 2009; entries for the GmbH have yet to be made.

Associated Companies

AEQUOS Endoprothetik GmbH

After a further capital increase *aap* Implantate AG's shareholding in AEQUOS Endoprothetik GmbH has been reduced from 6.64% to 6.25%. The company owns and markets the innovative AEQUOS® knee system partly developed and manufactured by *aap*.

Executive Bodies

Management Board

On November 28, 2008 Biense Visser of the Supervisory Board was appointed as a member of the Management Board with effect from January 1, 2009. At the same time he was appointed as the Company's Management Board chairman (CEO).

With effect from December 1, 2008 Bruke Seyoum Alemu was appointed as Chief Operating Officer (COO) by the Supervisory Board. In this function he is in charge of development, production, sales and marketing at the *aap* Group.

Oliver Bielenstein retired from the Management Board by mutual agreement on December 31, 2008 as Board member in charge of the medicinal biomaterials division and as Chief Financial Officer (CFO); he has since served the Company in an advisory capacity.

Supervisory Board

Ronald Meersschaert took over from Mr. Visser on the Company's Supervisory Board as of December 1, 2008. Mr. Meersschaert was elected as a substitute member of the Supervisory Board at the Annual General Meeting on September 29, 2008.

2. Segments

aap has two business segments, Trauma & Orthopaedics (*aap* T&O), and Biomaterials (*aap* bio implants group). The Board has managed the *aap* Group by segment results since 2006. This form of reporting will be adjusted in 2009 agreed in the middle of the financial year in view of the revision of the separation strategy - the decision to manage *aap* as one company and a consolidated entity again - and the new management structure.

3. Important Products and Business Processes

In Germany, *aap* has three production locations: Berlin, Dieburg, and Obernburg. In Berlin, *aap* Implantate AG manufactures osteosynthesis products, endoprosthetics, and instruments for the Trauma & Orthopaedics division. In Dieburg, *aap* runs one of the world's most efficient and state-of-the-art bone cement production facilities. Biomaterials are produced in Obernburg and Dieburg.

In the Netherlands, *aap* has in Nijmegen a modern biomaterials production location with clean room facilities in an area of more than 2,000 square meters. At the beginning of April, *aap* bio implants markets GmbH's new logistics center and warehouse facilities for international distributors was taken into service in Nijmegen in the Netherlands.

The main focus of T&O activities in 2008 was on enlarging the product portfolio, especially in trauma, by expanding standard systems such as the cannulated screw system and by further development of stable-angle plate systems. In addition, with various hip system products, such as VarioLoc® hip system and cement-free VarioCup® Pressfit acetabular cup, a boosted market penetration could be achieved.

In the Biomaterials segment the focus, in addition to setting up *aap* bio implants markets GmbH as the central unit for sales, customer service, product management and scientific support, was on preparing the product launch of Hi-Fatigue® Bone Cement G, which received its CE approval in April 2008. Products for global partners in connection with contracts signed in the previous year: were also launched successfully in the market.

aap exhibited its product range at the most important international trade shows, including the Arab Health in Dubai and the A.A.O.S (American Academy of Orthopaedic Surgeons) in San Francisco. At the annual meeting of the North American Spine Society (NASS) in Toronto in September *aap* presented various bone regeneration and vertebroplasty products. In Germany *aap* was represented inter alia at the congress of the German Society for Surgery in Berlin, at the annual meeting of South German orthopaedic surgeons in Baden-Baden and at Medica 2008.

To ensure long-term availability of production capacities, *aap* Implantate AG continues to train its own skilled operatives.

4. Material Sales Markets and Competitive Positions

The *aap* T&O division has three distribution channels. The main one is direct marketing to hospitals, procurement pools, and hospital groups. In addition, products are marketed by an international distribution network of partners in over 20 countries and by means of OEM partnerships with national and international clients. Forceful development of these distribution channels with existing and new products has led to above-average sales growth in this area. International distribution activities are concentrated on Eastern Europe, the Middle East, and the U.S.

The *aap* bio implants group sells its products to distribution partners around the world under its own and under third-party names and is an international technology leader in the niche markets that it serves. The *aap* bio implants group earns most of its revenue from developing and manufacturing products for leading orthopaedics companies that distribute products made by *aap* under their own label around the world.

In the financial year 2008 *aap* gained first-time approval of various new products that went on sale. At the end of March *aap* secured the FDA's market release for extensions to the cannulated screw system and for all of the products in its standard osteosynthesis program. In April CE approval was granted for the Company's Hi-Fatigue® Bone Cement G.

In addition to primary approvals (CE marks), *aap* helped various large customers to secure approval of their products manufactured by *aap*.

5. Fundamental Legal and Economic Influencing Factors

In most of the world's markets official registrations and approvals are a prerequisite for marketing medical products. As *aap* products are intended in principle for worldwide marketing, the quality management system is based on the requirements of 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. In addition, production conforms to a very large extent to FDA requirements and to a large extent to GMP/GLP (Good Manufacturing Practice/Good Laboratory Practice).

All *aap* Group companies 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. 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.

6. Research and Development Activities

aap invested heavily in research and development in the financial year 2008, and as reported previous year 20% of its employees work in R&D, Clinical affairs, regulatory, and quality management. *aap* invests around 15% of its revenue in developing new products (previous year: 14%). In addition to its own R&D activities, *aap* cooperates with a large number of academic institutions (research institutes, university hospitals) on new and further developments and clinical studies.

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

- Bone Cement and Cementing Techniques
- Biomaterials
- Trauma
- Endoprosthetics

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

Trauma & Orthopaedics

Development in the T&O division was concentrated in trauma on extending the stable-angle systems to different anatomic areas on the basis of patented or patentable technologies and in orthopaedics on expansion of the hip system.

Biomaterials

The focus of development work in this division was on bone replacements, bone cement and mixing systems, and on collagen-based membranes and fleeces. In addition, the Biomaterials division deals with new implant materials and implant coatings.

7. Overall Economic and Industry-Specific Framework Conditions

Share and Stock Market

aap Implantate AG share price development

In 2008 the *aap* Implantate AG share price trend was characterized by strong fluctuation. The share reached its highest price for the year – €2.84 – on January 8, 2008, and its lowest price for the year – €1.02 – on December 18, 2008. Influenced partly by the pessimistic stock market climate, the share price fell below its 2008 low water mark by the end of January 2009 and averaged a mere €1.12 in the first quarter of 2009.

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

Medical technology is a constantly growing industry due to demographic factors, but in view of cost pressure on the healthcare sector in all Western countries there is a significant price pressure on all providers. The financial crisis also influences all market players, with rising global prices leading to cost pressure in procurement of materials and to a reduction in operating margins. In addition, customers have reduced their inventories, and poor payment behavior also weights heavily on liquidity at *aap*.

aap countervails these trends by maintaining a good price-performance ratio, especially as demand for European products continues to be good. *aap* also puts this reputation to good use as a contract developer for leading orthopaedics industry companies. Due to long-term supply contracts for our customers' global markets, international economic fluctuations have a much less serious effect on *aap*. Furthermore, *aap* runs no major US-dollar risks because its USD-denominated income and expenditure are almost evenly balanced.

B) Earnings, Financial and Assets Position

1. Restructuring and Rationalization Measures

Against the backdrop of streamlining the Group's corporate structure, *aap* Biomaterials GmbH & Co. KG merged with *aap* Biomaterials Verwaltungs-GmbH with effect from July 1, 2008. This change, along with the Verwaltungs-GmbH's change of name to *aap* Biomaterials GmbH, was entered in the commercial register on February 4, 2009.

Economical effective from July 1, 2008 ADC GmbH & Co. KG was contributed to the ADC Verwaltungs-GmbH. Retaining the ownership structure the company is to trade as ADC Advanced Dental Care GmbH, as the same time a domicile transfer from Elsenfeld to Dieburg was agreed. The KG was deleted from register on April 2, 2009; entries for the GmbH have yet to be made.

As a part of the cost reduction and restructuring program it was decided to relocate *aap* bio implants markets GmbH to Berlin and to close the Düsseldorf location. The transfer of domicile was entered in the commercial register on March 16, 2009.

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

aap Implantate AG subsidiary *aap* Biomaterials GmbH signed in mid-July 2008 an exclusive distribution agreement with Zimmer GmbH on distribution of the EASYMIX® vacuum mixing system.

Due to *aap*'s decision to focus and part with non-core activities, sales of diverse dental products were transferred to a German distribution partner, which is pushing international marketing.

3. Material Changes in Legal or Economic Framework Conditions

The financial crisis and economic recession have not left *aap* unscathed. Although the medical technology sector relates to the general economic trend to only a limited extent, *aap* is also confronted by a problematic environment. Case numbers and product use have not declined, but in view of customers' inventory reductions and poorer payment behavior, limited postponements of sales to 2009 and pressure on operating margins have been perceptible.

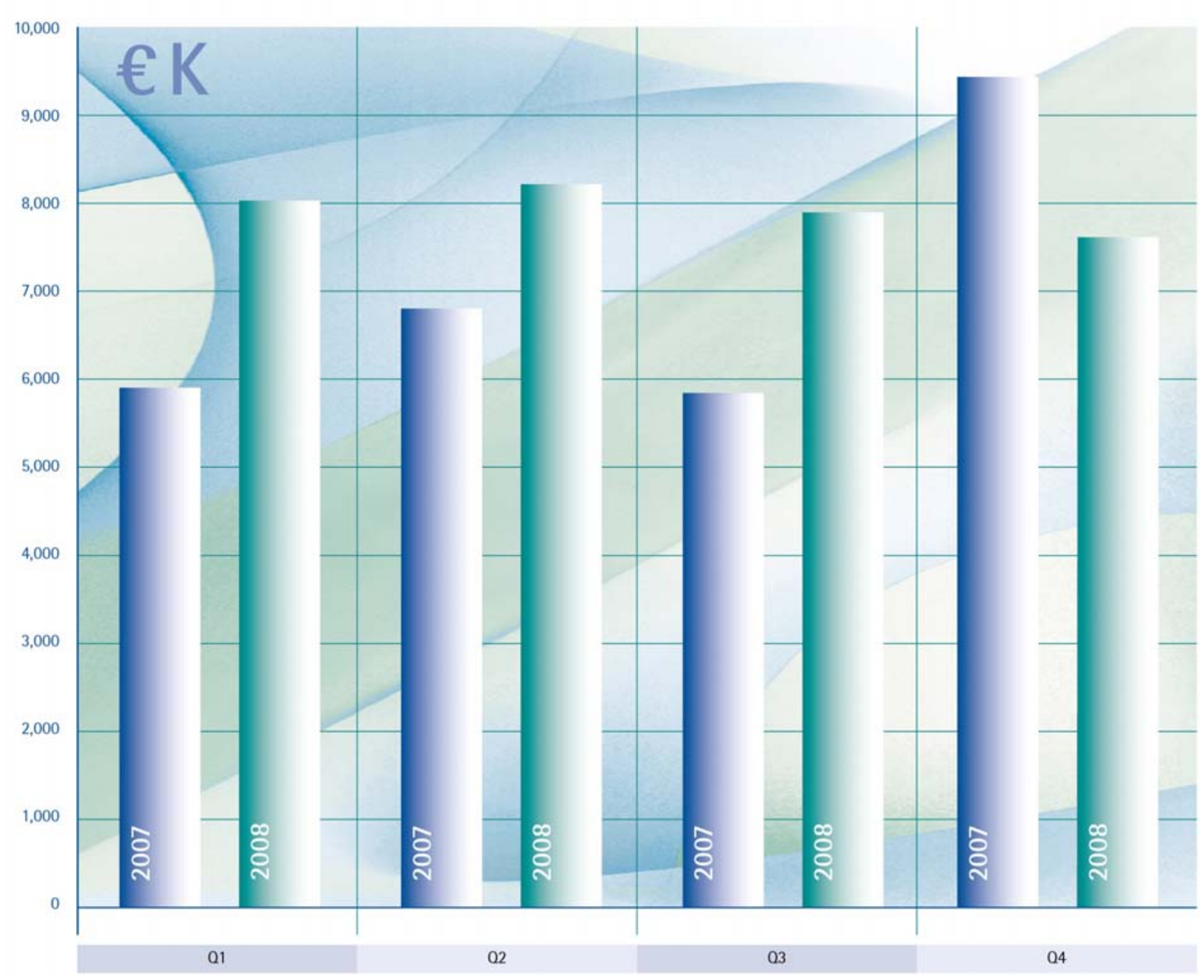
4. Changes in Market and Competitive Conditions

In 2008 there were no material changes in market and competitive conditions, but medical technology does business in a global market that continues to be subject to strong consolidation pressure and a high density of regulation, and both of these trends are gaining steadily in strength.

Earnings Position

1. Outline of Results Development/Results Structure

In the financial year 2008 *aap* increased its sales by 14% on the year from €28.0 million to €31.9 million.



Sales 2007 versus 2008 by Quarters

Other operating income totaling €2.230 million (previous year: €1.975 million) consisted mainly of income from government or EU grants, currency profits from US dollar obligations, income unrelated to the reporting period, and income from booking out lapsed liabilities.

In keeping with IFRS, *aap* as a research-intensive company capitalizes in addition to internally-produced capital goods development costs for development projects that are highly likely to be approved and marketed successfully (2008: €2.843 million; 2007: €2.849 million). After market launch these product values are depreciated over their useful life.

In addition to scheduled depreciation of intangible and tangible fixed assets, the €8.348 million of depreciation in the financial year 2008 (2007: €2.181 million) included extraordinary writedowns. *aap*'s focus on the Ortho/Trauma/Spine areas led to €3.756 million in one-time extraordinary depreciation of capitalized internal development work. The new strategic alignment led inter alia to the prioritization of research and development projects in the core areas Orthopaedics, Trauma and Spine and to the classification of certain business segments, such as Medical Aesthetics, as non-core areas. Development projects associated with these non-core areas were discontinued along with extraordinary value adjustments. In addition, legal uncertainties in connection with unfinished negotiations led to an extraordinary value adjustment requirement of €1.399 million in respect of intangible assets.

EBITDA was down 28% from €5.132 million to €3.708 million, and EBIT, or operating result, fell from €2.951 million to -€4.640 million. Without the above-mentioned and other extraordinary one-time effects totaling €6.317 million, the EBIT would have been €1.677 million.

Investment earnings were not achieved – as in the previous year.

The financial result was -€923K (2007: -€528K) due to long-term loan commitments of *aap* group, to the use of existing *aap* credit lines to finance a substantial increase in current assets, to taking on long-term finance leasing commitments, and to interest paid to finance the Adcon® L takeover.

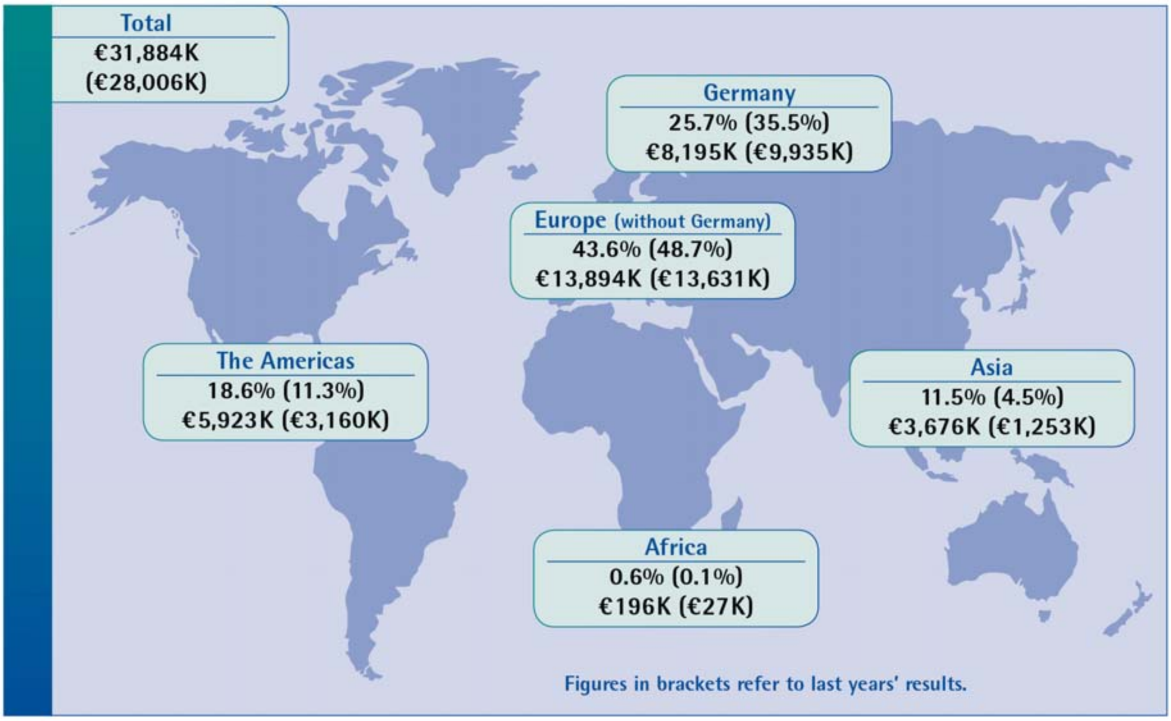
aap accordingly reported a result of ordinary business activities amounting to -€5.558 million after €2.428 million in the previous year. Without the extraordinary one-time effects, the result of ordinary business activities would have been €753K.

Income taxes totaling €329K consisted of actual tax expenses of €37K and €366K as the balance of deferred taxes on the assets and the liabilities side. See the Notes for details on the development of deferred taxes. Earnings after taxes were -€5.234 million (previous year: €1.511 million), and DVFA/SG earnings per share were -€0.20 previous year: €0.06).

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

aap as an innovative and growing company sees as its primary performance indicators sustainable profitable sales growth, establishing long-term partnerships with leading orthopaedic companies, and developing innovative products.

3. Development of the Revenue and Orders Position



2008 Sales by Region

Group sales revenue rose by 14% on the year to €31.884 million (previous year: €28.006 million). Sales in Germany fell mainly because of sales shifts to other European countries and now account for only a quarter of total sales. Sales in North and South America rose mainly due to a new OEM partner in the U.S. in the area of Trauma & Orthopaedics. Sales growth in Asia was due largely to higher sales achieved with existing and new distributors in Asian markets.

The Trauma & Orthopaedics segment consists of fracture treatment products for all main areas of the skeleton and joint replacement for shoulders, hips and knees. External sales in this segment 2008 were increased by 34% to €12.105 million (previous year: €9.035 million[1]) in this segment.

Cannulated screws continue to be the Trauma segment's sales mainstay, while in the Orthopaedics segment the hip product group achieved the highest sales growth.

The Biomaterials segment with its product areas bone cements, infection care and bone and tissue regeneration increased external sales to €19.779 million (previous year: €18.971 million[1]). The financial year 2008 showed, however, that *aap* fell well below expectations in this segment.

By boosting international business (with OEM customers and local distribution partners in both divisions), *aap* now does 87% of its business (2007: 83%) no longer in direct marketing in Germany and has thereby gained greater freedom from cost pressure and structural change in the German healthcare system.

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

The cost of materials ratio at *aap* is 25% (previous year: 25%). Due to the 26 new hirings that took the total headcount to 315, personnel expenses rose from €12.267 million to €13.820 million. The personnel cost ratio was 38% (previous year: 37%).

As of December 31, 2008 the Group had 315 employees, including 240 full-time and 75 part-time employees (previous year: 289, including 220 full-time and 69 part-time employees).

The €2.627 million increase in other operating expenses to €11.940 million was due mainly to higher R&D costs (€1.306 million, previous year: €696K), that do not fulfill the recognition criteria according to IAS 38, to value adjustments on receivables, to higher advertising and travel expenses, to premises costs in connection with setting up a central sales organization for biomaterials and to extraordinary restructuring expenses incurred in connection with relocating *aap* bio implants markets GmbH to Berlin and the accompanying closure of the Düsseldorf location.

Depreciation of fixed assets totaling €8.348 million includes €5.155 million in extraordinary value adjustments. Adjusted for extraordinary one-time effects, scheduled depreciation increased slightly in absolute terms, while the depreciation ratio rose slightly from 7% to 9%.

[1] The deviation from sales revenues as stated in the 2007 segment report is a result of the change in segmentation with regard to sales of a commercial product. In the financial year 2007 sales of this product were listed under sales revenues in the Biomaterials segment, whereas they were listed in the Trauma & Orthopaedics segment from the beginning of the financial year 2008.

Financial Position

The *aap* Group's operational cash flow before investment and financing activity rose by €843K to €544K (previous year: -€299K). The €6.7 million result deterioration compared with the previous year had only a €0.6 million influence on operational cash flow because of write-downs on fixed and intangible assets that did not affect payments. Due mainly to less strong year-on-year fourth-quarter current assets development (strong sales in the fourth quarter of 2007 led to a €5 million rise in receivables and in inventories in preparation for the shipment of large orders in the first half of 2008) and to higher other expenses without effect on payments, this led in the end to the improvement in operational cash flow noted above.

Cash flow from investment activity totaling -€4.1 million (previous year: -€6.2 million) was characterized mainly by payment outgoings for development projects and investments in technical plant and machinery and in office and plant equipment.

The lower net cash flow from financing activities decreased by €1.308 million to €3.359 million was due mainly to reduced changes in financial liabilities (the balance of loans taken out and repaid, financial year: €820K, previous year: €5.104 million) front to the capital increase undertaken in the course of the financial year. Borrowings in financial year 2008 and the net inflow of funds from the capital increase serve to finance the following business activities:

- R&D projects
- Acquisition of ADCON® L
- Expansion of production in Berlin, Nijmegen and Obernburg
- Buildup in inventories.

For the foreseeable future *aap* will not be distributing dividends because existing cash and cash equivalents are being invested in full in developing and expanding the Company.

As of December 31, 2008 the Group's cash and cash equivalents totaled a mere €96K. This level was due to lower sales revenues compared with the fourth quarter of 2007, to higher costs and to building up inventories. To make sure of corporate funding *aap* carried out a €1,267,357 capital increase in March 2009. In addition, *aap* has achieved a €2 million net inflow of funds by means of a financial obligation undertaken by a shareholder. In addition, a reduction in times for payment was agreed with various global customers along with a simultaneously agreement on more favorable purchasing terms and conditions. A number of the Company's suppliers agreed to a temporary extension of payment targets. These measures form a part of *aap*'s performance enhancement program to promote profitable corporate growth that includes, along with optimizing capital structure, other measures such as cost reduction, simplification of the company´s structure, disinvestment in non-core business segments, and maintaining the existing pace of innovation.

Interest risks result from financial debts and investments. The *aap* Group seeks to optimize interest results and to minimize its interest risks. To do so, it operates cash management across the Group and conducts original financial transactions. Interest and price change risks are managed by mixing terms and by taking up variable and fixed-interest positions.

Assuming that the proposed budget for 2009 can be achieved, *aap* considers the liquidity position to be adequate in view of the above-mentioned measures, of payments received in the first quarter, and of credits approved that will ensure funding in the year ahead. *aap* expects to end 2009 with a positive cash flow. For further information on liquidity management please see the section on Capital Management in the Notes.

Assets Position

The €2.894 million rise in current assets to €22.537 million (previous year: €19.643 million) was due in particular to a higher inventory level on the balance sheet date as a result of sales in the Biomaterials segment falling below expectations, especially in the fourth quarter. The main reasons for this were substantial changes in customer behavior (inventory reductions) due to the economic and financial environment and delays in planned approvals of new products.

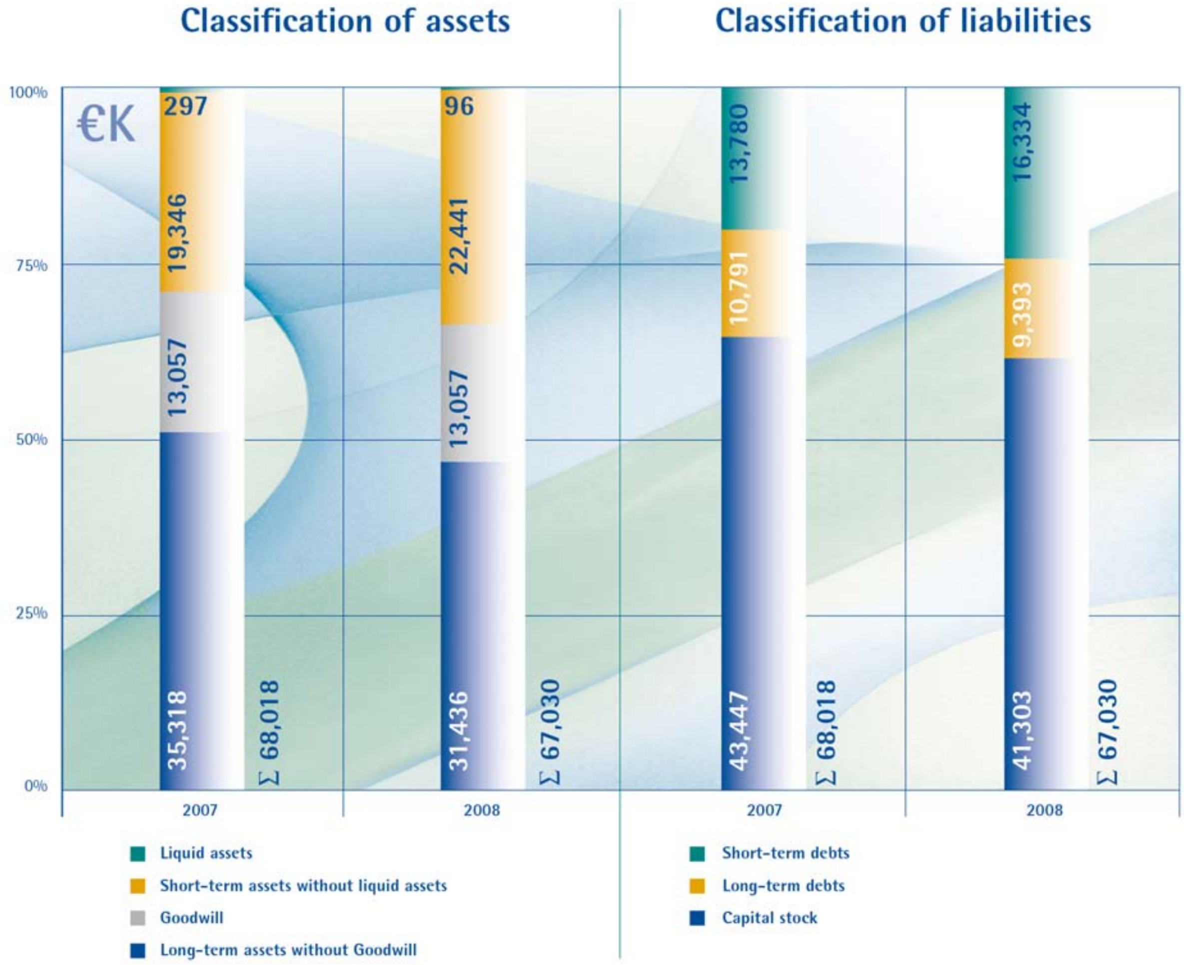
The €3.882 million reduction in *aap*'s noncurrent assets to €44.493 million was attributable primarily to extraordinary value adjustments on intangible assets.

Further major changes in the balance sheet occurred in equity capital, which was affected by the capital increase (increase in subscribed capital and capital reserve) and by the net loss for the year as a result of extraordinary one-time effects, and fell to €41.303 million.

The equity ratio was down from 64% to 62%, largely because of the increase in current assets and the net loss for the year.

Deferred taxes on the assets side were down from €2.723 million to €2.320 million. In accordance with IFRS, in the financial year 2008 *aap* capitalized deferred taxes on the assets side in anticipation of the use of loss carryovers only insofar as they were covered by and could be offset against deferred taxes on the liabilities side.

The development of key items in the consolidated balance sheet to December 31, 2008 compared with the previous year is summarized in the following charts.



C) Supplementary Report

Major business events occurred between the end of the financial year and the time when this report was drawn up.

On November 28, 2008 the Supervisory Board appointed Biense Visser as the new Management Board chairman with effect from January 1, 2009.

The pool of subscribers to the 2004 capital increase in kind to agree on voting behavior at the Annual General Meeting agreed to disband on January 13, 2009.

On February 13, 2009 *aap* Biomaterials GmbH was served a claim for damages in respect of alleged unauthorized dissemination and exploitation of company secrets with a proposed value of €30 million. At present we expect the case against *aap* to be dismissed so that no damages will be payable.

As a part of the Group's cost reduction and restructuring program a decision was reached in February to transfer the domicile of *aap* bio implants markets GmbH from Düsseldorf to Berlin. The transfer was entered in the commercial register on March 16, 2009. In March the employees who were taken over moved to a new workplace in Berlin, and the Düsseldorf location was closed as of March 31, 2009.

On March 16, 2009 the Management Board decided, with the Supervisory Board's approval, to increase the capital stock from approved capital by around 5% or €1,267,357. The new shares were issued against cash by way of a private placement at a price of €1.00 each, ruling out subscription rights for existing shareholders. With the commercial register entry on March 23, 2009 the Company's capital stock was increased by €1,267,357 from €26,614,513 to €27,881,870. Due to a financing obligation by a shareholder, *aap* also received €2 million, which together with the above-mentioned capital increase led to an inflow of funds totaling around €3.3 million. In addition, the Company was able to negotiate the waiving of a €0.5 million shareholder loan and a reduction in payment targets with various global customers.

D) Risk Report

1) Risk Management System

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

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

- Certificated Quality Management: Clearly structured and documented processes in quality management and quality control are a precondition for approval and marketing of medical devices. Risk prevention is the aim. The quality assurance system in use at *aap* was certificated by DEKRA (*aap* Implantate AG), TÜV and LGA Bayern (*aap* Biomaterials GmbH), and the Dutch KEMA (*aap* bio implants Netherlands).
- Controlling Instruments: Controlling at *aap* briefs the Management Board, Supervisory Board and decision makers regularly and in a timely manner on the Company's economic position and the status of potential risks by means of earnings, assets and liquidity depictions and key figures.
- Risik Management System: To identify and assess risks and take suitable counter-measures, *aap* has developed a risk management system. A key part of these systems is regular recording, systematization and evaluation of possible risks, the likelihood that they will occur, and the damage that they might cause.

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 orthopaedic and biological implants in particular will continue to increase. That is why there is a fundamental risk of *aap* failing, compared 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 assets, earnings and financial position and lead to a 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.

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

A constant process of corporate consolidation is under way in the world market that affects *aap* in respect of customers. *aap* counteracts this industry consolidation by cooperating with a large number of companies and is constantly setting up new partnerships.

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 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.

Approval requirements for *aap* products are increasing. For implants that remain in the patient's body (endosprostheses, bone cement, resorbable regeneration materials) clinical studies are required in some instances as a precondition for approval. *aap* has responded to this trend by enlarging its regulatory and clinical affairs departments and by increasing internationalization of sales to ensure that higher expenses are covered by higher production volumes.

The European Commission's stricter classification of artificial joints in the hip, knee and shoulder areas in its directive 2005/50/EC of August 11, 2005 on the reclassification of hip, knee and shoulder joint replacements in connection with the directive 93/42/EEC on medical devices poses a potential risk in that a conformity assessment procedure must by the terms of Annex II Para. 4 of the directive 93/42/EEC be undertaken by August 31, 2009. From September 1, 2009 all above-mentioned products that have not undergone this procedure may neither be brought into circulation nor taken into operation. *aap* keeps this risk to a minimum by using external resources and by continuous monitoring of the project plan.

c) Dependence on Customers and Suppliers

In addition to the products that it develops and manufactures itself, *aap* completes its product portfolio by buying in commercial products such as instruments and lavage systems to a limited extent. If the Group lacks the production competence, third parties supply various *aap* products, such as extrusion plastics and polymers. A partnership of this kind means an increased dependence on the supplier's quality and readiness to deliver. *aap* takes precautions against this risk to the best of its ability by means of strategic cooperation with a few qualified suppliers and their regular requalification.

In 2008 the Company's three biggest customers accounted for only 25% of sales (previous year: 25%), and *aap* was thereby able to reduce its dependent on individual customers (previous year: 25%). OEM sales will also continue to increase in the years ahead. If one of them were at short notice to cease to be a customer or to become insolvent, the Group's earnings and financial position could be in jeopardy. In view of the size of these OEM partners we consider this risk to be very slight, however.

aap counteracts this risk by means of further internationalization and by securing further large customers (stability, sales strength, financial clout).

d) Patents and Intellectual Property

It cannot, however, be ruled out that third parties might at a future date claim damages from *aap* for a breach of industrial property rights. A breach of this kind might delay the shipment of products. If a lawsuit is lost, *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 assets, financial and earnings position.

e) Product Liability Risk

aap's products are designed for use in and, in some instance, permanent placement in the human body. Due to differences in healing properties and in the experience 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 fulfill potential claims, especially in the United States.

f) Legal Risks

At the Extraordinary General Meeting of *aap* Implantate AG shareholders held on February 15, 2007 a capital increase in kind was approved for the acquisition of Fame Holding B.V. Suits filed by individual shareholders delayed the commercial register entry. *aap* then embarked on fast track proceedings, an option created in 2006 to give companies affected by litigation in connection with general meetings greater legal security and swifter proceedings. *aap* won the case in the court of first instance. The appeal to the higher court is now pending. The Management Board assumes, however, that the case will be decided in *aap*'s favor and that no losses will be incurred as a result.

A suit was also filed against resolutions approved at the 2008 Annual General Meeting, but the case was settled at the end of the financial year 2008, so that this litigation no longer poses a risk.

3) Further Information Required by Section 315 (2) 2 of the German Commercial Code (HGB)

Risks posed by price changes cannot be ruled out entirely. *aap* counters this risk by seeking to switch sales to higher-margin products that it develops and manufactures itself.

Active receivables management 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. Receivables losses totaled a mere €42K, or 0.1% of sales revenue, in the reporting year.

The funding situation of the *aap* Group and *aap* Implantate AG can be deemed adequate in spite of the €96K in cash and cash equivalents held on the 2008 balance sheet date. That, however, is only a snapshot at a given moment in time. The Company has overdraft facilities totaling €6.65 million at its disposal. To ensure company funding, *aap* undertook a €1,267,357 capital increase in March 2009. In addition, a funding obligation undertaken by a shareholder enabled the Company to secure a €2 million net inflow of funding in the financial year 2009. Furthermore, a reduction in payment targets was agreed with various global customers. *aap* is subject to no major payment flow fluctuations.

At present, *aap* conducts only internal foreign currency hedging because it currently runs only a low currency risk and US dollar-denominated receivables and payables very largely offset each other. In the future, however, *aap* plans in the event of larger US dollar deals to hedge these receivables.

E) Forecast Report

The financial year 2008 showed that *aap* is less stable than had been assumed and that sales and profit growth remained well below our expectations. To counter this trend we initiated at the end of 2008 a performance enhancement program with the clear objective of returning *aap* to the path of sustainable profitable growth.

The first step is a clear company focus on the Ortho/Trauma/Spine segments or a clear division of business activity into core and non-core sectors. The first result of this decision was the transfer of the Group's dental business to an exclusive distribution partner as of January 1, 2009. We have also decided to discontinue development activities in medical Aesthetics and to generate sales in this non-core area with existing products. Due to an approval granted in March for a market with great potential we anticipate strong sales growth in this area in 2009.

A further part of the strategic alignment is the consolidation of business segments and the management of both divisions under one roof and as a single unit. This will lead to a change in the segmentation by T&O and Biomaterials. In the course of this restructuring, centers of excellence and cross-functional teams were set up. We have, for instance, set up a research and development body that has already achieved the first synergy effects between technologies used in Biomaterials and in T&O. Sharing knowledge and experience in designing studies, in monitoring regulatory affairs, and in identifying IPs has already led in the first quarter of 2009 to a higher level of effectiveness in our research and development process. We have also begun to take forward the development of innovative products from so-called technology platforms from which we anticipate initial results in the third quarter of 2009.

Cost reduction measures across the Group are a further step. Within the Ortho/Trauma/Spine core areas, for example, we will concentrate first and foremost on the research and development projects that best fulfill our requirements: growth generation, a secure IP position and a fast time to market. All other projects have been either postponed or called to a halt. Personnel costs are also to be reduced, and an initial reduction was realized in the first quarter. By transferring our only recently opened Düsseldorf office to Berlin as of April 1, 2009 we have not only set up a synergetic center of marketing and sales excellence in Berlin; this area is thereby also to be managed more efficiently and more effectively.

A uniform IT infrastructure is required for constant monitoring critical success factors. It must permit an improvement in the performance of our logistics unit. At the same time an ERP system of this kind must naturally also reduce administrative costs. A uniform operative ERP system is to be installed across the Group by the end of 2010.

To improve our liquidity position and finance further growth we carried out a capital increase, secured a shareholder loan and negotiated the waiver of another shareholder loan in March. Further funding measures are already being planned for financial year 2009.

For the full financial year we have set ourselves tight targets. A debt coverage ratio of < 3 and an interest coverage ratio of > 6 are to enable our revenue to grow at the same rate as in 2008. Our operating result is to show a much stronger recovery.

At the heart of *aap*'s success lie its employees. We rely on a leadership style that calls for a high degree of self-discipline. We believe that trust and mutual support at all levels motivates everyone to contribute their competence toward the Company's well-being in order to ensure that *aap* remains competitive.

F) Other Information

1. Composition of Subscribed Capital

The Company's capital stock as of December 31, 2008 totaled €26,614,513 and consisted of 26,614,513 fully paid-up bearer share certificates. Each share has one vote at the Company's Annual General Meeting. Restrictions on voting rights do not exist other than the statutory restrictions in certain cases. There are no differences in voting rights.

2. Principles of the Remuneration System (Remuneration Report)

Management Board Remuneration

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. Contracts with Management Board members in the financial year ran 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 term of reference for the variable component is the adjusted IFRS EBIT of the segment for which the Management Board member 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, employer's liability insurance premiums. Management Board members are also entitled to a total of 490,000 options from *aap* Implantate AG's 2008 stock option plan, the allocation of which is tied to the publication of individual quarterly results.

Management Board remuneration was rearranged with effect from January 1, 2009. The new contracts with Management Board members run until December 31, 2012.

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 term of reference for the variable component is the EBIT shown in the consolidated annual financial statements to IFRS. In the event of extremely high positive changes in profits on the previous year the Supervisory Board may at its discretion agree to a further, appropriate, extraordinary profit participation for the Management Board. 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, employer's liability insurance premiums and pension plan provisions. Management Board members are also entitled to a total of 800,000 options from *aap* Implantate AG's 2008 stock option plan, the allocation of which is tied to the publication of individual quarterly results.

See Note 7 (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 revenue in the Trauma & Orthopaedics or Biomaterials divisions in 2008 (it is the segment to which the company acquired belongs that counts), the Management Board will receive in compensation for the extra work involved a further 75,000 *aap* Implantate AG stock options that after the transaction has been completed may in accordance with the provisions of the stock option program approved by the 2008 Annual General Meeting be taken up at the next possible opportunity insofar as a sufficient number of options is available for the Management Board by the terms of the AGM authorization. Should not enough options be available from the 2008 stock option plan, the remaining number will be shared out.

Management Board´s total remuneration in the financial year 2008 was €655K (previous year: €634K). The total remuneration of each Management Board member was as follows:

	Remuneration Components in €K			
	Fixed	Performance-related	Long-term incentive	Total
Bruke Seyoum Alemu	163	90	77	330
Oliver Bielenstein	193	5	127	325
				655

Supervisory Board Remuneration

Supervisory Board members receive in addition to their expenses a payment of €1,250 each per meeting. The Chairman receives twice and his deputy one and a half times that amount. The remuneration for the Supervisory Board in the fiscal year totaled €36K (precious year: €52K).

2006 Stock Option Program

The Annual 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 by December 31, 2008 stock option programs for *aap* Management Board members and members of the managements of companies associated with *aap* as defined in Section 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 1 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 members 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 functionally 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 Section 9 (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 functionally comparable successor system) on the Frankfurt stock exchange on the ten trading days prior to the day on which the option right is exercised is at least 10% higher than the share price on the issue date.

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

2008 Stock Option Program

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

(1) Allottees

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

(i) Members of the *aap* Management Board,

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

(iii) Employees of the Company and of associated companies.

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

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

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

(2) Right to Purchase Stock

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

(3) Purchase Periods

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

(4) Exercise Price

The exercise price to be paid when exercising an option right to acquire a share certificate corresponds to the average of the closing prices of the *aap* Implantate AG share in XETRA trading (or a functionally comparable successor to the XETRA system) at the Frankfurt stock exchange over the last 20 trading days before the issue date, but is at least the lowest issue price according to Section 9 (1) AktG and is therefore not less than each share's €1.00 pro rata share of the capital stock.

(5) Adjustment in the Event of Capital Measures

Option terms and conditions may, in the case of measures undertaken during the term of stock options that influence the value of the options (a capital increase with a direct or indirect right for existing shareholders to buy stock, the sale of Treasury stock, or the issue of stock warrants with conversion and/or option rights to shares in the Company), provide for adjustments of the exercise price and/or purchase terms and conditions. There will be no price reduction if allottees are granted a direct or indirect right to purchase the new shares or Treasury stock that puts them in a position as if they had exercised the option. In addition, the option terms and conditions can provide for an adjustment of option rights in the case of a capital increase from Company funds and capital reduction, a share split or share consolidation, and premiums and extraordinary distributions in cash or kind in keeping with practice at German and international futures markets. Section 9 (1) AktG is not affected.

(6) Performance Targets

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

(7) Waiting Periods

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

(8) Exercise Periods

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

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

(9) Personal Law

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

(10) Expiration

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

(b) Stock options that are not exercised also expire on receipt of written notice by the Company of termination of the option rights agreement. One month's notice may be served if a creditor of the allottee has applied to foreclose on his stock options, if insolvency proceedings are opened on the assets of the allottee, if insolvency proceedings are not opened due to insufficient assets, or if the allottee is in breach of material obligations with regard to the law, the Company's Articles of Incorporation or his contract of employment with the Company or an associated company or to the option rights agreement.

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

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

(e) Stock options granted to an allottee do likewise not expire if his employment ends by reaching retirement age or by invalidity or death. In cases such as these the allottee or the heirs of the deceased allottee is entitled to exercise the option rights on expiration of the waiting period as defined at (7) Sentence 2 (above) within the next exercise period, taking into account the staggering of waiting periods in accordance with (7) Sentence 2 (above). If they are not exercised during this exercise period, they will then expire.

(11) Cash Settlement

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

(12) Regulation of Details

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

3. Restrictions on Voting Rights and Share Transfers

The Management Board is aware that a number of investors who were involved in the 2004 capital increase in kind joined forces in a pool. Its aim was to coordinate voting at the Annual General Meeting. Restraints on disposal were not agreed. As of December 31, 2008 members of the pool held 32.06% of *aap* shares (previous year: 32.06%) according to recent announcement.

In connection with the acquisition of all of the shares in FAME Holding B.V. the shareholders in FAME Holding B.V. (Noes Beheer B.V., Elocin B.V., Ramphastos Investments N.V., Bender Analytical Holding B.V., Mr. Andreas Johannes de Lege and Mr. Godefridus Josephus Henricus van Hoof) each undertook for a period of 12 months neither to offer for sale nor to sell nor to announce the sale nor take other measures that in economic terms correspond to a sale of 50% of the shares in the Company received in return for the acquisition. This period was to begin on the date of stock market listing, which was October 1, 2007.

4. Direct and indirect Shareholdings > 10% of Voting Rights

To the best of our knowledge the following direct and indirect holdings of more than 10% of *aap* Implantate AG's share capital (€26,614,513) were held as of December 31, 2008:

Name	Voting Rights in %
1. Noes Beheer B.V.	20.41
2. Jürgen W. Krebs	12.35
3. Elocin B.V.	10.22

5. Statutory Provisions and Provisions in Articles of Incorporation for Appointing and Dismissing Board Members and Amending Articles of Incorporation

Appointments and dismissals of Management Board members are subject to Section 84 f. AktG and to the Company's Articles of Incorporation. The Articles of Incorporation require the Management Board to consist of one or several members. The Supervisory Board determines the number of Management Board members and appoints them. The Supervisory Board can appoint a Management Board member as Board Chairman and another as his deputy. The Supervisory Board appointed Mr. Biense Visser as Chairman of the Management Board from January 1, 2009. The Supervisory Board has not made use of this option. The Supervisory Board dismisses members of the Management Board. Board members are appointed for a term of no more than five years. A reappointment or renewal of appointment for a term of up to a further five years is permissible. The Supervisory Board can revoke the appointment of a Management Board member for cause before the end of his term in office in cases such as gross dereliction of duty, inability to conduct business in a proper manner, or if the General Meeting passes a vote of no confidence in the Management Board member unless the no confidence vote was based on clearly unobjective grounds.

Amendments to the Articles of Incorporation are subject to the provisions of Section 179 ff. AktG and of the Articles themselves. By the terms of the Company's Articles of Incorporation the Supervisory Board is authorized to make amendments to the Articles that merely affect its wording.

6. Management Board Powers to Issue and Recall Shares

Subject to approval by the Supervisory Board, the Management Board is authorized to increase the Company's capital stock by June 10, 2010 (Approved Capital 2005/I). The right of existing shareholders to subscribe to the new shares can be ruled out. After partial utilization the Approved Capital now amounts to €4,192,786.

Subject to approval by the Supervisory Board, the Management Board is authorized to increase the Company's capital stock by August 26, 2012 on one or more occasions by up to a total of €2,988,935 in return for cash or kind (Approved Capital 2007/I) and thereby, again subject to the Supervisory Board's approval, to lay down the terms and conditions for issuing the shares. Subject to approval by the Supervisory Board, the right of existing shareholders to subscribe to the new shares can be ruled out.

The Annual General Meeting held on August 27, 2007 authorized the Company to acquire and to use own shares in accordance with Section 71 (1) 8 AktG and to rule out subscription rights. Treasury stock may be acquired up to a nominal value of €1,000,000 of the capital stock. The shares acquired, along with other Treasury stock either owned by the Company or attributable to it according to Section 71

(a) ff. AktG may at no time amount to more tan 10% of the subscribed capital. The authorization may not be used for the purpose of trading in the Company's shares. Use may be made of the authorization on one or more occasions in pursuit of one or more objectives by the Company or by third parties on the Company's behalf. The authorization is valid until February 26, 2009. Shares may be bought at the Management Board's discretion in the stock market or by means of a public purchase offer or a public invitation to make such an offer.

- If shares are bought in the stock market, the purchase price per share paid by the Company (excluding purchase costs) must not be more than 5% above or below that of the opening auction on the trading day in the Xetra trading system (or a comparable successor system).
- If shares are bought via a public purchase offer or a public invitation to make such an offer, the purchase price offered or the purchase price parameters (excluding purchase costs) must not be more than 10% above or below the average closing price in the Xetra trading system (or a comparable successor system) on the three trading days before the day of the public purchase offer or the public invitation to make such an offer. If, after the publication of a public purchase offer or a public invitation to make such an offer, material deviations from the applicable price occur, the offer or the invitation to make an offer may be adjusted. The adjustment shall in this case be based on the average share price on the three trading days before the public announcement of any such adjustment. The purchase offer or the invitation to make such an offer may be subjec to further conditions. If the purchase offer is oversubscribed or if, in the case of an invitation to make an offer, not all equal offers are accepted, acccpetance must be proportional. Provision may be made for preferential acceptance of an offer to purchase smaller numbers (up to 100 shares) per shareholder.

The Management Board is authorized to use shares in the Company that are acquired on the basis of this authorization for all statutorily permissible purposes, especially the following:

I. The shares may be recalled without redemption or its implementation requiring further approval by another General Meeting. They may also be recalled using a simplified procedure involving a capital reduction by adjusting the pro rata nominal value of the other shares in the Company's capital stock. Redemption may be limited to a proportion of the shares acquired. Multiple use of the recall authorization may be made. If the simplified procedure is used, the Management Board is authorized to adjust the number of shares stated in the Articles of Incorporation.

II. The shares may also be sold other than in the stock market or by an offer to shareholders if they are sold in cash at a price that is not significantly lower than the market price of similar shares in the Company at the time of disposal.

III. The shares may be issued in return for consideration in kind, especially in connection with the acquisition of companies, of parts of companies or of shareholdings, or with corporate mergers.

IV. The shares may also be used to fulfill conversion rights in connection with convertible bonds issued by the Company.

Authorizations under d) II to IV (above) should also include the use of shares in the Company acquired by reason of Section 71 (d) Sentence 5 AktG.

Authorizations under d) may be used on one or more occasions, in full or in part, jointly or individually. Authorizations under d) II to IV (above) may also be used by dependent companies or by companies in which the Company is a majority shareholder or on their behalf or on behalf of third parties acting for the Company.

The right of existing shareholders to subscribe to these own shares is ruled out insofar as the shares are used for purposes stated under d) II to V (above).

The Supervisory Board may rule that Management Board measures based on this General Meeting resolution may only be undertaken with its approval.

7. 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 acting in concert as defined by German Securities Acquisition and Takeover Act (WpÜG) acquires more than 50% of the Company's share capital ("change of control"), the Management Board shall be entitled to a bonus.

Arrangement until December 31, 2008

The amount corresponding to the product of the number of stock options to which the management board members are entitled, but at the time when the announcement of the takeover bid was published had not yet been allocated, and the difference between the price offered per share in the takeover bid and the weighted average XETRA closing prices over the last 20 trading days in Frankfurt am Main prior to publication of the announcement of the takeover bid.

Arrangement from January 1, 2009

The bonus amount is geared to the number of stock options to which the Management Board is entitled and the difference between the price offered per share in the takeover bid (or the average price paid for other acquisitions) and the exercise price for the options in accordance with the 2008 stock option program.

In the event of a change of control the Management Board is entitled to a change of control bonus to be calculated subject to the purchase price agreed. The bonus is due for payment on the day on which the change of control is finalized.

Berlin, April 23, 2009

The Management Board

Biense Visser
Vorstandsvorsitzender/CEO

Bruke Seyoum Alemu
Vorstand/COO

Consolidated Income Statement according to IFRS for the Period January 1 to December 31, 2008

		2008		2007
1.	Sales revenues		31,884	28,006
2.	Change in finished goods inventories and work in process		1,717	1,745
3.	Capitalized cost of self-constructed assets		2,875	3,301
4.	Other operating income		2,230	1,975
5.	Cost of materials			
	a) Cost of raw materials, consumables and supplies, and of purchased materials	-7,421		-6,987
	b) Cost of purchased services	-1,812		-1,323
			-9,233	-(8,310)
6.	Personnel expenses			
	a) Wages and salaries	-11,765		-10,478
	b) Social security and other pension costs	-2,055		-1,789
			-13,820	-(12,267)
7.	Depreciation of intangible fixed assets and tangible assets		-8,348	-2,181
8.	Other operating expenses		-11,940	-9,313
9.	Other interest and similar income		7	34
10.	Depreciation on financial assets		0	-15
11.	Other interest and similar expenses		-930	-547
12.	*Results from ordinary activities*		*-5,558*	*2,428*
13.	Taxes on income		329	-912
14.	Other taxes		-5	-5
15.	*Net loss/profit*		*-5,234*	*1,511*
16.	Share of interest held by parties outside the Group		-34	-39
17.	Loss carryover from previous year		-20,682	-22,154
19.	Consolidated balance sheet loss		-25,950	-20,682
Earnings per share (undiluted/diluted)			-0.20	0.06

Consolidated Balance Sheet according to IFRS at December 31, 2008

Assets

		2008		2007
		T€	T€	T€
A.	**Long-term Assets**			
I.	Intangible Assets			
	1. Concessions, industrial property rights and similar rights and values, and licenses thereto	3,790		4,227
	2. Goodwill	13,057		13,057
	3. Capitalized services rendered for own account	14,283		17,594
	4. Other intangible assets	3,376		3,620
			34,506	(38,498)
II.	Tangible Assets			
	1. Land and leasehold rights and buildings, including buildings on third-party land	1,771		917
	2. Plant and machinery	4,383		4,297
	3. Other fixtures and fittings, tools and equipment	1,155		1,582
			7,309	(6,796)
III.	Financial Assets			
	Other Investments	358		358
			358	(358)
IV.	Deferred Taxes		2,320	2,723
B.	**Short-term Assets**			
I.	Inventories			
	1. Raw materials and supplies	3,629		2,596
	2. Work in process	2,660		2,500
	3. Finished services	108		54
	4. Finished goods	7,317		5,327
			13,714	(10,477)
II.	Accounts receivable and other Assets			
	1. Accounts receivable (trade debtors)	6,795		7,160
	2. Accounts due from other group companies	1		83
	3. Other assets	1,931		1,626
			8,727	(8,869)
III.	Cash and cash equivalents			
			96	297
			67,030	68,018

Liabilities and Shareholders´ Equity

		2008		2007
		T€	T€	T€
A.	**Capital Stock**			
I.	Subscribed Capital	26,614		25,347
II.	Capital Reserve	39,588		37,765
III.	Revenue Reserve			
	1. Legal reserve	42		42
	2. Other revenue reserve	273		273
IV.	Revaluation Reserve	608		608
V.	Consolidated Balance Sheet Loss	-25,950		-20,682
VI.	Adjustment Item for Interests Held by Parties Outside the Group	128		94
			41,303	(43,447)
B.	**Long-term Liabilities (above 1 year)**			
1.	Other long-term provisions	256		0
2.	Long-term due to banks	3,008		3,481
3.	Special items for investment grants	153		258
4.	Deferred taxes	3,702		4,577
5.	Long-term financial leasing liabilities	1,067		334
6.	Shareholder provisions	1,153		1,147
7.	Other long-term liabilities	54		994
			9,393	(10,791)
C.	**Short-term Liabilities (up to 1 year)**			
1.	Other short-term provisions	361		40
2.	Short-term tax provisions	0		0
3.	Due to banks	7,434		5,917
4.	Advances from customers	289		437
5.	Accounts payable	3,218		2,382
6.	Special items for investment grants	78		60
7.	Accounts due from other group companies	22		16
8.	Short-term financial leasing liabilities	463		302
9.	Other short-term liabilities	4,469		4,626
			16,334	(13,780)
			67,030	68,018

Consolidated Cash Flow Statement according to IFRS

		2008	2007
1.	Net loss/profit for the year	-5,234	1,511
2.	Stock options with effect on payments	436	271
		-4,798	1,782
3.	Depreciation	3,193	2,196
4.	Extraordinary Depreciation	5,155	0
5.	Changes of deferred taxes	-472	127
6.	Loss from retirement of tangible assets	52	30
7.	Profit from retirement of financial assets	0	387
8.	Write-ups of intangible assets	0	-335
9.	Increase in inventories, trade receivables and other assets	-2,516	-4,804
10.	Increase/Decrease in trade accounts payable and other liabilities	-12	227
11.	Income from retransfer of special item for investment allowances	-58	91
12.	Inflow of funds from current business activity	544	-299
13.	Payments for intangible and tangible assets	-4,193	-6,086
14.	Payments for the purchase of subsidiaries	0	-132
15.	Inpayments from investment grants	116	0
16.	Payments from investment grants	-27	0
17.	Outflow of funds from investment activity	-4,104	-6,218
18.	Inpayments from capital increase and shareholder grants	2,763	0
19.	Equity procurement transaction costs	-156	-359
20.	Inpayments from the take-up of loans	2,648	6,063
21.	Payments to redeem loans and dormant equity holdings	-1,828	-959
22.	Payments to financial leasing-agreements	-68	0
23.	Inflow of funds from investment activity	3,359	4,745
24.	Cash and cash equivalents at start of period	297	2,069
25.	Cash and cash equivalents at end of period	96	297

Consolidated Schedule of Assets at December 31, 2008 according to IFRS

	Historical Cost of Acquisition					Cumulative Depreciation						Book Values	
	Status as at 1/1/08	Addi-tions	Trans-fers	Retire-ments	Status as at 12/31/08	Status as at 1/1/08	Depreciation in financial year	Extra-ordinary Depreciaton	Retire-ments	Trans-fers	Status as at 12/31/08	Status as at 12/31/08	Status as at 12/31/07
A. Long-term Assets													
I. Intangible Assets													
1. Concessions, industrial property rights and similar rights and values, and licenses thereto	20,322	100	0	0	20,422	16,095	537	0	0	0	16,632	3,790	4,227
2. Goodwill	17,075	0	0	0	17,075	4,018	0	0	0	0	4,018	13,057	13,057
3. Capitalized development activities	20,354	2,843	0	0	23,197	2,760	999	5,155	0	0	8,914	14,283	17,594
4. Other intangible assets	3,661	0	0	0	3,661	41	244	0	0	0	285	3,376	3,620
	61,412	2,943	0	0	64,355	22,914	1,780	5,155	0	0	29,849	34,506	38,498
II. Tangible Assets													
1. Grundstücke, grundstücksgleiche Rechte und Bauten einschließlich der Bauten auf fremden Grundstücken	2,704	1,014	0	0	3,718	1,787	160	0	0	0	1,947	1,771	917
2. Technische Anlagen und Maschinen	12,550	993	0	0	13,543	8,253	907	0	0	0	9,160	4,383	4,297
3. Andere Anlagen, Betriebs- und Geschäftsausstattung	5,301	452	-799	10	4,944	3,719	346	0	10	-266	3,789	1,155	1,582
	20,555	2,459	-799	10	22,205	13,759	1,413	0	10	-266	14,896	7,309	6,796
III. Financial Assets													
1. Other investments	376	0	0	0	376	18	0	0	0	0	18	358	358
2. Other loans	38	0	0	0	38	38	0	0	0	0	38	0	0
	414	0	0	0	414	56	0	0	0	0	56	358	358
TOTAL	82,381	5,402	-799	10	86,974	36,729	3,193	5,155	10	-266	44,801	42,173	45,652

Consolidated Schedule of Assets at December 31, 2007 according to IFRS

					Historical Cost of Acquisition							Cumulative Depreciation				Book Values	
			Status as at 1/1/07	Changes in consoli-dation entity	Addi-tions	Trans-fers	Retire-ments	Retirements due to changes in consoli-dation entity	Status as at 12/31/07	Status as at 1/1/07	Changes in consoli-dation entity	Depre-ciation in financial year	Retire-ments	Status as at 12/31/07	Write-ups During fiscal year	Status as at 12/31/07	Status as at 12/31/06
A.		Long-term Assets															
	I.	Intangible Assets															
		1. Concessions, industrial property rights and similar rights and values, and licenses thereto	17,548	0	2,782	7	15	0	20,322	16,179	0	266	15	16,430	335	4,227	1,369
		2. Goodwill	5,586	11,489	0	0	0	0	17,075	4,018	0	0	0	4,018	0	13,057	1,568
		3. Capitalized development activities	8,145	9,360	2,849	0	0	0	20,354	2,355	0	405	0	2,760	0	17,594	5,790
		4. Other intangible assets	0	3,661	0	0	0	0	3,661	0	0	41	0	41	0	3,620	0
		5. Prepayments made	7	0	0	-7	0	0	0	0	0	0	0	0	0	0	7
			31,286	24,510	5,631	0	15	0	61,412	22,552	0	712	15	23,249	335	38,498	8,734
	II.	Tangible Assets															
		1. Land and leasehold rights and buildings, including buildings on third-party land	1,763	931	10	0	0	0	2,704	1,079	546	162	0	1,787	0	917	684
		2. Technical plant and machinery	7,057	3,700	1,509	290	6	0	12,550	5,546	1,862	845	0	8,253	0	4,297	1,511
		3. Other fixtures and fittings, tools and equipment	4,541	632	836	0	708	0	5,301	3,062	522	462	326	3,719	0	1,582	1,479
		4. Prepayments made and construction in progress	290	0	0	-290	0	0	0	0	0	0	0	0	0	0	290
			13,651	5,263	2,355	0	714	0	20,555	9,687	2,930	1,469	326	13,759	0	6,796	3,964
	III.	Financial Assets															
		1. Other investments	356	20	0	0	0	0	376	0	3	15	0	18	0	358	356
		2. Other loans	38	0	0	0	0	0	38	38	0	0	0	38	0	0	0
		3. Prepayments made	187	0	0	0	0	187	0	0	0	0	0	0	0	0	187
			581	20	0	0	0	187	414	38	3	15	0	56	0	358	543
		Total	45,518	29,793	7,986	0	729	187	82,381	32,277	2,933	2,196	341	37,064	335	45,652	13,241

Movement in Equity and Minority Interests from January 1, 2007 to December 31, 2008 according to IFRS

	Subscribed Capital	Capital Reserve	Revenue Reserves Capital Reserve	Capital Reserve	Capital Reserve	Capital Reserve	Capital Reserve	Capital Reserve	Total
	T€	T€	T€	T€	T€	T€	T€	T€	T€
Status as at 1.1.2007	16,898	25,462	42	273	608	-21,736	21,547	56	21,603
Capital Increase March	8,449	12,251	0	0	0	0	20,700	0	20,700
Stock Options	0	271	0	0	0	0	271	0	271
Transaction costs	0	-219	0	0	0	0	-219	0	-219
Currence differences	0	0	0	0	0	-419	-419	0	-419
Net Profit for the Year	0	0	0	0	0	1,473	1,473	38	1,511
Status as at 31.12.2007/1.1.2008	25,347	37,765	42	273	608	-20,682	43,353	94	43,447
Capital Increase	1,267	1,495	0	0	0	0	2,762	0	2,762
Stock Options	0	437	0	0	0	0	437	0	437
Transaction costs	0	-109	0	0	0	0	-109	0	-109
Net loss of the year	0	0	0	0	0	-5,268	-5,268	34	-5,234
Status as at 31.12.2008	26,614	39,588	42	273	608	-25,950	41,175	128	41,303

Notes to the Consolidated Financial Statements dated December 31, 2008 in Accordance with IFRS

A. Company Data

Company Name, Domicile

aap Implantate AG, Berlin

Head Office

12099 Berlin, Lorenzweg 5, 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 is traded in the Frankfurt Stock Exchange's Neuer Markt segment under Security ID number 506 660. Since May 16, 2003 the Company has been listed in the Prime Standard regulated market section (known until October 31, 2007 as the regulated market) with further and more exacting admission 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.

Nature 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, as at December 31, 2008 were drawn up in accordance with the International Financial Reporting Standards (IFRS) as applied in the European Union, and with the commercial law provisions of Section 315 a (1) of the German Commercial Code (HGB). In principle all of the International Financial Reporting Standards that had come into binding force as of the balance sheet date are applied in the consolidated financial statements. Segment reporting, however, is already undertaken in voluntary advance accordance, as in the previous year, with IFRS 8 "Business Segments."

The consolidated financial statements of *aap* Implantate AG to December 31, 2008 consist of the consolidated balance sheet, the consolidated income statement, the cash flow statement, the statement of changes in shareholders' equity, and the notes. The notes include the segment reporting.

The consolidated financial statements are based on the financial statements of the companies in the Group and 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 the individual company level.

The consolidated balance sheet and the consolidated income statement are structured in accordance with IFRS. The consolidated income statement was drawn up using the total cost method.

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

These annual financial statements for the fiscal year 2008 are based on a reporting period from January 1 to December 31, 2008.

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

The consolidated financial statements, the group management report and the audit report were discussed in detail, with the auditors present, at the Supervisory Board's accounts meeting. The result of this review is contained in the Supervisory Board's report.

2. Cash Flow Statement

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

No restraints on disposal exist. The effects of exchange rate changes are stated separately. Inflows and outflows of funds from the acquisition of consolidated companies are stated separately under cash flow from investment activity.

3. Segment Reporting

Segment reporting is by voluntary application of IFRS 8. According to IFRS 8 segmentation is based on the Group's business segments; these correspond to the *aap* Group's internal organizational and reporting structure. The Group's structure is aligned to its products and consists of the Orthopaedics segment and the Biomaterials segment (F. (10)).

C. Consolidation Principles

1. Consolidation Entity

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

Subsidiaries:

	2008 Shareholding	2007 Shareholding
aap Biomaterials GmbH & Co. KG, Dieburg	-	100%
aap Biomaterials GmbH, Dieburg	100%	100%
OSARTIS Verwaltungs-GmbH, Elsenfeld	100%	100%
ADC Advanced Dental Care GmbH & Co. KG, Elsenfeld	-	54%
ADC Advanced Dental Care Verwaltungs-GmbH, Elsenfeld	51%	51%
aap bio implants Netherlands B.V., Nijmegen (Netherlands)	100%	100%
aap bio implants markets GmbH, Düsseldorf	100%	100%

2. Changes in Holdings

The merger of *aap* Biomaterials GmbH & Co. KG with *aap* Biomaterials GmbH with effect from July 1, 2008 was decided during the reporting year. The merger was entered in both companies' commercial register on February 4, 2009.

The partners in ADC Advanced Dental Care GmbH & Co. KG made over their shares to ADC Advanced Dental Care Verwaltungs-GmbH with economic effect from July 1, 2008 by way of a capital increase in kind. The capital increase has yet to be entered in the commercial register. After the capital increase is entered in the commercial register the participation quota will be 54%.

These transactions had no effect on the consolidated financial statements because they were restructurings within the Group that involved only companies under ongoing joint control.

3. Reporting Date of the Consolidated Financial Statements

The fiscal year of the companies included is the calendar year. The consolidated financial statements were accordingly prepared to December 31, 2008.

4. Accounting and Valuation Methods

The financial statements of the companies included in the consolidated financial statements were drawn up applying uniform accounting and valuation methods as used by the parent company.

The consolidated companies 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 in accordance with IFRS 3 "Business Combinations" on the basis of the purchase method. Capital consolidation is thereby undertaken at the time of purchase by netting out the purchase price against the revalued pro rata net assets of the subsidiaries acquired.

Subsidiaries' allowable assets, debts and contingent liabilities are stated at their full market value irrespective of 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 subjected to an impairment test annually and whenever there are indications of an impairment of value. Income and expenses of the 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.

8. Currency Translation

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

D. Accounting and Valuation Methods

Intangible assets are shown at cost of acquisition less scheduled 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 demarcated clearly, 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 to schedule in a straight line over their useful life, as a rule between 5 and 10 years from the date on which they were first 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 scheduled depreciation into account. The production costs of tangible fixed assets include the full costs. Costs of borrowing are capitalized as part of acquisition or production costs insofar as they relate to the purchase, construction or manufacture of a qualified asset.

Fixed assets that are leased by way of financial leasing are capitalized at the lesser of either their market value or the cash value of the leasing installments and depreciated in a straight line over their likely useful life.

Intangible assets and tangible fixed assets are depreciated off schedule if the sum obtainable for the asset is less than the book value. In the case of goodwill or capitalized development costs, annual impairment tests are undertaken irrespective of any specific indication. Assets are written up if and when the reason for any previous unscheduled 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.

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 impairment of an asset exist, it is written off with effect on results.

Deferred taxes result from valuations at different times in IFRS and fiscal 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. Deferred taxes are netted out for each company.

Inventories are valued at the lesser of cost of acquisition or production or 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 included 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 a 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 to lower net losses on disposal are stated.

Financial instruments are all contracts that lead simultaneously to a financial asset at one company and to a financial liability or an equity instruments at another. Reporting in accordance with IFRS 7 is at H. (22).

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

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

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

Other **public sector grants** are stated as income in the period that is required to allocate them to the expenses they are intended to offset. Grants received to offset expenses already incurred are stated with an effect on the operating result for the period in which their entitlement originated.

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

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

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

Provisions are created if a liability to a third party arising from a past event exists, if a claim is likely, and if the foreseeable level of provision required can be estimated reliably. Provisions are stated at the settlement amount that is likeliest to be determined and are not netted out against claims to reimbursement.

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

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

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

Sales revenue is 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 revenue on which they are based.

Discretion must be exercised in applying accounting and evaluation methods to, for example, non-current assets that are up for disposal. It must here be determined whether the assets are saleable in their current condition and their disposal is 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 requires 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 the facts known when the consolidated financial statements were being drawn up, no material change in the assumptions and estimates needs to be assumed, so no adjustment of the book values of the stated assets and debts is to be expected in the fiscal year 2009.

E. Changes in Accounting and Valuation Methods

1. Accounting Regulations Applied for the First Time in the Reporting Year

The International Accounting Standards Board (IASB) has both approved amendments to existing International Financial Reporting Standards (IFRS) and issued new IFRS standards and interpretations. Application of the mandatory standards for the financial year 2008 and of the standards applied voluntarily and stated below had no material influence on the presentation of the Group's assets, financial and earnings position or on consolidated earnings per share. In terms of materiality no adjustment to figures for the previous years was required.

IAS 39 / IFRS 7 Amendments to Financial Instruments: Recognition and Measurement/Disclosures

The amendments enable companies under certain circumstances to transfer certain financial assets from the "available for trading" category to another category and to reclassify financial assets available for sale as debt instruments and receivables held. More detail is required in the Notes for financial assets requalified in this way. First-time adoption had no effect on *aap* Implantate AG's consolidated financial statements.

IFRIC 11 IFRS 2 - Group and Treasury Share Transactions

According to this interpretation, arrangements by which employees are granted rights to equity capital instruments of a company must be stated as share-based payment transactions offset by equity capital instruments even if the company acquires the instruments from a third party or if the shareholders make the equity capital instruments required available. IFRIC 11 also regulates how issuing equity capital instruments of the parent company to employees of subsidiary companies must be stated in the accounts. First-time adoption had no effect on *aap* Implantate AG's consolidated financial statements.

IFRIC 12 Service Concession Arrangements

This interpretation regulates the reporting of service concession arrangements by the franchisee in respect of obligations undertaken and rights acquired. As no company in the *aap* Group holds concessions, this interpretation has no effect on the Group.

IFRIC 13 Customer Loyalty Programs

According to this interpretation customer loyalty credits for customers must be stated as a separate part of the sales activity in the course of which they were granted. A part of the fair market value of the service received in return is allocated to bonus entitlements and treated accordingly. This part is then stated as income in the reporting period in which the credits are redeemed. The *aap* Group has no such programs, so first-time adoption does not affect it.

IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

IFRIC 14 provides guidelines on determining the upper limit of a surplus from a performance-oriented plan that can be capitalized as an asset according to IAS 19 "Employee Benefits." First-time adoption had no effect on *aap* Implantate AG's consolidated financial statements.

IAS 23 Borrowing Costs

The amended IAS 23 standard requires the capitalization of borrowing costs incurred in connection with the acquisition, construction or manufacture of a qualified asset. The amended standard is binding for the first time for financial years beginning on or after January 1, 2009. *aap* AG adopted it voluntarily for the first time in its consolidated financial statements for 2008. As the *aap* Group already makes use of the option to capitalize directly attributable interest paid on borrowing for qualified assets, the early adoption of the amended IAS 23 had no effect on *aap* Implantate AG's consolidated financial statements.

2. Accounting Regulations Published but not yet in Force

aap Implantate AG did not yet apply in the reporting year the following standards and interpretations published but not yet adopted by the EU or not yet in force:

Collective Standard with Amendments to Various IFRSs (2008) Improvements to International Financial Reporting Standards

The collective standard includes a number of amendments to various IFRS standards with the primary objective of clarifying regulations and eliminating unintended inconsistencies. Separate transitional arrangements apply to the amended versions of individual standards, but they mainly apply to adoption in financial years beginning on or after January 1, 2009.

The effects of first-time adoption of the amendments on *aap*'s consolidated financial statements are currently under review. Material effects on the presentations of the Group's assets, financial and earnings position are not anticipated.

IAS 1 (2007) Presentation of Financial Statements

This standard contains new rules governing the presentation of financial statements. They include strict separation of owner-related and non owner-related changes in equity and amplified statements of Other Comprehensive Income. The standard is to be applied for the first time to financial years beginning on or after January 1, 2009. First-time adoption will lead to changes in the presentation of the profit and loss statement and the statement of changes in equity in *aap*'s consolidated financial statements.

IFRS 1 (2008) and IAS 27 (2008) Acquisition Costs of Shares in Subsidiaries, Joint Ventures or Associated Enterprises

The amendments provide for easements for first-time IFRS users in initial valuation of shares in subsidiaries, joint ventures or associated enterprises in individual financial statements. They are to apply for financial years beginning on or after January 1, 2009. First-time adoption will have no affect on *aap* Implantate AG's consolidated financial statements.

IFRS 2 (2008) Amendments to Share-based Payment

The amendments to IFRS 2 relate to clarifications of the definition of vesting conditions and provisions governing the early termination of share-based payment. The amended standard is binding for the first time for financial years beginning on or after January 1, 2009. The change is unlikely to have any material effect on the presentation of the Group's assets, financial and earning position.

IFRS 3 (2008) Business Combinations

IAS 27 (2008) Consolidated and Separate Financial Statements

IFRS 3 (2008) Business Combinations contains amended rules governing the statement of corporate acquisitions. In the case of successive share acquisitions a revaluation of previously held shares takes place with effect on results at the time when control is gained. The difference between the newly valued carrying amount for the equity holding in the subsidiary and the subsidiary's newly valued pro rata net assets must be stated as goodwill. In stating minority interests there will in future be a choice between stating them at their fair market value or at their identifiable pro rate net asset worth. In addition, liabilities stated at the time of acquisition for future purchase price adjustments due to future events in subsequent years may no longer be stated with no effect on net income by changes in goodwill. Incidental acquisition expenses must be reported as expenditure.

The revised version of IAS 27 (2008) amends the rules governing the statement of transactions with non-controlling shareholders and statement in the event of loss of control over subsidiaries. In the future, a reduction in shareholding quota must be shown as an equity transaction not affecting net income for as long as the parent company retains a possibility of exercising control. Once control is lost, the subsidiary's assets and liabilities must be booked out in full and the remaining shareholding must be stated at its fair market value. Minority interests that go into the red due to losses incurred must be stated as a negative balance.

IFRS 3 (2008) and IAS 27 (2008) must be applied at the latest for financial years beginning on or after July 1, 2009. The effects of the changes on *aap*'s consolidated financial statements are currently under review.

IAS 32 (2008) and IAS 1 (2008)	Amendments to Financial Instruments: Presentation / Presentation of Financial Statements

The amendments relate mainly to distinguishing between borrowing and equity capital in stating corporate capital to which call privileges apply. Instruments of this kind may in future be classified as equity capital under certain circumstances. The changes are to be applied for the first time for financial years beginning on or after January 1, 2009. Their application is unlikely to have any material effect on the presentation of the *aap* Group's assets, financial and earnings position.

IFRIC 15	Agreements for the Construction of Real Estate

IFRIC 15 governs the realization of income for real estate sold prior to completion. It applies for financial years beginning on or after January 1, 2009. Its application will have no material effect on *aap*'s consolidated financial statements.

IFRIC 16	Hedges of a Net Investment in a Foreign Operation

This interpretation deals with which risks may be taken into consideration in hedging a foreign operation, which Group companies may hold hedging instruments, and how to state the disposal of a foreign unit. It is to be applied for the first time for financial years beginning on or after October 1, 2008. First-time adoption is not expected to have a material effect on *aap*'s consolidated financial statements.

IFRIC 17	Distribution of Non-cash Assets to Owner

IFRIC 17 governs the statement and valuation of obligations arising from non-cash dividends and how to treat in the financial statements the difference between the carrying amount for the asset value to be distributed and the dividend obligation. The interpretation is to apply for the first time for financial years beginning on or after July 1, 2009. Material effects of first-time adoption on *aap*'s consolidated financial statements are not anticipated.

IFRIC 18 (2009)	Transfers of Assets from Customs

The interpretation governs the statement of arrangements by which customers can provide a company with assets in cash or kind to invest in fixed assets for the purpose of gaining network access or lasting access to supplies of goods or services. It applies to financial years beginning on or after July 1, 2009. Its application is unlikely to have any material effect on *aap*'s consolidated financial statements.

F. Notes on the Profit and Loss Statement

(1) Sales Revenues

	2008	2007
	€K	€K
By region		
Germany	8,195	9,935
Other European countries	13,894	13,631
Asia	3,676	1,253
The Americas	5,923	3,160
Africa	196	27
Total	31,884	28,006
By lines of business		
Trauma & Orthopaedics	12,244	8,029
Biomaterials	19,654	20,054
Transfer/Consolidation	./. 14	./. 77
Total	31,884	28,006

Sales revenues include €2.326 million in income from the provision of services. The remaining sales revenues are income from the sale of products.

(2) Other Operating Income

	2008	2007
	€K	€K
Income from grants toward expenses	1,196	466
Income from private use of company cars	170	132
Income for periods unrelated to the accounting period	116	16
Income from exchange rate differences	106	453
Income from retransfer of provisions	85	99
Income from retransfer of special item for investment grants and allowances	69	72
Income from write-down of receivables	63	41
Income from disposal of current assets	45	36
Income from insurance compensation	23	6
Income from asset disposals	21	4
Income from revaluation of assets	0	395
Income from investment grants	0	32
Other	336	223
Total	2,230	1,975

Other operating income includes €277K in income from booking out trade accounts payable for which the time limit had expired.

(3) Personnel Expenses

	2008	2007
	€k	€k
Wages and salaries	11,765	10,478

Social insurance contributions and expenses for old-age provision and for support	2,055	1,789
	13,820	12,267
Average headcount over the year		
Wage-earners	155	133
Salary-earners	148	140
	303	273

(4) Depreciation

Scheduled depreciation of fixed assets amounted to €1.413 million (previous year: €1.469 million) and of intangible assets €1.781 million (previous year: €696K). Extraordinary depreciation of development projects amounted to €5.155 million (G (11)). It included extraordinary development project write-downs totaling €4.762 million in the Biomaterials segment and €393K in the Trauma & Orthopaedics segment (G (11)).

(5) Other Operating Expenses

	2008	2007
	€K	€K
Costs of research, analysis, sampling and sterilization	1,880	1,326
Premises costs	1,755	1,433
Advertising and travel expenses	1,568	1,208
Consulting costs	878	840
Vehicle costs	652	539
Insurance	520	407
Office costs, phones, fax, postage	474	373
Repairs and maintenance	472	355
Losses and depreciation of receivables	411	83
Outgoing packaging and freight costs	391	693
Sales commission	267	0
Patent and other fees	263	302
Currency differences	249	28
Leasing	238	253
Expenses unrelated to the accounting period	225	141
Further training costs	132	108
Fixed asset disposals	0	19
Other expenses	1,566	1,205
	11,941	9,313

(6) Financial Result

	2008	2007
		T€
Other interest and similar income	7	34

Depreciation of financial assets	0	./. 15
Other interest and similar expenditure		
Interest on long-term loans	./. 383	./. 477
Interest on current debts to banks	./. 541	./. 66
Write-back of financial costs	./. 6	./. 4
	./. 930	./. 547
	./. 923	./. 528

(7) Exchange Rate Differences

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

	2008	2007
	€K	€K
Income from exchange rate differences	106	453
Cost of exchange rate differences	./. 250	./. 28
	./. 144	425

(8) Taxes on Income

For calculating deferred taxes in Germany a tax rate of 30.2% (previous year: 30.2%) is applied, consisting of corporation tax at 15%, solidarity surcharge at 5.5% of the corporation tax payable, and trade tax at 14.4%. In the previous year the change in tax rates brought about by the 2008 Corporate Tax Reform Act led to €183K in deferred taxes on the liabilities side.

Deferred taxes in the consolidated financial statements that relate to German companies in the Group are tax loss carryovers and temporary differences resulting mostly from capitalization of development costs with reverse effects that will apply until after January 1, 2009. Deferred taxes on the assets side in respect of tax credit entitlements arising from the anticipated use of existing loss carryovers were taken into account in the reporting year only insofar as they were covered on the balance sheet date by existing deferred taxes on the liabilities side arising from temporary differences even if existing company planning resulted in a higher potential use. This led to €976K in one-time tax expenditure.

Deferred tax expenses totaling €1.727 million (previous year: €2.961 million) were the result of first-time consolidation (C. 2). Scheduled depreciation of undisclosed reserves of acquisitions uncovered in purchase price allocation led to €158K in deferred tax income. Unscheduled depreciation of assets from acquisitions (cf. G (11)) led in the reporting year to €1.053 million in deferred tax income. €47K (previous year: €140K) was stated in equity capital transaction costs.

The tax ratio for the reporting period is therefore around 6%.

Income tax expenses to IFRS reconcile with theoretical tax expenses as follows:

	2008	2007
	€K	€K
Earnings before tax	./. 5,564	2,423
Theoretical tax earnings/expense (income) 30.2% (previous year: 30.2%)	1,679	./. 943
Tax effects on		
· Not useable loss carryover/utilization of loss carryovers/depreciation on loss carryovers	./. 976	219
· Tax rate differences within the group	./. 266	108
· Permanent differences	./. 75	./. 170
· Non-deductible expenses and applicable trade tax	./. 61	./. 19
· Tax-free income	25	6
· Domestic tax rate change	0	./. 183
· Other	4	70
Total adjustments	./.1,349	31
Income tax expenses to IFRS	330	./. 912
Effective tax rate in %	6%	38%

Income tax expenses to IFRS include €37K (previous year: €47K) in tax actually paid.

(9) Earnings per Share as per IAS 33

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

		2008		2007
Result for the period in €K	€K	./. 5,268	€K	1,472
Number of shares ('000s)		26,201		25,347
Earnings per share in €	€	./. 0.20	€	0.06

Diluted earnings per share take into account stock options granted between 2006 and 2008.

		2008		2007
Result for the period in €K	€K	./. 5,268	€K	1,472
Number of diluted shares ('000s)		26,201		25,471
Earnings per share in €	€	./. 0.20	€	0.06

In the reporting year undiluted earnings were the same as diluted earnings because the performance targets for the stock options were not achieved by the balance sheet date.

The Management Board and Supervisory Board of *aap* Implantate AG agreed on March 16, 2009 to a €1,267,357 capital increase from authorized capital by issuing 1,267,357 shares ruling out subscription rights for existing shareholders. The shares are entitled to a share in profits from January 1, 2009. *aap* Implantate AG's capital stock is thereby increased to €27,881,870.

(10) Segment Reporting

Segmentation is based on the Group's business segments. They correspond to the Group's internal organizational and reporting structure. Group structure is product-based and consists of the Trauma & Orthopaedics and Biomaterials segments.

Trauma & Orthopaedics

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

Biomaterials

The Biomaterials segment consists of the product and competence areas:

- Bone Cements & Cementing Techniques
- Infection Care
- Bone Graft Substitutes
- Tissue Regeneration

The holding company and consolidation effects are dealt with under Reconciliation / Consolidation.

Segment Data 2008 in €K	**Biomaterials**	**Trauma & Orthopaedics**	**Segments**	**Transfer/ Consolidation**	**Group 2008**
	€K	€K	€K	€K	€K
Sales revenue	**19,654**	**12,244**	**31,898**	**./. 14**	**31,884**
External	19,779	12,105	31,884	0	31,884
Internal	./. 125	139	14	./. 14	0
Inventory changes	1,175	542	1,717	0	1,717
Internally produced and capitalized assets	2,152	724	2,875	0	2,875
Total economic performance	**22,980**	**13,510**	**36,490**	**./. 14**	**36,476**
Other operating income	1,518	711	2,230	0	2,230
Cost of materials	./. 4,510	./. 4,728	./. 9,237	4	./. 9,233
Personnel expenses	./. 8,893	./. 4,862	./. 13,755	./. 65	./. 13,820
Depreciation	./. 6,986	./. 1,362	./. 8,348	0	./. 8,348
(thereof extraordinary)	(./. 4,762)	(./. 393)	(./. 5,155)	(0)	(./. 5,155)
Other operating expenses	./. 8,389	./. 3,163	./. 11,552	./. 388	./. 11,940
Other taxes	./. 4	./. 1	./. 5	0	./. 5
Operating expenses	./. 27,264	./. 13,405	./. 40,669	./. 448	./. 41,116
Operating result	**./. 4,283**	**105**	**./. 4,178**	**./. 462**	**./. 4,640**
	0	0	0	./. 923	./. 923
Financial result	./. 4,283	105	./. 4,178	./. 1,385	./. 5,563
Result before taxes on income	0	0	0	329	329
Taxes on income	./. 4,283	105	./. 4,178	./. 1,056	./. 5,234

Segment Data 2007 in €K	Biomaterials	Trauma & Orthopaedics	Segments	Transfer/ Consolidation	Group 2007
	€K	€K	€K	€K	€K
Sales revenue	**20,054**	**8,029**	**28,083**	**./. 77**	**28,006**
External	20,167	7,839	28,006	0	28,006
Internal	./. 113	190	77	./. 77	0
Inventory changes	1,120	625	1,745	0	1,745
Internally produced and capitalized assets	2,207	1,094	3,301	0	3,301
Total economic performance	**23,381**	**9,748**	**33,129**	**./. 77**	**33,052**
Other operating income	1,513	645	2,158	./. 183	1,975
Cost of materials	./. 5,493	./. 2,880	./. 8,373	63	./. 8,310
Personnel expenses	./. 7,687	./. 4,518	./. 12,205	./. 62	./. 12,267
Depreciation	./. 1,215	./. 965	./. 2,180	./. 1	./. 2,181
Other operating expenses	./. 6,575	./. 2,570	./. 9,145	./. 168	./. 9,313
Other taxes	./. 4	./. 1	./. 5	0	./. 5
Operating expenses	./. 19,461	./. 10,289	./. 29,750	./. 351	./. 30,101
Operating result	**3,920**	**./. 541**	**3,379**	**./. 428**	**2,951**
	0	0	0	./. 528	./. 528
Financial result	3,920	./. 541	3,379	./. 956	2,423
Result before taxes on income	./. 47	0	./. 47	./. 865	./. 912
Taxes on income	3,873	./. 541	3,332	./. 1,821	1,511

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 the segment data, and general internal and financial services expenses. Segment accounting principles correspond to those applied to the consolidated financial statements (cf. D.). The yardstick of the profitability of individual segments in the operating result.

Sales of the Group's main products and services break down as follows:

	Dec. 31, 2008	Dec. 31,2007
	€K	€K
Trauma	7,194	5,327
Endoprosthetics	4,911	2,512
Bone Cement & Cementing Technique	9,944	9,618
Bone and Tissue Regeneration	7,324	7,278
Others	2,511	3,271
	31,884	28,006

Geographic Information

Group sales from business with external customers and information about segment assets break down geographically as follows:

	Sales with external customers		Non-current assets	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
	€K	€K	€K	€K
Germany	8,195	9,936	15,357	14,971
Rest of Europe	13,894	13,629	26,816	30,680
Asia	3,676	1,253	0	0
The Americas	5,923	3,161	0	0
Africa	196	27	0	0
Total	31,884	28,006	42,173	45,651

Information about Main Customers

Of direct sales totaling €31.884 million (2008: €28.006 million), 24% (2007: 25%) was with the *aap* Group's three largest customers.

G. Notes on the Balance Sheet

(11) Long-term Fixed Assets

The development of long-term fixed assets is shown in the attached consolidated schedule of assets. Of the additions in the reporting year, internally produced assets amounted to €2.875 million.

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

Write-downs totaling €781K (previous year: €307K) and write-ups totaling nil (previous year: €335K) were made in the reporting period (cf. F.2).

2. Development Costs

Development costs totaling €2.843 million (previous year: €2.849 million) were capitalized in the reporting period. They included €297K in directly attributable borrowing costs based on the average

Group financing cost rate of 6.02%. Development costs related for the most part to the following projects:

- Collagen Fleece AB
- Pericard Membrane
- Magnesium-alloy
- CAP-Cement
- Allografts
- HA-Coating
- VarioLoc
- Rebasol
- Reco plate
- Vertolast
- Silver Coating

In addition, research and other development costs totaling €1.302 million (previous year: €696K) were capitalized as expenses. Write-downs in the reporting period totaled €6.154 million (previous year: €405K). Service lives range from 10 to 15 years.

Irrespective of specific indications, the *aap* Group carries out annual impairment tests of development projects by determining their useful value. The useful value of a development project is the cash value of the cash flow that the project is likely to generate in the future. It is determined internally. Determination of useful value is based on cash flow planning approved by the Management Board and valid at the time when the impairment test is carried out. In principle it covers a period of five years.

The discount rates used were derived from market data and the project-specific risk run by the underlying development project and amount to between 12.0% and 15.4% p. a. before and between 9.4% and 12.2% p. a. after taxes. An extraordinary depreciation requirement of €4.762 million was found to exist for projects in the Biomaterials segment and of €393K for projects in the Trauma & Orthopaedics segment. Affecting net income, it is stated under Depreciation (F (4)).

3. Goodwill

The following cash-generating units were identified and specified on the basis of the segments reportable by the *aap* Group in accordance with IFRS 8.

Costs of Acquisition

	Dec. 31, 2008 €K	Dec. 31, 2007 €K
Status at the beginning of the year	17,075	5,586
Additional amounts from corporate acquisitions made in the course of the financial year	0	11,489
Status at the end of the year	17,075	17,075

Accumulated Impairment Losses

	Dec. 31, 2008	Dec. 31, 2007
	€K	€K
Status at the beginning of the year	4,018	4,018
Impairment losses stated in the course of the year	-	-
Status at the end of the year	4,018	4,018

Book Value

	Dec. 31, 2008	Dec. 31, 2007
	€K	€K
Status at the beginning of the year	13,057	1,568
Status at the end of the year	13,057	13,057

The total goodwill of the *aap* Group as of December 31, 2008 amounted to €13.1 million (previous year: €13.1 million) consisting of the amounts listed above.

Annual Impairment Test

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

The amount achievable by the cash-generating unit in question was determined on the basis of its useful value. Useful value is the cash value of the cash flow that a cash-generating unit is likely to generate in the future. It is determined internally. Determination of useful value is based on a discount rate of 12.4% p. a. (2007: 12.4%) derived from market data. The discount rate after taxes is 10.8% (2007: 10.8%).

Allocation of Goodwill to Cash-generating Units

For the purpose of impairment testing, goodwill was allocated to the Biomaterials cash-generating unit.

	Dec. 31, 2008	Dec. 31, 2007
	€K	€K
Biomaterials	13,057	13,057

Goodwill results from the acquisition of the Dutch *aap* bio implants Netherlands B.V. (formerly Fame Medical Group) and of Osartis GmbH & Co. KG and the majority shareholding in ADC GmbH & Co. KG.

Impairment of the cash-generating unit's goodwill was tested using the cash flow forecasts in the five-year plan for the *aap* bio implants group approved by the Management Board and a discount rate of 12.4%. Cash flow in the detailed planning phase was based on the five-year plan and a 20% compound annual growth rate (CAGR) that corresponds to long-term market growth rate forecasts for medical biomaterials. In determining the perpetuity a growth discount of 1.5% of weighted average capital costs (WACC) and a safety discount of 20% on the cash flow of the last detailed planning period were taken into consideration. The Management Board is of the opinion that no reasonably conceivable change in the basic assumption on which the determination of the achievable amount is based would lead to the cumulative book value of the cash-generating unit exceeding its cumulative achievable amount.

4. 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	5–15
Other plant, office and business equipment	5–15

The book value of leased fixed assets as of December 31, 2008 was €1.939 million (previous year: €939K). The €1.531 million in consolidation obligations arising from this financial leasing is covered by the lessors' rights to the leasing items.

The book value of fixed assets assigned as collateral for liabilities was €2.884 million (previous year: €1.389 million).

5. Financial Assets

Other Participating Interests	2008		2007	
	€K	Holding	€K	Holding
1. AEQUOS Endoprothetik GmbH, Munich	356	6.25%	356	6.64%
2. Cybernetic Vision AG Health Monitoring Technologies, Berlin	0	5.69%	0	5.69%
3. Rofil Medical International N.V.	0	10%	0	10%
4. Prisna B.V.	2	20%	2	20%
Total	358		358	

The **book value** of the AEQUOS Endoprothetik GmbH shareholding is the market value.

(12) Deferred Taxes

Tax accruals carried as assets totaling €2.320 million (previous year: €2.723 million) include the following capitalized tax credit entitlements arising from anticipated utilization of existing loss carryovers in the years ahead:

	2008	2007
	€K	€K
Corporate income tax, including solidarity surcharge	1,915	2,215
Trade tax	1,171	1,601
	3,086	3,816

Deferred taxes on the assets side for tax credit entitlements arising from anticipated utilization of existing loss carryovers were only taken into account in the reporting year insofar as they were covered on the balance sheet balance by existing deferred taxes on the liabilities side arising from temporary differences even if existing company planning resulted in a higher potential use (F (8)). Corporation tax and trade tax loss carryovers for which deferred tax credit entitlements were not capitalized totaled around €9.9 million and €10.8 million respectively at the end of the reporting year.

Deferred taxes on the liabilities side amounting to €3.702 million (previous year: €5.672 million) and deferred taxed on the assets side amounting to €176K (previous year: €92K) result from consolidation (elimination of interim results and consolidation of liabilities, including currency differences) and from temporary differences between tax values and balance sheet item statements to IFRS.

Trade earnings tax was calculated on the basis of the net result for the year to IFRS adding trade tax and subtracting trade earnings. The trade tax rate is around 14.4%. Corporation tax was calculated on the basis of the 15% rate in force since January 1, 2008 plus the solidarity surcharge of 5.5% on trade tax due.

Deferred taxes arising from consolidation were calculated on the basis of an average Group tax rate of 30.2% (previous year: 30.2%).

(13) Inventories

Value adjustments totaling €783K (previous year: €48K) were made in the reporting year to state inventories at their net residual value. Depreciation of inventories amounted to €2.342 million (previous year: €1.611 million). The book value of inventories stated at their net residual value was €657K.

Inventories amounting to €1.183 million (previous year: €1.215 million) were assigned as collateral for liabilities.

(14) Accounts Receivable and Other Assets

	Dec. 12, 2008	Of which due in > 1 year	Dec. 12, 2007	Of which due in > 1 year
	€K	€K	€K	€K
Trade receivables	6,795	10	7,160	23
Accounts due from other group companies	1	0	83	0
Other assets				
- Tax refund claims	696	0	410	0
- Warranty claims	482	0	674	0
- Other	753	8	542	12
	1,931	8	1,626	12
	8,727	18	8,869	35

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. It is backed by shares in *aap* Implantate AG.

Trade receivables totaling €4.816 million (previous year: €3.878 million) were assigned as collateral for liabilities.

Overdue dates of receivables are as follows (in €K):

	Book value as of	Thereof not value-adjusted but overdue as follows on the reporting date				
	Dec. 31, 2008	Up to 3 months	Up to 6 months	Up to 9 months	Up to 12 months	More than 1 year
	€K	€K	€K	€K	€K	€K
Trade receivables	6,795	2,349	303	242	135	175
	6,795	2,349	303	242	135	175

	Book value as of	Thereof not value-adjusted but overdue as follows on the reporting date				
	Dec. 31, 2007	Up to 3 months	Up to 6 months	Up to 9 months	Up to 12 months	More than 1 year
	€K	€K	€K	€K	€K	€K
Trade receivables	7,160	1,906	193	234	27	19
	7,160	1,906	193	234	27	19

	Book value as of	Thereof not value-adjusted but overdue as follows on the reporting date				
	Dec. 31, 2008	Up to 3 months	Up to 6 months	Up to 9 months	Up to 12 months	More than 1 year
	€K	€K	€K	€K	€K	€K
Other receivables	1,931	38	0	0	0	16
	1,931	38	0	0	0	16

	Book value as of	Thereof not value-adjusted but overdue as follows on the reporting date				
	Dec. 31, 2007	Up to 3 months	Up to 6 months	Up to 9 months	Up to 12 months	More than 1 year
	€K	€K	€K	€K	€K	€K
Other receivables	1,626	0	0	0	0	12
	1,626	0	0	0	0	12

For receivables not value-adjusted but overdue there were no indications as of the balance sheet that payment might not be received.

(15) Tax Refund Entitlement

This item consists mainly of sales tax (VAT) refund entitlements.

(16) Equity

The Company's capital stock as of December 31, 2008 amounted to €26,614,513 and was divided into 26,614,513 bearer shares.

By a resolution adopted on September 3, 2008 the capital stock of *aap* Implantate AG was increased by €1,267,357 from €25,347,156 to €26,614,513 by the issue of 1,267,357 individual bearer shares, each with a nominal €1 share of the capital stock. The capital increase was by cash contribution from authorized capital. The new shares are entitled to a share in profits from January 1, 2008. The issue price was €2.18. The commercial register entry was made on September 4, 2008.

The statutory reserve totaled €41,703.95 at the end of the financial year. Jointly with the capital reserve it amounted to more than one tenth of the capital stock.

Conditional Capital

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

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 2006/II). This conditional capital increase is solely for the purpose of issuing shares to the holders of options or convertible bonds that are issued by the Company by June 29, 2011.

By the terms of the convertible bond issue the conditional capital increase also serves to issue shares to holders of convertible bonds with a conversion obligation. The new shares are entitled to a share in profits from the beginning of the financial year in which they originate either 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 implementing the conditional capital increase.

The General Meeting held on September 29, 2008 approved a conditional increase in capital stock by up to 1,200,000 new bearer shares in the Company. The new shares are entitled to a share in profits from the beginning of the financial year in which they are issued (Conditional Capital 2008/I). Conditional

Capital 2008/I serves to fulfill option rights granted by authorization of the General Meeting held on September 29, 2008 and exercised by September 28, 2013.

Authorizations

1. 2006 Stock Options

The General Meeting held on June 30, 2006 authorized the Management Board or, if Management Board members were 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 associated companies as defined in Section 15 ff. of the German Stock Corporation Act (AktG) and to grant option rights to up to 1,200,00 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 were only to establish option rights that entitled the holders to a maximum of 600,000 shares. Existing shareholders were not entitled to subscribe to the new shares. Fulfillment of option rights exercised may be by making use of either Conditional Capital I or future share buyback authorizations at the Company's discretion.

The total volume of option rights was to be allocated to the groups of people who were 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 quarterly or annual financial statements.

The exercise price to be paid per share on exercising the option is based on the average closing price of the *aap* Implantate AG share in XETRA trading (or a functionally comparable successor system) on the Frankfurt stock exchange on the ten trading days prior to the issue date and at least the lowest issue price as per Section 9 (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 functionally comparable successor system) on the Frankfurt stock exchange on the ten trading days prior to the day on which the option right is exercised is at least 10% higher than the share price on the issue date.

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

2. 2008 Stock Options

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

(1) Allottees

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

(i) Members of the *aap* Management Board,

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

(iii) Employees of the Company and of associated companies.

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

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

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

(2) Right to Purchase Stock

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

(3) Purchase Periods

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

(4) Exercise Price

The exercise price to be paid when exercising an option right to acquire a share certificate corresponds to the average of the closing prices of the *aap* Implantate AG share in XETRA trading (or a functionally comparable successor to the XETRA system) at the Frankfurt stock exchange over the last 20 trading days before the issue date, but is at least the lowest issue price according to Section 9 (1) AktG and is therefore not less than each share's €1.00 pro rata share of the capital stock.

(5) Adjustment in the Event of Capital Measures

Option terms and conditions may, in the case of measures undertaken during the term of stock options that influence the value of the options (a capital increase with a direct or indirect right for existing shareholders to buy stock, the sale of Treasury stock, or the issue of stock warrants with conversion and/or option rights to shares in the Company), provide for adjustments of the exercise price and/or purchase terms and conditions. There will be no price reduction if allottees are granted a direct or indirect right to purchase the new shares or Treasury stock that puts them in a position as if they had exercised the option. In addition, the option terms and conditions can provide for an adjustment of option rights in the case of a capital increase from Company funds and capital reduction, a share split or share consolidation, and premiums and extraordinary distributions in cash or kind in keeping with practice at German and international futures markets. Section 9 (1) AktG is not affected.

(6) Performance Targets

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

(7) Waiting Periods

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

(8) Exercise Periods

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

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

(9) Personal Law

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

(10) Expiration

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

(b) Stock options that are not exercised also expire on receipt of written notice by the Company of termination of the option rights agreement. One month's notice may be served if a creditor of the allottee has applied to foreclose on his stock options, if insolvency proceedings are opened on the assets of the allottee, if insolvency proceedings are not opened due to insufficient assets, or if the allottee is in breach of material obligations with regard to the law, the Company's Articles of Incorporation or his contract of employment with the Company or an associated company or to the option rights agreement.

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

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

(e) Stock options granted to an allottee do likewise not expire if his employment ends by reaching retirement age or by invalidity or death. In cases such as these the allottee or the heirs of the deceased allottee is entitled to exercise the option rights on expiration of the waiting period as defined at (7) Sentence 2 (above) within the next exercise period, taking into account the staggering of waiting periods in accordance with (7) Sentence 2 (above). If they are not exercised during this exercise period, they will then expire.

(11) Cash Settlement

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

(12) Regulation of Details

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

3. 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.

The 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' 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 functionally 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 Section 9 (1) AktG.

<u>Treasury Stock</u>

The General Meeting held on August 28, 2007 authorized the Company to buy Treasury shares up to a nominal €1 million of the capital stock. These shares, together with any other Treasury stock held by the Company or attributable to it by the terms of Section 71a ff. AktG, must at no time exceed 10% of the capital stock. The authorization may not be used for the purpose of trading in the Company's shares.

The authorization may be exercised in its entirety or in partial amounts, on one or more occasions, in pursuit of one or more purposes by the Company or by third parties on the Company's behalf. The authorization runs until February 26, 2009.

The purchase may, at the Management Board's discretion, be made in the stock market or by means of a public purchase offering or a public solicitation to make an offer.

<u>Approved Capital</u>

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 (Approved Capital 2005/I) 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 issue price of the new shares is not substantially lower than the market price (Section 186 (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 €4,192,786.

The General Meeting held on August 27, 2007 authorized the Management Board to increase the Company's capital stock, subject to approval by the Supervisory Board, by August 26, 2012 on one or more occasions by up to €2,988,935 in cash or kind (Approved Capital 2007) and, as agreed with the Supervisory Board, to lay down the terms and conditions of the share issue. 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 (Section 186 (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) in payment for consulting services,
f) to issue shares to lenders in place of interest payments in cash or in addition thereto (so-called equity kickers), especially in connection with mezzanine financing,
g) to repay loans or other liabilities.

The Approved Capital 2007 amounts to €2,988,935.

The capital reserve contains premiums from share issues, voluntary additional payments made by partners, and partners' contributions resulting from the issue of stock options.

For further details see the equity statements.

(17) Share Price-based Remuneration

In the financial year 2006 a share price-based remuneration system with equity capital adjustment was introduced throughout the Group for employees of *aap* Implantate AG and associated companies (cf. G. (16)). A further stock option program was launched in the reporting year.

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

The following conditions apply to the stock option programs. As long as no specific mention is made of specific arrangements in the following, the conditions apply to the 2006 and 2008 stock option programs in equal measure.

Stock Options
Each option entitled the allottee to acquire one *aap* bearer share certificate with a nominal face value of €1.00.

Entitled Persons
Members of the Management Board, selected executives of the Company, employees of the Company, and members of the managements and employees of associated companies as defined in Section 15 ff. AktG.

Waiting Period
Two years from the decision to allocate stock options to the allottee. By the terms of the 2008 stock option program, each being the earliest time, 25% of option rights may be exercised two years, a further 25% three years, a further 25% four years, and the remaining 25% five years after the issue date.

Exercise Periods
Rights may be exercised at any time after expiration of the waiting period except the following:

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

Exercise Price
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 functionally comparable successor system) on the Frankfurt stock exchange on the 10 (2006 stock option program) or 20 (2008 stock option program) trading days prior to the issue date and at least the lowest issue price as per Section 9 (1) AktG, or no less than each share's €1.00 share of the Company's capital stock.

Performance Target
Purchase rights to stock options may only be exercised if the average closing price of the *aap* Implantate AG share in XETRA trading (or a functional comparable successor to the XETRA system) at the Frankfurt stock exchange over the last 10 (2006 stock option program) or 20 (2008 stock option program) trading days before the day on which the option right is exercised is at least 10% (2006 stock option program) or 20% (2008 stock option program) higher than the price on the issue date.

Date of commitment	Number of options issued	Exercise price in €
Nov. 22, 2006	385,000	2.28
Apr. 18, 2007	152,500	2.37
Nov. 11, 2007	477,500	2.41
Apr. 17, 2008	131,500	2.27

Sep.10, .2008	96,000	2.23
Dec. 1, 2008	200,000	1.61

The average fair market value of the newly issued options was as follows:

Apr. 17, 2008	€0.87
Sep. 10, 2008	€0.74
Dec.1, 2008	€0.55

Fair market values were established in the reporting year by means of the binomial model. Volatility was measured on the basis of weekly yields. Expenditure on share-based remuneration in the reporting period totaled €436K.

Stock Options program 2006	2006 Tranche	2007 Tranche	2008 Tranche
Outstanding at beginning of financial year	1,200,000	845,000	227,500
Issued in the financial year	385,000	630,000	227,500
Lapsed	30,000	12,500	7,500
Exercised	0	0	0
Outstanding at end of financial year	845,000	227,500	7,500
Exercisable at end of financial year	0	0	0

In establishing the fair market value using the binomial model the following parameters were taken into consideration:

Stock Options	11/2006 Tranche	4/2007 Tranche	11/2007 Tranche	4/2008 Tranche	9/2008 Tranche
Target price	€2.64	€2.60	€2.51	€2.50	€2.46
Risk-free interest rate	3.65%	4.11%	3.80%	3.77%	3.89%
Volatility	50.50%	48.58%	41.14%	44.14%	42.15%
Stock market price when the options were granted	€2.35	€2.55	€2.27	€2.40	€2.24

Stock Options program 2008	2008 Tranche
Outstanding at beginning of financial year	1,200,000
Issued in the financial year	200,000
Lapsed	0
Exercised	0
Outstanding at end of financial year	1,000,000
Exercisable at end of financial year	0

Stock Options	12/2008 Tranche
Target price	€1.94
Risk-free interest rate	2.26%

Volatility	50.35%
Stock market price when the options were granted	€1.49

Stock options issued at the end of the financial year had a weighted average term to maturity of 2.92 years (previous year: 3.39 years).

(18) Provisions

	As at 1/1/08	Con-sumption	Write-back	Additions	As at 12/31/08
	€K	€K	€K	€K	€K
Other provisions					
Restructuring expense	0	0	0	525	525
Commitment employee	30	0	0	2	32
Other uncertain liabilities	10	0	0	0	10
Legal costs and risks	0	0	0	50	50
	40	0	0	577	617

Except for the provisions for restructuring expenses, the provisions stated have terms to maturity of up to one year. The outflow of resources for restructuring measures is expected to total €269K in financial year 2009 and €256K in the following three years.

In the reporting year, obligations that are in principle certain to arise but for which the exact time and/or amount is uncertain while being definite to a high degree of certainty are shown as liabilities and not as provisions. The previous year's figures (€1.428 million) were reclassified accordingly.

(19) Liabilities

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

		Time to maturity			
	12.31.08 Total	Up to 1 year	1-5 years	12.31.08 Total	Up to 1 year
	€K	€K	€K	€K	€K
Amounts owed to banks	10,442	7,434	3,008	0	9,398
Prepayments received	289	289	0	0	437
Trade payables	3,218	3,218	0	0	2,382
Special investment grant item	231	78	153	0	318
Liabilities to associated companies	22	22	0	0	16
Other liabilities	7,206	4,932	2,274	0	7,402
of which					

(Partners)	(1,153)	(0)	(1,153)	(0)	(1,147)
(Financial leasing liabilities)	(1,530)	(463)	(1,067)	(0)	(636)
(Social security-related)	(25)	(25)	(0)	(0)	(347)
(Taxes)	(176)	(176)	(0)	(0)	(10)
	21,408	15,973	5,435	0	19,953

Unlike in the previous year, the figures stated include obligations that are in principle certain to arise but for which the exact time and/or amount is uncertain while being definite to a high degree of certainty are shown as liabilities and not as provisions. The previous year's figures (€1.428 million) were reclassified accordingly.

Of the long-term liabilities (with times to maturity of more than 1 year) totaling €5.435 million, interest was paid on €5,281 million (previous year: €5.034 million). Of the short-term liabilities (with times to maturity of up to 1 year) totaling €15.973 million, interest was paid on €8.187 million. The average interest rate paid was around 7% (previous year: 6%).

In the financial year 2008 a total of around €1.204 million was raised in new loans. In addition, the *aap* Group makes use of current account overdraft facilities totaling €5.787 million, of which the Dutch companies' share is €2.892 million.

They serve for one as operating credits and for another to finance the purchase of all assets in connection with the product Adcon® L. They have terms of between two and five years, with interest payable at both fixed (5.45%–5.70%) and variable rates (based on 3-month Euribor).

The *aap* Group's short- and long-term liabilities to banks are all denominated in euro. Advance payments received total €144K. Other, dollar-denominated liabilities amount to €1.592 million.

Financial leasing liabilities are for machinery and are covered by the assets leased. Interest was agreed for the entire term of the leasing agreement and amounts to average of around 7% (previous year: 6%).

(20) Other Financial Liabilities

Other financial liabilities break down as follows:

	Dec. 31, 2008	Dec. 31, 2007
	€K	€K
Future rent payments	4,619	4,405
Future operating lease payments	1,202	1,192
Other financial obligations	227	42
Total	6,048	5,639

		Capital repayments		
	Dec. 31, 2008	2009	2010 - 2013	From 2014
	€K	€K	€K	€K
Future rent payments	4,619	1,421	3,198	0
Future operating lease payments	1,202	540	662	0
Other financial obligations	227	227	0	0
Total	6,048	2,188	3,860	0

The operating lease contracts are short-term contracts for cars and provide in some instances for renewal and purchase options. Expenditure on operating lease contract stated in the reporting period totaled €238K.

(21) Contingent Liabilities

A contingent liability exists in connection with the purchase contract for the Adcon® gel license. By the terms of the contract EMCM B.V. must pay the sum of US$500,000 if sales achieved under the license exceed US$2.2 million between either August 1, 2007 and July 31, 2008 or between August 1, 2008 and July 31, 2009.

At the Extraordinary General Meeting of *aap* Implantate AG held on February 15, 2007 a capital increase in return for a contribution in kind was agreed. Suits filed by individual shareholders delayed the commercial register entry. *aap* then embarked on fast track proceedings, an option created in 2006 to give companies affected by litigation in connection with general meeting greater legal security and swifter speed of proceedings. *aap* AG won the case in the court of first instance. An appeal to the higher court is now pending. No date has yet been set for the higher court hearings, but the Management Board assumes that the case will be decided in *aap* AG's favor and that no losses will be incurred in the process.

A suit was also filed against resolutions adopted by the 2008 General Meeting, but an agreement was reached at the end of 2008, so no further risks arise from this suit. In theory, however, further suits could be filed against resolutions adopted by the General Meeting if grounds for annulment are claimed. On the basis of legal advice the Management Board assumes that no grounds for annulment exist and that no further risks therefore exist.

Out of court proceedings are currently under way against a Group company for alleged unlawful termination of a distribution contract. On the basis of legal advice the Management Board assumes that the claim of unlawful termination is groundless and that an out of court settlement in the Group company's favor will be agreed within the next 12 months.

A contingent liability of up to €150K arises from a service relationship between a Group company and an external consultant. The claim could not be substantiated by the balance sheet date or during the period in which the consolidated financial statements were being prepared. The Company's Management Board assumes that an out of court settlement in the Group company's favor should be achievable in the course of the financial year 2009.

Contingent liabilities amounting to €115K relate to public sector grants in case the Company did not qualify for subsidy and the grant was retailed, funds received were not put to proper use and the requirements of the subsidy guidelines were therefore not fulfilled.

Contingent liabilities amounting to €136K relate to investment grants received. The assets funded must remain at the Company's Berlin location for at least five years after completion of the investment project. The goods manufactured may not be primarily sold outside of the region.

In the financial year 2006 a former partner in *aap* Biomaterials GmbH & Co. KG waived loan claims against the company and against *aap* Implantate AG. These loan claims were refinanced. As collateral for the refinancing loan the former partner assigned 194,209 *aap* Implantate AG shares. If the sale of these shares leads to tax that the former partner must pay, the loan claims against *aap* Biomaterials GmbH & Co. KG and *aap* Implantate AG will be reactivated proportionately in relation to the original loan claims. This will only lead to a contingent liability for the Group, however, if the share price exceeds €5.40.

H. Other Disclosures

(22) 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 available for sale are stated at market value, other financial assets at the depreciated cost of acquisition. Market values are established on the basis of acknowledged valuation methods.

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

Market values are either the market price or established on the basis of acknowledged valuation methods. No material differences from the fair value resulted for financial assets and liabilities.

Financial assets with the exception of assets stated at their fair market value with effect on net income are reviewed on every balance sheet date for signs of impairment. Financial assets are impaired if, as a result of one or more events that occur after their first-time statement, there are objective indications that anticipated future cash flows may have changed for the negative.

Value adjustments for receivables shown under the following balance sheet items developed as follows:

Value adjustment for receivables in 2008	Trade receivables €K	Other receivables and other assets €K	Total €K
As of 1/1/08	173	162	335
Value adjustment in reporting year	178	192	370
Disposals	./. 68	0	./. 68
As of 12/31/08	283	354	637

Trade receivables include €240K in accounts receivable that were value adjusted by €209K in view of anticipated payment difficulties.

Value adjustment for receivables in 2007	Trade receivables €K	Other receivables and other assets €K	Total €K
As of 1/1/07	139	222	361
Addition due to changes in consolidation entity	7	0	7
Value adjustment in reporting year	68	0	68
Disposals	./. 41	./. 60	./. 101
As of 12/31/07	173	162	335

Valuations of individual financial instruments by category are shown in the following tables. Along with financial assets and liabilities, other assets and other liabilities include non-financial assets and liabilities that serve to reconcile the corresponding balance sheet items. With the exception of the book values of amounts owed to banks, book values stated in the tables largely corresponded to the fair market values as of the balance sheet date. The fair market value of amounts owed to banks as of December 31, 2008 amounted to €10.134 million.

	Book value as of 12/31/08	Balance sheet valuation in accordance with IAS 39		Non-financial assets/ liabilities
		Continued cost of acquisition	Fair value, no effect on operating result	
	€K	€K	€K	€K
Assets				
Other investments	358	0	358	0
Trade receivables	6,795	6,795	0	0
Due from undertakings with which the company is linked by participating interests	1	1	0	0
Other assets				
- financial assets	1,185	1,185	0	0
- non-financial assets	746	0	0	746
Cash and cash equivalents	96	96	0	0
Liabilities				
Amounts owed to banks	10,442	10,442	0	0
Financial leasing liabilities	1,530	1,530	0	0
Trade liabilities	3,218	3,218	0	0
Amounts owed to partners	1,153	1,153	0	0
Owed to undertakings with which the company is linked by participating interests	22	22	0	0
Other liabilities				
- financial liabilities	3,941	3,941	0	0
- non-financial liabilities	582	0	0	582

thereof aggregated by valuation methods in accordance with IAS 39:

	Book value as of 12/31/08	Balance sheet valuation as per IAS 39 Continued cost of acquisition	Fair value, not affecting operating result
	€K	€K	€K
Loans and receivables, including cash and cash equivalents	8,077	8,077	0
Financial assets held as available for sale	358	0	358
Total financial assets	**8,435**	**8,077**	**358**
Liabilities valued at their continued cost of acquisition	20,306	20,306	0
Total financial liabilities	20,306	20,306	**0**

	Book value as of 12/31/07	Balance sheet valuation in accordance with IAS 39		Non-financial assets/ liabilities
		Continued cost of acquisition	Fair value, no effect on operating result	
	€K	€K	€K	€K
Assets				
Other investments	358	0	358	0
Trade receivables	7,160	7,160	0	0
Due from undertakings with which the company is linked by participating interests	83	83	0	0
Other assets				
- financial assets	1,034	1,034	0	0
- non-financial assets	592	0	0	592
Cash and cash equivalents	297	297	0	0
Liabilities				

Amounts owed to banks	9,398	9,398	0	0
Financial leasing liabilities	636	636	0	0
Trade liabilities	2,382	2,382	0	0
Amounts owed to partners	1,147	1,147	0	0
Owed to undertakings with which the company is linked by participating interests	16	16	0	0
Other liabilities				
- financial liabilities	3,200	3,200	0	0
- non-financial liabilities	991	0	0	991

Thereof aggregated by valuation methods in accordance with IAS 39:

	Book value as of 12/31/07	Balance sheet valuation as per IAS 39 Continued cost of acquisition	Fair value, not affecting operating result
	€K	€K	€K
Loans and receivables, including cash and cash equivalents	8,573	8,573	0
Financial assets held as available for sale	358	0	358
Total financial assets	**8,931**	**8,573**	**358**
Liabilities valued at their continued cost of acquisition	16,779	16,779	0
Total financial liabilities*	**16,779**	**16,779**	**0**

*) For the financial year 2007 the reclassification of other provisions as other liabilities was not taken into consideration.

(23) Management of Financial Risks

In view of its operating activites the *aap* Group is liable to risks in the following areas:

- Market risks
- Liquidity risks
- Credit risks

Market Risks

Market risks are understood to include interest risks, currency risks, and other risks.

Interest Risks

Interest risks result from financial liabilities and investments. The *aap* Group seeks to optimize interest results and to minimize interest risks. To do so it operates cash management across the Group and for original financial transactions. Interest and price change risks are managed by mixing terms and by taking up variable and fixed interest positions. The use of derivative financial instruments is currently under consideration.

Currency Risks

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

The lion's share of the Group's business activity is conducted in the euro zone. Business conducted outside of Europe has not been generally suitable in nature or extent for hedging by means of exchange futures trading or similar hedging measures. For individual contracts that involve large amounts in foreign currencies currency risks are currently limited by intra-group foreign exchange business, with dollar-denominated receivables and liabilities largely balancing each other out. In the future, *aap* is, however, planning to hedge currency risks for sales involving larger amounts in US-dollars. Further hedging is currently being considered.

Other Price Risks

In connection with the presentation of market risks, IFRS 7 requires details of how hypothetical changes in risk variables might affect the prices of financial instruments.

At *aap* Implantate AG the market prices of listed securities are the only relevant risk variables. As of December 31, 2008, however, *aap* Implantate AG held no shares in listed companies.

Liquidity Risks

The Company's liquidity risk is that of possibly being unable to meet financial obligations on time for lack of liquidity. This risk arises, for example, in connection with the repayment of financial liabilities, payment for purchases, and commitments arising from financial leasing.

aap Implantate AG limits this risk by means of effective central cash management and by negotiating adequate credit lines. In addition to cash and cash equivalents, the *aap* Group has at its disposal until further notice credit lines for its German companies totaling €3.500 million and credit lines for its Dutch companies amounting to €3.150 million. To ensure corporate financing *aap* carried out a €1,267,357 capital increase in March 2009. In addition, the Company was able to achieve a €2 million net inflow of funds by a shareholder taking on a financing obligation. Further more, a reduction in times for payment was agreed with a number of global *aap* customers.

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

Capital/interest payments toward financial liabilities	Book value on 12/31/08	Capital payments			Interest payments		
		2009	2010 - 2013	From 2014	2009	2010 - 2013	From 2014
	€K	€K	€K	€K	€K	€K	€k
Owed to banks	10,442	7,434	3,008	0	658	922	0
financial liabilities due to parnters	1,153	0	1,153	0	69	23	0
Leasing liabilities	1,530	463	1,067	0	96	187	0
Other liabilities	4,523	4,469	54	0	19	5	0
Total	17,648	12,366	5,282	0	842	1,137	0

Capital/interest payments toward financial liabilities	Book value on 12/31/07	Capital payments			Interest payments		
		2008	2009 - 2012	From 2013	2008	2009 - 2012	From 2013
	€K	€K	€K	€K	€K	€K	€K
Owed to banks	9,398	5,917	2,481	1,000	589	351	0
financial liabilities due to parnters	1,147	0	1,147	0	69	92	0
Leasing liabilities	636	302	334	0	34	30	0
Other liabilities	5,598	4,532	1,066	0	961	0	0
Total	16,779	10,751	5,028	1,000	1,653	473	0

Credit Risks

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

Credit risks result mainly from trade receivables. Credit risks in respect of contracting partners are checked before the contract is signed and are monitored constantly. Credit risks still exist because customers may not honor their payment obligations. The *aap* Group limits this risk by undertaking a regular creditworthiness review of its customers and by means of efficient receivables management. Write-offs in the reporting year and the previous year were immaterial.

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

(24) Capital Management

aap manages its capital with a view to ensuring the Company's long-term development, its short-term solvency, and a sufficiently high level of self-financing. This ensures that all companies in the Group are able to operate on the assumption that it will stay in business as a going concern. In addition, the aim of *aap*'s capital management is to ensure that inter alia a credit rating appropriate to its credit agreements and a good equity ratio are maintained. The Group manages its capital structure and undertakes adjustments taking the change in economic framework conditions into account. *aap* monitors its capital by means of its debt and interest coverage ratios and its net indebtedness. The *aap* Management Board considers a debt coverage ratio of less than 3 and an interest coverage ratio of more than 6 to be strategically achievable targets.

Debt/interest coverage ratio

	Dec. 31, 2008	Dec. 31, 2007
	€K	€K
Financial Liabilities	20.306	16.779
EBITDA	3,708	5,132
Debt interest ratio	5.5	3.3

	Dec. 31, 2008	Dec. 31, 2007
	€K	€K
Interest expenses	-930	-547
EBITDA	3,708	5;132
Interest coverage ratio	4.0	9.4

Net Indebtedness

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

	Dec. 31, 2008	Dec. 31, 2007
	€K	€K
Financial Liabilities	20,306	16,779
Cash and cash equivalents	./. 96	./. 297
Net debts	20,210	16,482
Equity (i)	41,303	43,447
Net indebtedness to capital ratio	49%	38%

(i) Equity comprises the *aap* Group's entire equity capital and reserves

In the financial year the Group's equity fell mainly due to extraordinary write-downs of intangible assets. The increase in interest-bearing liabilities results from raising new loans in the financial year. The decrease in funds is due mainly to lower year-on-year sales in the fourth quarter of 2008, to higher costs, to building up inventories, and to the deterioration of payment behavior by a number of customers in the general financial crisis.

(25) Cash Flow Statement

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

Interest income	€7K (previous year: €35K)
Interest expenses	€863K (previous year: €340K)

Income tax paid totaled €183K (previous year: €1K); income tax refunded was €3K (previous year: nil).

(26) Participating Interests

I. Related Undertakings (Section 271(2) HGB)

	Name	Domicile	Participation %	Equity €K	Result €K
1.	*aap* Biomaterials GmbH	Dieburg	100	7,057	0
2.	OSARTIS Verwaltungs-GmbH	Elsenfeld	100	25	./. 1
3.	ADC Advanced Dental Care Verwaltungs-GmbH	Elsenfeld	51	56	56
4.	*aap* bio implants Netherlands B.V.	Nijmegen (NL)	100	1,344	./. 166
5.	*aap* bio implants markets GmbH	Düsseldorf	100	./.244	0

The figures stated relate to annual financial statements to IFRS.

aap biomaterials GmbH & Co. KG was merged with *aap* biomaterials GmbH by the terms of an agreement dated December 15, 2008. All shares in ADC Advanced Dental Care GmbH & Co. KG have been transferred by way of legal succession to ADC Advanced Dental Care GmbH. After entry of the capital increase in the commercial register the participation quota will be 54%. (C.2).

II. Participating Interests

	Name	Domicile	Participation %	Equity €K	Result €K
6.	AEQUOS Endoprothetik GmbH	Munich	6.25	-	-
7.	Cybernetic Vision AG Health Monitoring Technologies	Berlin	5.96	-	-
8.	Rofil Medical International N.V.		10.00	0	0
9.	Prisna B.V.		20.00	10	0

The annual financial statements of AEQUOS Endoprothetik GmbH, Cybernetic Vision AG Health Monitoring Technologies, Rofil Medical International N.V and Prisna B.V. to December 31, 2008 are not yet available.

Insolvency proceedings were initiated on December 1, 2000 in respect of the assets of Cybernetic Vision AG Health Monitoring Technologies and have yet to be concluded. In 2007 insolvency proceedings were initiated against Rofil Medical International N.V.

(27) Related Enterprises and Persons

The relationship to related enterprises and persons are presented in groups of persons. A separate reporting of individual persons differs from last year and will not occur.

In the reporting period the following transactions with related enterprises and persons have been carried out:

2008	Related enterprises	Other related persons
	T€	T€
Selling of goods	467	
Perchased services	./.172.5	./.56
Financing		
- Loans	0	
- Interest expense	./.70	
- Interest rate	6%	

2007	Related enterprises	Other related persons
	T€	T€
Selling of goods	436	
Perchased services	./.150	./.81
Financing		
- Loans	0	
- Interest expense	./.71	
- Interest rate	6%	

All of the transactions occurred to usual-in-the-market conditions and do not vary from delivery and performance relationships with foreign third parties.

The transactions led to the following end-of-year items:

2008	Related enterprises	Other related persons
	T€	T€
Trade receivables from companies with which a participating relationship exists	1	
Liabilities loans	./. 1,153	
Liabilities from companies with which a participating relationship exists	./. 22	

2007	Related enterprises	Other related persons
	T€	T€
Trade receivables from companies with which a participating relationship exists	83	
Liabilities loans	./.1,147	
Liabilities from companies with which a participating relationship exists	./. 16	

(28) 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 (until December 31, 2008)
Mr. Biense Visser, businessman, Utrecht, Netherlands (from January 1, 2009)

As agreed on November 28, 2008, Mr. Oliver Bielenstein resigned from the Management Board. Mr. Biense Visser took over as a new member of the Management Board as of January 1, 2009.

Management remuneration totaled €655K.

	Remuneration components in €K			
	Fixed	Performance-related	Long-term incentive	Total
Bruke Seyoum Alemu	163	90	77	330
Oliver Bielenstein	193	5	127	325
				655

The Company has taken out D&O insurance cover for the management. Premiums paid in 2008 totaled €27K.

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

Biense Visser	Mediq N.V. (formerly OPG)
	HZPC Holland B.V.
	Keygene N.V. (until May 14, 2008)
	Kreatech Biotechnology B.V. (since February 10, 2009)

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

Mr. Rubino di Girolamo, business management expert, Oberägeri near Zug, Switzerland (Chairman)
Mr. Jürgen W. Krebs, business management expert, Kilchberg near Zurich, Switzerland (Deputy Chairman)
Prof. Dr. Dr. med. Reinhard Schnettler, university professor, Giessen

Mr. Uwe Ahrens, Dipl.-Ing., Berlin
Mr. Marcel Boekhoorn, businessman, Nijmegen, Netherlands
Mr. Biense Visser, businessman, Utrecht, Netherlands (until November 30, 2008)
Mr. Ronald Meersschaert, businessman, Arnhem, Netherlands (since December 1, 2008)

The 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 2008.

Mr. Biense Visser resigned from the Supervisory Board with effect from December 1, 2008. The General Meeting held on September 29, 2008 elected Mr. Ronald Meersschaert, Arnhem, Netherlands, as a substitute member of the Supervisory Board. He took over as a full member from Biense Visser on December 1, 2008.

Supervisory Board remuneration in the financial year totaled €36K and breaks down as follows:

Herr Rubino di Girolamo	€13K
Herr Jürgen W. Krebs	€9K
Herr Prof. Dr. Dr. Reinhard Schnettler	€6K
Herr Uwe Ahrens	€4K
Herr Biense Visser	€3K
Herr Ronald Meersschaert	€1K
Herr Marcel Boekhoorn	€0K
	€36K

No payments were made in the reporting year.

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

Rubino di Girolamo	Deepblue Holding AG – Administrative Council Chairman – Bastei Privatfinanz AG Metalor Dental Holding AG
Jürgen W. Krebs	Merval Holding AG – Administrative Council Chairman – Basisinvest AG – Administrative Council Chairman – MainFirst Holding AG MainFirst Financial Service AG Reviderm AG
Prof. Dr. Dr. med. Reinhard Schnettler	Kliniken des Main-Taunus-Kreises GmbH
Uwe Ahrens	None
Biense Visser	Mediq N.V. (formerly OPG) HZPC Holland B.V. Keygene N.V. (until May 14, 2008)

	Kreatech Biotechnology B.V. (since February 10, 2009)
Marcel Boekhoorn	Openlot Systems B.V.
	Motip Dubli Group
	Toeca International Company B.V. (since October 24, 2008)
Ronald Meersschaert	Toeca International Company B.V.

Share ownership by members of the Supervisory Board and Management Board is as follows:

	Shares		Options	
	2008	2007	2008	2007
Supervisory Board				
Jürgen W. Krebs	3,287,200	3,076,200	0	0
Rubino di Girolamo	1,530,000	1,470,000	0	0
Prof. Dr. Dr. med. Reinhard Schnettler	182,094	166,094	0	0
Uwe Ahrens	1,053,723	1,122,723	0	0
Marcel Boekhoorn	2,720,500	2,346,145	0	0
Biense Visser	95,000	0	0	0
Ronald Meersschaert	0	0	0	0
Management Board				
Bruke Seyoum Alemu	45,000	40,000	400,000	200,000
Oliver Bielenstein	503,128	503,128	365,000	365,000

Fair market values of the options when they were granted were between €1.14 and €0.55.

(29) Notifications as per Section 160 (1) 8 AktG

By April 23, 2009, the day on which the Management Board released the annual financial statements, *aap* AG had received the following notifications in accordance with Section 21 (1) or (1a) of the Securities Trading Act (WpHG):

Name/Company	Domicile (only if company)	reached, exceeded or fallen below threshold	Day of reaching, exceeding or fallen below the threshold	Amount of own proportion on voting rights
Jan Albert de Vries		20,00 %	2009/03/26	19.48%
Noes Beheer B.V.	Nijmengen	20,00 %	2009/03/26	19.48%
Jürgen W. Krebs		15, 20, 25, 30 %	2009/01/13	12.35%
Merval AG	Zug	3, 5, 10, 15, 20, 25, 30 %	2009/01/13	1.30%
Rubino Di Girolamo		10, 15, 20, 25, 30 %	2009/01/13	5.75%
Deepblue Holding AG	Zug	10, 15, 20, 25, 30 %	2009/01/13	5.75%
Oliver Bielenstein		3, 5, 10, 15, 20,	2009/01/13	1.89%

		25, 30 %		
Bruke Alemu		3, 5, 10, 15, 20, 25, 30 %	2009/01/13	0.17%
Bernhard Gottwald		3, 5, 10, 15, 20, 25, 30 %	2009/01/13	0.77%
Uwe Ahrens		5, 10, 15, 20, 25, 30 %	2009/01/13	3.96%
Oliver Benz		3, 5, 10, 15, 20, 25, 30 %	2009/01/13	0.15%
Carpe Diem Holding AG	Uerikon	3, 5, 10, 15, 20, 25, 30 %	2009/01/13	0.15%
KST Beteiligungs AG	Stuttgart	3, 5, 10, 15, 20, 25, 30 %	2009/01/13	2.36%
Hanspeter Schwager		3, 5, 10, 15, 20, 25, 30 %	2009/01/13	2.49%
DZ Bank AG	Frankfurt	5 %	2008/09/05	4.80%
Ramphastos Investments N.V.	Arnhem	10 %	2008/05/07	10.04%
Elocin B.V.	Arnhem	10 %	2008/05/07	10.04%
Martinus Jacobus Johannes Boekhoorn		10 %	2008/05/07	10.04%
Union Investment Luxembourg S.A.	Luxemburg	3 %	2007/09/27	2.57%
Highclere International Investors Limited	London	3 %	2007/09/26	2.10%
Highclere International Investors Smaller Companies Fund	Westport	3 %	2007/09/26	2.10%
Asuncion Barrueto		3, 5, 10, 15, 20, 25, 30, 50 %	2007/09/20	0%
Oliver Borrmann		3, 5, 10, 15, 20, 25, 30, 50 %	2007/09/20	0.01%
Fermann AG	Zürich	3, 5, 10, 15, 20, 25, 30, 50 %	2007/09/20	0%
Martin Lechner		3, 5, 10, 15, 20, 25, 30, 50 %	2007/09/20	0%
Dr. Frank Husemann		3, 5, 10, 15, 20, 25, 30, 50 %	2007/09/20	0%
Berlex AG	Berlin	3, 5, 10, 15, 20, 25, 30, 50 %	2007/09/20	0%
Robert Schrödel		3, 5, 10, 15, 20, 25, 30, 50 %	2007/09/20	0%
Christian Walliker		3, 5, 10, 15, 20, 25, 30, 50 %	2007/09/20	0%

(30) Auditor’s Fees

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

a) For auditing the annual financial statements	€121,000
b) Other certificates or valuation services	€31,000

(31) Events Since the Balance Sheet Date

On November 28, 2008 the Supervisory Board appointed Biense Visser as the new Chairman of the Management Board with effect from January 1, 2009.

The pool of subscribers to the 2004 capital increase in kind to agree on voting behavior at the Annual General Meeting agreed to disband on January 13, 2009.

On February 13, 2009 *aap* Biomaterials GmbH was served a claim for damages in respect of alleged unauthorized dissemination and exploitation of company secrets with a proposed value of €30 million. At present we expect the case against *aap* to be dismissed so that no damages will be payable.

As a part of the Group's cost reduction and restructuring program a decision was reached in February to transfer the domicile of *aap* bio implants markets GmbH from Düsseldorf to Berlin. The transfer was entered in the commercial register on March 16, 2009. In March the employees who were taken over moved to a new workplace in Berlin, and the Düsseldorf location was closed as of March 31, 2009.

On March 16, 2009 the Management Board decided, with the Supervisory Board's approval, to increase the capital stock from approved capital by around 5% or €1,267,357. The new shares were issued against cash by way of a private placement at a price of €1.00 each, ruling out subscription rights for existing shareholders. With the commercial register entry on March 23, 2009 the Company's capital stock was increased by €1,267,357 from €26,614,513 to €27,881,870. Due to a financing obligation by a shareholder, *aap* also received €2 million, which together with the above-mentioned capital increase led to an inflow of funds totaling around €3.3 million. In addition, the Company was able to negotiate the waiving of a €0.5 million shareholder loan and a reduction in payment targets with various global customers.

(32) Statement on the German Corporate Governance Code

aap Implantate AG has issued and made available to shareholders the declaration on the German Corporate Governance Code required by Section 161 AktG.

(33) Publication

These consolidated financial statements to December 31, 2008 were authorized for publication by the Company's Management Board on April 23, 2008.

(34) Responsibility Statement by the Company's Authorized Officers as per Section 37y (1) of the German Securities Trading Act (WpHG)

To the best of our knowledge and in accordance with the applicable reporting principles for financial reporting the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Berlin, April 2009

The Management Board

Biense Visser

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 group management report for the financial year January 1, 2008 to December 31, 2008. Drawing up the consolidated financial statements and the group management report in accordance with IFRS as applicable in the EU and with the additional commercial law provisions of Section 315 a (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 group management report.

We carried out our audit of the financial statements drawn up in accordance with Section 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 group management report. 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 group management report 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 and consolidation principles applied, and the fundamental assessments made by the Management Board, as well as forming an opinion on the overall picture presented in the consolidated financial statements and in the group management report. We are of the opinion that our audit forms a sufficiently sound basis for our judgment.

Our audit has 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 applicable in the EU and with the additional commercial law provisions of Section 315 a (1) HGB 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 group management report tallies with the consolidated financial statements, conveys an accurate picture of the Group's situation, and accurately describes the risks and opportunities of future development.

Berlin, April 24, 2009

RöverBrönner KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Gertrud R. Bergmann Auditor	Bettina Grothe Auditor