Consolidated Annual Financial Statement 2009

Table of Contents

Foreword by the Management Board

Ladies and Gentlemen,

Dear shareholders, employees and business partners,

In the fiscal year 2009 we successfully achieved our strategic goal of profitable growth. Turnover increased by almost 4% to €33.1 million, while EBITDA increased 78% to €6.6 million.

We would now like to explain the operative and strategic successes achieved in the financial year 2009 using the focus points defined in the performance-improving program put into place at the end of 2008:

a) Focus on Ortho/Trauma/Spine

- By outsourcing the dental business to an exclusive distribution partner it was possible to achieve strong growth in turnover for dental products.
- A product that was defined as belonging to the non-core business sold for €0.5 million during the first quarter. At the same time, as counter performance, we were able to agree that the purchaser waiver the repayment of a loan.
- In August 2009 we sold a patent for a bovine bone replacement material for €1 million. In addition, *aap* was granted an irrevocable, exclusive and unlimited free license for all orthopaedic applications outside of the dental area.
- In Medical Aesthetics, an exclusive licence agreement worth €3 million was concluded regarding a product for which *aap* continues to be the contract manufacturer and supplier.
- The sale group Analytics (referred to hereinafter as "division"; comprising the Dutch subsidiaries Bactimm B.V. and Farmalyse B.V.) was sold for a total purchase price of €2.3 million (Enterprise Value €3.1 million). This divestment of a non-core business reduced the number of employees of the *aap* Group by a further 32. Another consequence is that there is now only one operative Dutch subsidiary in the group.

b) Focus on costs

- With effect as of January 1, 2009, we fused the Traumatology & Orthopaedics Division with the Biomaterials Division, meaning that we now have a group-wide research and development division and a uniform system of marketing and sales organisation.
- At the beginning of the fiscal year 2009, all research and development projects were evaluated and assessed in terms of their strategic relevance, their IP-position and the timeframe for their positive cash-flow contribution. This resulted in a considerable reduction in the number R&D projects. The remaining – and, thus, the most promising - projects were consolidated in "technology platforms".
- The relocation of the registered seat of *aap* bio implants markets GmbH from Düsseldorf to Berlin and the subsequent merger with *aap* Implantate AG not only led in March 2009 to the creation of a Center of Excellence for Marketing and Sales at the company's headquarters, but also allowed us to further simplify the group structure.
- The number of employees was reduced in the course of 2009 from 315 (December 31, 2008) to 242 (-23%) as per December 31, 2009.

c) Focus on Cash

- On March 16, 2009, the Management Board, with the consent of the Supervisory Board, decided to increase the share capital from approved capital by approx. 5 %. By entry of March 23, 2009, the share capital of the company was increased by €1,267,357 to €27,881,870.

- At the beginning of 2009, we successfully improved the liquidity of the company by negotiating better repayment conditions, mainly with larger OEM partners.

- In March, a shareholder granted us a loan as part of a financing obligation in the amount of €2.0 million.

d) Focus on customers:

- The creation of a Center of Excellence for Marketing and Sales in Berlin has enabled us to bundle activities in this field across the group. The team was further strengthened by the appointment of a Marketing and Sales Director, a Marketing Manager and several members of the product management staff.

- The ERP system in use at the German sites was successfully introduced at the Dutch subsidiary, which had a positive effect on delivery times and customer service, among other things.

We have maximised the ratio of interest-bearing liabilities to EBITDA at 1.2, which is considerably lower than the objective set in the capital management plan (which was 3.5), in order *inter alia* to allow us to exploit third party financing opportunities in the form of bank loans. In addition, our interest coverage ratio has improved significantly and, at 7.8, is well over the planned value for 2009 of 5.

Our consolidated annual financial statement for 2008 was audited as part of a random selection by the Financial Reporting Enforcement Panel (FREP) from April 2009 to December 2009. We are proud to announce that this audit did not result in any objections from the FREP.

With our mission statement we are committed to the development, manufacturing and marketing of innovative, cost-effective, high-quality biomaterials and implants, with considerable benefits for both patients and our customers, the service providers in the healthcare system. This mission statement is clearly reflected in our development projects:

- By using silver to coat titanium implants for Traumatology and as an adjuvant in bone cement, we hope to provide the market with products that will reduce the risk of bone infections.

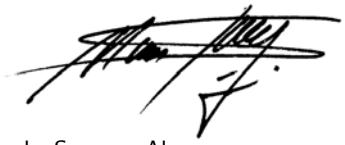
- The sterile cement mixing system "all-in-one" is intended to improve and simplify handling for users.

- Resorbable trauma implants made of magnesium, which the body can break down in full, mean that the number of operations can be reduced.

In 2010 too, the focus on customers, costs and liquidity will continue to be at the core of *aap*'s corporate strategy, resulting in a reduction of the working capital that will enable us to achieve profitable growth. The goal is to develop *aap* from a manufacturer of generic products into a leading medical device manufacturer with its own brand of patented products.

We would like to take this opportunity to express our sincere thanks to our employees for their commitment, creativity and cooperation, and to our business partners and shareholders for their support and trust. We look forward to continuing our successful cooperation in the future.

Biense Visser
Chairman of the Management Board/CEO



Bruke Seyoum Alemu
Management Board/COO

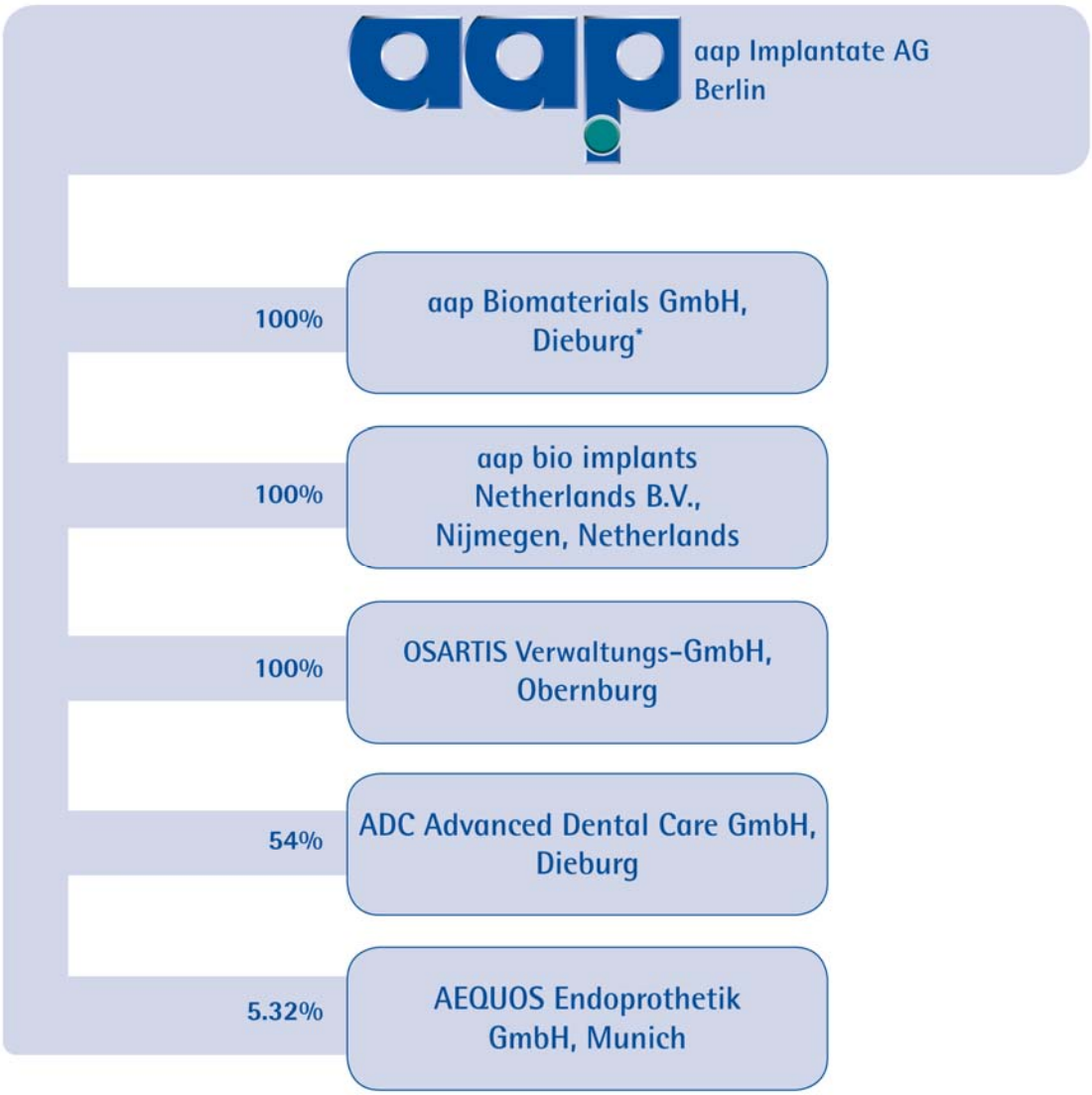
aap Group Management Report 2009

In the following, the relationships within the Group will be reported using the terms "*aap*", "*aap* Group", "the Group" or "Company Group".

There may be technical rounding-off differences in the figures stated below, but these do not affect the overall information.

A) General Terms and Framework Conditions

1. Organizational and Legal Structure



* Merger and change of name registered on February 4, 2009

aap Implantate AG is the parent company of the *aap* Group. According to the economic diagram, the *aap* Group has the following active companies as per December 31, 2009: *aap* Implantate AG, *aap* Biomaterials GmbH, ADC Advanced Dental Care GmbH (ADC GmbH) and the subsidiary of *aap* bio implants Netherlands B.V. - European Medical Contract Manufacturing (EMCM) B.V.

Subsidiaries

aap Biomaterials GmbH

All German development and production activities in the field of medicinal biomaterials are concentrated at *aap* Biomaterials GmbH. The company seat is in Dieburg, near Frankfurt am Main. There is another office in Obernburg near Aschaffenburg.

aap bio implants markets GmbH

Originally, all marketing and sales activities relating to *aap* biomaterials were bundled at the *aap* bio implants markets GmbH. As part of the restructuring of the *aap* Group and the creation of a Center of Excellence for Marketing & Sales in Berlin that this entailed, it was decided that the company's seat would be relocated from Düsseldorf to Berlin. This was registered in the commercial register on March16, 2009. In a second step, by entry of September 2, 2009, *aap* bio implants markets GmbH was merged with *aap* Implantate AG, with effect from January 1, 2009. The company no longer exists.

aap bio implants Netherlands B.V.

This company is the holding company of the Dutch group with the registered seat in Nijmegen.

European Medical Contract Manufacturing (EMCM) B.V.

EMCM with registered seat in Nijmegen bundles the Dutch development and manufacturing functions in the field of medical biomaterials.

Bactimm B.V. and Farmalyse B.V.

Bactimm (microbiological analyses, seat in Nijmegen) and Farmalyse (chemical analyses, seat in Zaandam) are companies that work for *aap* and for third parties in the field of analytics. As a result of the restructuring of *aap,* analytics was identified as a non-core area at the beginning of 2009. In the course of the implementation of this strategy, the companies were sold to a Dutch investor on December 17, 2009 for an enterprise value of €3.1 million.

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

ADC Advanced Dental Care GmbH

aap Implantate AG holds a majority share of 54% in ADC Dental Care GmbH, a distributor in the field of dentistry. In order to simplify the corporate structure, ADC GmbH & Co. KG was amalgamated with ADC Verwaltungs-GmbH with economic effect from July 1, 2008 and will operate keeping the same shareholding structure under the name ADC Advanced Dental Care GmbH. ADC GmbH & Co. KG was dissolved on April 2, 2009. The change in the company name and the relocation of the seat of the GmbH from Elsenfeld to Dieburg were registered on August 13, 2009.

Associated Companies

AEQUOS Endoprothetik GmbH

Following the increase in the share capital based on the shareholders' resolution dated May 27, 2009 (entered into the commercial register on January 18, 2010), *aap* Implantate AG's shareholding in AEQUOS Endoprothetik GmbH was reduced from 5.60% to 5.32%. The company owns and operates the innovative knee system AEQUOS®, which was jointly developed and manufactured together with *aap* Implantate AG.

Executive Bodies

Management Board

The Management Board of *aap* Implantate AG has two members. Mr. Biense Visser was appointed as of January 1, 2009 and was also named chairman of the management board (CEO). In addition to his work as CEO, he is also responsible for financial matters.

Mr. Bruke Seyoum Alemu is COO (Chief Operating Officer) and responsible for development, manufacturing, distribution and marketing at the *aap* group.

Supervisory Board

The deputy chairman of the supervisory board, Mr. Jürgen Krebs, resigned from the Supervisory Board following many years of service for *aap* Implantate AG at the General Meeting on August 7, 2009. Dr. Winfried Weigel was appointed in his place; he is a German citizen resident in Switzerland and is also managing director of CleanTech Capital GmbH with registered seat in Baar (Switzerland). In its constitutive meeting, which took place straight after the General Meeting, the Supervisory Board confirmed Mr. Rubino Di Girolamo as chairman, and Mr. Ronald Meersschaert was appointed new deputy chairman.

2. Segments

Up to and including 2008, *aap* Implantate AG compiled separate segment reports for the Traumatology/Orthopaedics and Biomaterials divisions. By decision of the management board in January 2009 it was decided as part of the new strategic focus of the *aap* Group, to move away from this segment-based approach and to run the *aap* Group both externally and internally as a company without separate segments. This approach is also reflected throughout the management and reporting structure.

3. Important Products and Business Processes

aap has three manufacturing sites in Germany: Berlin, Dieburg and Obernburg. *aap* Implantate AG manufactures osteosynthesis and endoprosthetic products in Berlin. *aap* has one of the most modern and efficient manufacturing sites in the world for bone cements in Dieburg. Biomaterials are produced in Obernburg and Dieburg. In the Netherlands *aap* has a modern biomaterials production plant in Nijmegen, where products are manufactured under clean room conditions and in accordance with Good Manufacturing Practice Standards (GMP). In addition, there is a logistics centre and distribution warehouse for international distributors in Nijmegen.

The new strategic approach, the amalgamation of the divisions and the management of all divisions from one location have resulted in the restructuring of business processes. Cross-Functional-Teams ensure that business processes are continuously optimised. A Center of Excellence for Marketing and Sales has been set up at *aap's* headquarters in Berlin in order to boost efficiency and effectiveness in these areas. A group-wide research and development body, as well as a quality management body, encourage synergetic effects between technologies from the field of metal implants and biomaterials. The IT infrastructure has also been harmonised further and standardized.

The highlights in 2009 included, among other things, the excellent response to the nationwide marketing promotion for the product PerOssal® in infection therapy. PerOssal® is a synthetic bone replacement material and serves as the carrier material for antibiotics. It is of great interest to all physicians active in the field of bone surgery. In addition, we procured four companies as OEM manufacturer in 2009, who distribute our vertebroplasty cement BonOs® Inject under a private label. The products from the cannulated screw range have also been available in individual sterile packaging since mid-2009.

4. Important Sales Markets and Competitive Positions

aap has three distribution channels. Direct distribution to hospitals, buying syndicates and clinics accounts for around 12% (previous year: 13%). Distribution is also carried out via an international network of distributors in over 40 countries and OEM-partnerships with national and international customers. The distribution channels with existing and new products are being consistently developed. The international distribution activities are focused on the EMEA-states (Europe, Middle East, Asia). Furthermore, *aap* sells its products worldwide to distribution partners under its own brand name and with third party brands and is one of the global technology leaders in several niche markets. *aap* achieves a large proportion of turnover through the development and production of products for leading orthopaedic companies that distribute products manufactured by *aap* worldwide under their own labels. In addition, as part of the turnover targets from project profits that began in 2009 (e.g. out-licensing, sale of patents for IP-protected products and technologies) *aap* has created a further pillar for future growth. Project turnover is to be achieved in 2010 in particular with the technologies WSG, Silver Coating, Magnesium and all-in-one-mixing systems.

The objective of the analysis of the existing IP-portfolios was to identify products and technologies which, on account of their unique selling points, can help to strengthen the competitive position and thus boost the value of the company. Thus, the continuous development of the strategic IP-portfolio is also a key to the development of *aap* from its position today as mainly a manufacturer of generic products, to a leader in innovation and product development.

aap presented its range of products at the most important international trade fairs in 2009, such as Arab Health in Dubai and the A.A.O.S. (American Academy of Orthopaedic Surgeons) in Las Vegas. In Vienna *aap* presented its products at the 28th Annual Meeting of European Bone Joint Society (EBJIS). In Germany, *aap* was present *inter alia* at the Medica 2009 in Düsseldorf, the Congress of the German Society for Surgery in Munich and the annual meeting of the South German Orthopaedic Surgeons in Baden-Baden.

In the course of the fiscal year, diverse products were approved or registered in international growth markets. CE approvals were granted for sterile cannulated screws 2.7 to 7.5, product expansion of the 9 mm shaft for the trauma shoulder system, the cannulated screw set 2.0 for hand and foot surgery, the new radius system 2.5 and cannulated screws 2.0/2.7 as well as for a vertebroplasty cement. In addition, endoprosthetic products were successfully re-classified in class III in the course of the fiscal year. In the third quarter, *aap* was granted market approval for BonOs® Inject in the United States. In addition, *aap* supported various major customers in obtaining approval for their products manufactured by *aap*.

5. Fundamental Legal and Economic Influencing Factors

Official registration and authorisation are an essential prerequisite for marketing medicinal products on every market all over the world. Since *aap* products are generally intended for worldwide distribution, the quality management system is based on the requirements of harmonised international rules and European regulations. Accordingly, the *aap* Group is regularly audited and certified accordingly, so that the products can be CE-marked and marketed. Furthermore, production is carried out in conformity with FDA requirements and according to GMP (Good Manufacturing Practice) at the Dutch subsidiaries.

All of the companies are certified according to the current applicable regulations for medical device manufacturers EN ISO 13485:2003 and Council Directive 93/42/EEC concerning medical devices. In addition, all companies in the group have undergone voluntary EN ISO 9001:2008 certification. All applicable environmental protection regulations are observed in the course of *aap's* business operations. Neither the manufacturing methods nor the products manufactured by *aap* constitute an indirect or direct risk for the environment.

6. Research and Development Activities

The medical technology industry is a dynamic and highly innovative sector. Germany is placed second in the world behind the USA in terms of its world trade share and number of patents. Around a third of turnover for German medical technology manufacturers is achieved with products that are less than three years old. On average, medical technology companies invest around 9% of turnover in research and development. The innovation and research site Germany plays a particularly important role for medical technology companies in this context. Further evidence of the innovative power of the sector: according to the European Patent Office in Munich, medical technology heads up the list of inventions registered with more than 15,700 patents. 11.4% of patent registrations thus come from the field of medical technology.

a) Trends in Medical Technology

The development of medical technology is far from being complete at the end of the 20th century. On the contrary, it is to be expected that progress will be even more rapid than ever now. A range of new, highly innovative technologies is already at the clinical trial stage or just about to begin this stage.

According to the experts, the "most encouraged fields of research" are: orthopaedics (above all spinal surgery and biomaterials), cardiology (above all coating procedures for medical devices and minimally-invasive procedures) and internal medicine (primarily endoscopy, diabetes).

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

Many experts predict that medical technology for regenerative medicine will become significantly more important. One reason for this is that cell and tissue technologies will be able to make the leap from basic research to application in the next few years. The development of new functional biomaterials must be included in this context. These ought to have improved biomimetic (i.e. mimicking natural conditions) characteristics, to facilitate easier cell colonisation and integration in the body. Implants are to be fitted with additional functions in the form of "regeneration of biological functions". Research groups in many parts of the world are already hard at work developing and applying nanoparticles for drug delivery.

b) Research and Development Activities at *aap*

In the fiscal year 2009, *aap* invested considerable amounts in research and development, and, as in the previous year, 25% of the total numbers of employees were employed in R&D, Clinical Affairs, Regulatory and Quality Management. *aap* invests approx. 13% of turnover in the development of new products (previous year: 15%). In addition to its own R&D activities, *aap* cooperates with numerous academic institutions (research institutes, university clinics) in new developments and the further development of existing technologies, as well as clinical trials. In addition, in the course of 2009 *aap* identified four projects that could be of considerable interest in global technological competition for the world leaders in Orthopaedics and Traumatology. The objective in this context is to cooperate with the market leaders at an early stage and to secure technologies. *aap* intends to create an additional future-proof pillar of turnover and profit using this model.

With its objectives of sustainable innovation leadership and the development in the value of the company, *aap* is pursuing research and development into 'platform technologies'. The strategic IP-portfolio is targeted at protecting these technologies and the resulting products.

Platform Technology	Derivative Products	
Cement and Cement Mixing Technology	PMMA-Cements	Disposable Mixing System
	HA-PMMA-Cements	Disposable Mixing/Transfer System Vertebro.
	Vertebroplasty Cements	Cement injection gun
	Vacuum Mixing Systems	Vacuum pump
	All-in-One Prepack Mixing System	
Nano/Micro-Silver Technology	Nano/Micro-Ag-Coating	Nano/Micro-Ag-Cement
HA und CaPTechnology	Ostim®	Osteo Cem (CaP-Cement)
	PerOssal®	Ostim® granules
	Oral Care Products	Cerabone®, natural HA-ceramic
	Nano-HA-Coating	Synthetic non-resorbable HA-ceramic
Magnasium Alloy Technology	Small Plates & Screws, Products for Cartilage Repair	Interference Screws
Locking Compression Fixation Technology	Anatomical Plates WSG, Radius & Humerus	WSG, Tibia & Femur
Shoulder System Technology	Trauma Shoulder System	Inverse Shoulder System
Collagen Technology	Jason®	Collagen prolonged release
	Jason® G	Dermis Dental
	Jason® Membrane	Dermis Rotator
	Collagen with Chondrocytes	

As a rule, all products are developed in close cooperation with medical users, often even at their initiative.

Developments in Traumatology are centred around the expansion of anatomical fixed-angle plate systems for various areas of the body based on patented or patentable technologies. In addition, the 2.0 screw set, the new Radius System 2.5 and the cannulated screws 2.0/2.7 have been completed and delivered to customers.

In orthopaedics we focused our work on the expansion of the shoulder and hip systems.

The re-classification of endoprosthetic products in class 3 was successfully completed in the fiscal year. The higher classification of replacement joints for hips, knees and shoulders on account of Commission Directive 2005/50/EC of August 11, 2005 on the re-classification of hip, knee and shoulder joint replacements in the framework of Council Directive 93/42/EEC concerning medical devices posed a potential risk, since a conformity

assessment procedure pursuant to Annex II para. 4 of Directive 93/42/EEC had to be completed by August 31, 2009. All *aap* products affected by this were granted the relevant conformity declarations by the end of December 2009.

In biomaterials, the main focus was on the development of new bone cement for vertebroplastics, the "all-in-one" mixing systems and in the field of collagen-based membranes and fabrics for localised wound treatment. Furthermore, *aap* is also involved in the development of new implant substances and coating procedures.

7. Overall Economic and Industry-Specific Framework Conditions

Management Boards opinion as to how the overall economic and industry-specific development has affected the course of business

a) Overall Economic Conditions

At the end of 2008 and well into 2009, the global economy experienced the most severe recession since the end of the Second World War. As a result of the international financial crisis, economic activity took a nosedive almost simultaneously in all of the industrialised nations. Even the emerging markets that had been experiencing strong growth had to withstand some major economic setbacks. In the second half-year 2009 there are growing indications of renewed stability. According to current estimates, the global GDP for 2009 – following growth of 3.2% in the previous year – has fallen 1.4%.

The downturn in international trade in goods and services was even greater than that seen in the global GDP. This is attributable primarily to the severe economic crisis in the USA since autumn of 2008. Not until the second quarter of 2009 did the economic downturn in the US begin to slow; in the third quarter it was possible to achieve a small amount of growth again at 0.9%. However, despite a slight upswing in the second half-year, in 2009 the USA's economic performance remained far below the previous year's level.

In the Euro-zone, the economic downswing initially continued in the first half of 2009, before slowing considerably in the second quarter. Despite the decline in capital investments, private consumption and state expenditure prevented a more severe downturn. Nevertheless, it is likely that GDP for 2009 will have fallen by a total of 4%. Following a major downturn, the German economy experienced minor growth in comparison with the preceding quarter. In addition, the downwards spiral was perceptibly slower in exports and investments in defence. Despite the growing economic stability towards the middle of the year, overall, economic performance declined severely in 2009.

The global recession also hindered growth in emerging and developing countries. The slump in world trade was felt most strongly in the smaller emerging countries in Asia.

aap has not been immune to the financial crisis and the economic recession. Although the medical technology sector is only linked to a limited degree to general economic development, *aap* also faces a difficult situation. While the number of orders and the use of the products did not decrease, due to the reduction of stock on inventory by customers and a deterioration in payment behaviour, a limited deferment of turnover to 2010 and pressure on the operative margin were clearly felt.

b) Industry-Specific Economic Conditions

The medical technology sector is a global growth market and developments in medical technology, demographic change with a growing proportion of older people, and a more expansive definition of health will ensure that it continues to be in the future. The demand for health services is set to increase further with patients increasingly willing to invest in their health. The worldwide market for medical technology is valued at around €220 billion. The European market is the second-largest in the world after the USA (€90 billion), with €70 billion. With €23 billion, Germany is the third largest national market in the world after the USA and Japan (€25 billion) and by far the largest market in Europe. It is almost twice as large as in France and around three times larger than Italy or the UK. Nevertheless, due to the costs pressure in the healthcare systems in all western countries, there is considerable pressure on prices among all providers. The ongoing financial crisis is also affecting all market participants; increasing prices worldwide lead to costs pressure when purchasing materials and a decrease in the operative margin. In addition, customers are reducing stock on inventory; the deterioration in payment behaviour is also putting pressure on *aap's* liquidity. In order to counteract this trend, *aap* has agreed with its most important OEM-customers a reduction in the time allowed for payment in return for the grant of a discount (payment on delivery), which significantly improved the liquidity of the *aap* Group in 2009.

aap is countering these developments by maintaining good value for money, particularly since demand for European products is still high. *aap* is also using its reputation as a contract developer for leading companies in

the orthopaedics sector to its advantage. Due to these long-term supply agreements for the global markets of our customers, up- and downturns in the global economy have a less severe effect on *aap*. In addition, *aap* did not have any major US-Dollar risks due to almost equal in and out-payments in Dollars.

B) Earnings, Financial and Assets Position

1. Restructuring and Rationalization Measures

Against the background of the streamlining of the group structure, *aap* Biomaterials GmbH & Co. KG merged with *aap* Biomaterials Verwaltungs-GmbH with effect from July 1, 2008. This was registered in the commercial register together with the change of the company name from Verwaltungs-GmbH to *aap* Biomaterials GmbH on February 4, 2009.

With economic effect from July 1, 2008, ADC GmbH & Co. KG was integrated into ADC Verwaltungs-GmbH. Keeping the same shareholding, the company now operates under the name ADC Advanced Dental Care GmbH. The limited partnership (KG) was dissolved on April 2, 2009 and the change in company name and relocation of the company seat from Elsenfeld to Dieburg were registered on August 13, 2009.

As part of the costs reduction and restructuring programme, it was decided to relocate the seat of *aap* bio implants markets GmbH to Berlin (registered on March 16, 2009) and to close the Düsseldorf office. By entry of September 2, 2009, *aap* bio implants markets GmbH merged with *aap* Implantate AG effective as of January 1, 2009.

In the course of the restructuring measures, the two Dutch subsidiaries, Bactimm B.V. and Farmalyse B.V., were defined as not belonging to the core business and were sold to a Dutch investor on December 17, 2009.

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

In the third quarter, EMCM B.V. concluded an unlimited exclusive license agreement with a distribution partner on the use of intellectual property in a product from the Medical Aesthetics field worth a total of €3 million.

Furthermore, in the third quarter an agreement was concluded regarding the sale of a patent in a bone replacement material for dental use worth €1 million.

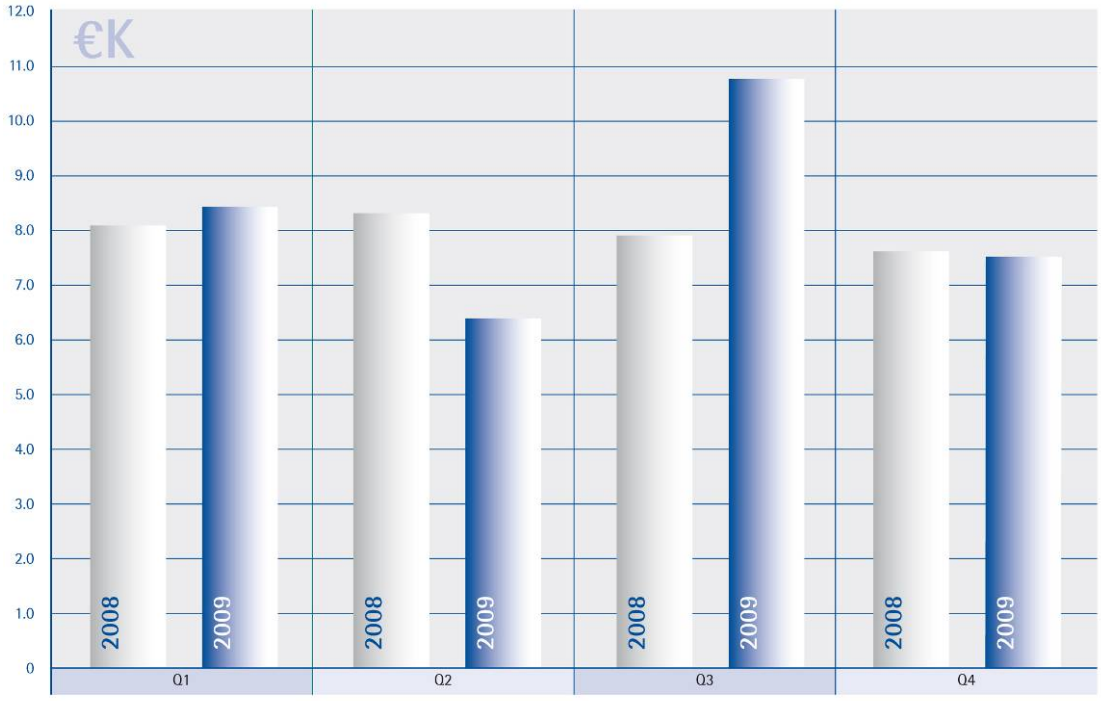
In August 2009, *aap* Biomaterials GmbH concluded a manufacturing and supply agreement for bone cement for the use in spinal surgery and Traumatology with a global distribution partner. This agreement is also one of the building blocks for the development of the business in 2010. The delivery of the bone cement began at the end of 2009 and by concluding this agreement; *aap* has again confirmed its leading position in this field.

In the first quarter, *aap* concluded a distribution agreement for dental products with an exclusive distribution partner that is promoting the international marketing of the products.

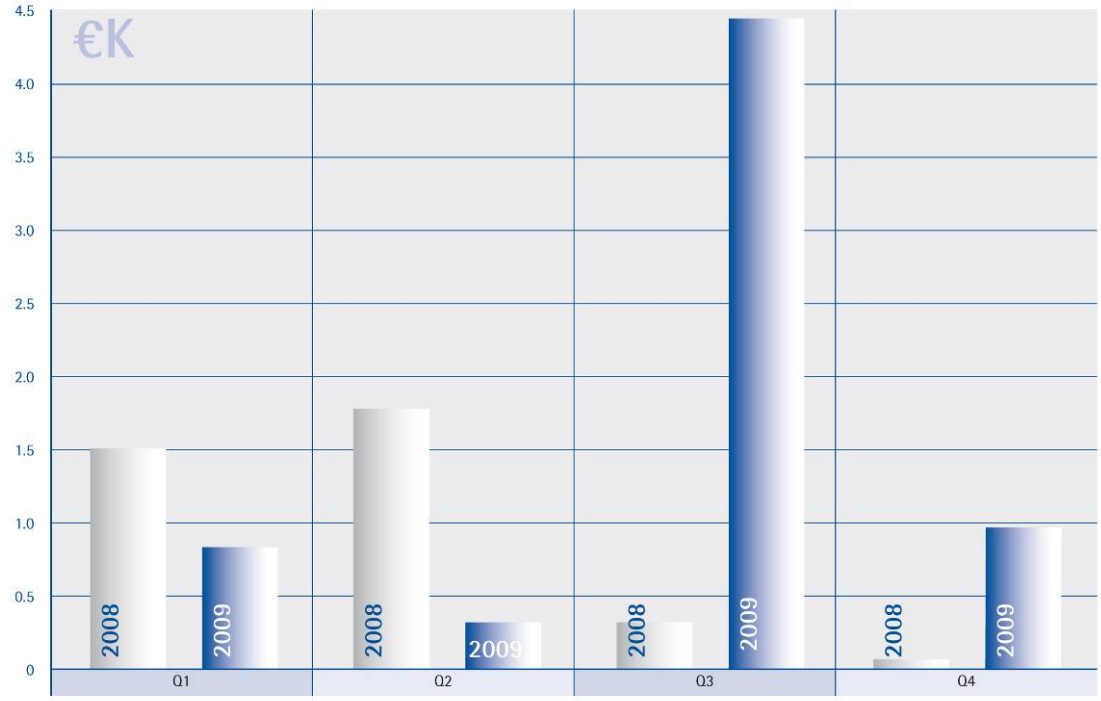
Earning Position

1. Description of Development in Results/Results Structure

In the fiscal year 2009, *aap* increased sales in comparison to the previous year by 4% from €31.9 million to €33.1 million. The sale in the amount of €33.1 million comprises sales achieved with products and services (€28.6 million) as well as profit from projects (€4.5 million; sale of patents and out-licensing IP). The sales realised with projects is not a one-time effect; on the contrary, these form the basis for strong growth in sales in the coming fiscal years and intensify business dealings with the respective partners based on *aap's* status as exclusive manufacturer for these partner companies. The 10% (€3.3 million) decrease in sales for products in comparison with 2008 is a result first and foremost of the reduced transaction volume with one OEM-customer in the Traumatology sector. Compared with the same period in the previous year, in 2009 *aap* achieved sales of €1.6 million (2008: €3.5 million) with this customer, whereby sales in 2008 were influenced largely by initial purchases of instruments and implants of €2.0 million. In addition, *aap's* profits from cooperation agreements in the bone cement (HF cement) and cementing technology sector (EASYMIX®) concluded in 2008 were down €0.6 million and €1.0 million respectively on the comparable period in 2008. Following a change in the distribution partner for cementing technology in mid-2008, the completed fiscal year is the first complete fiscal year for our new partners to establish the system in the market. It is thus still at the market-entry stage. With the exception of the decreases in OEM-traumatology, we expect to see the opposite effect in the other sectors in 2010.



Sales 2008 vs. 2009 by Quarters



EBITDA 2008 vs. 2009 by Quarters

The other operating income in the amount of €2.7 million (previous year: €2.2 million) comprises mainly income from national and European subsidies, income relating to other periods, the successful deconsolidation through the sale of the Analytics division and income from the liquidation of reserves and profit from written off liabilities.

In accordance with IFRS, *aap*, as a company with a focus on development, in addition to self-produced assets also incurs expenses for development projects that are highly likely to obtain authorisation and be marketed successfully (2009: €3.1 million; 2008: €2.9 million). Following the placement of the products on the market, these activated development costs are written-off for the duration of their useful economic life. The increase in capitalised development costs in 2009 resulted on the one hand from the number of employees in the research

and development division, which was higher than in 2008, and on the other hand clearly follows the strategy of developing *aap* into an innovator for medical implants and biomaterials.

The decrease in depreciation of fixed assets by €5.4 million from €8.3 million to €3.0 million is due mainly to the special depreciation in the previous year. Without taking account of the special depreciation in 2008 in the amount of €5.2 million, planned depreciation is, in comparison with other years, at almost exactly the same level.

The EBITDA increased 78% from €3.7 million to €6.6 million, while the EBIT or operative result improved from -€4.6 million to €3.6 million. Without taking into account the aforementioned one-time effects in the amount of €6.3 million, the comparable EBITDA for 2008 would be €4.9 million and the EBIT 2008 €1.7 million.

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

The financial result improved slightly from -€923 thousand to -€840 thousand. Due to the marked reduction in interest-bearing liabilities through the repatriation of loans and divestment of the Analytics division, *aap* expects to see a noticeable improvement in the financial results for the fiscal year 2010.

aap thus achieved results of ordinary business activities of €2.8 million (not including the divestment of the Analytics division: €2.4 million) compared with -€5.6 million in the previous year. Excluding the unplanned one-time effects in 2008, this represents a comparable result for standard business activity for 2008 of €753 thousand.

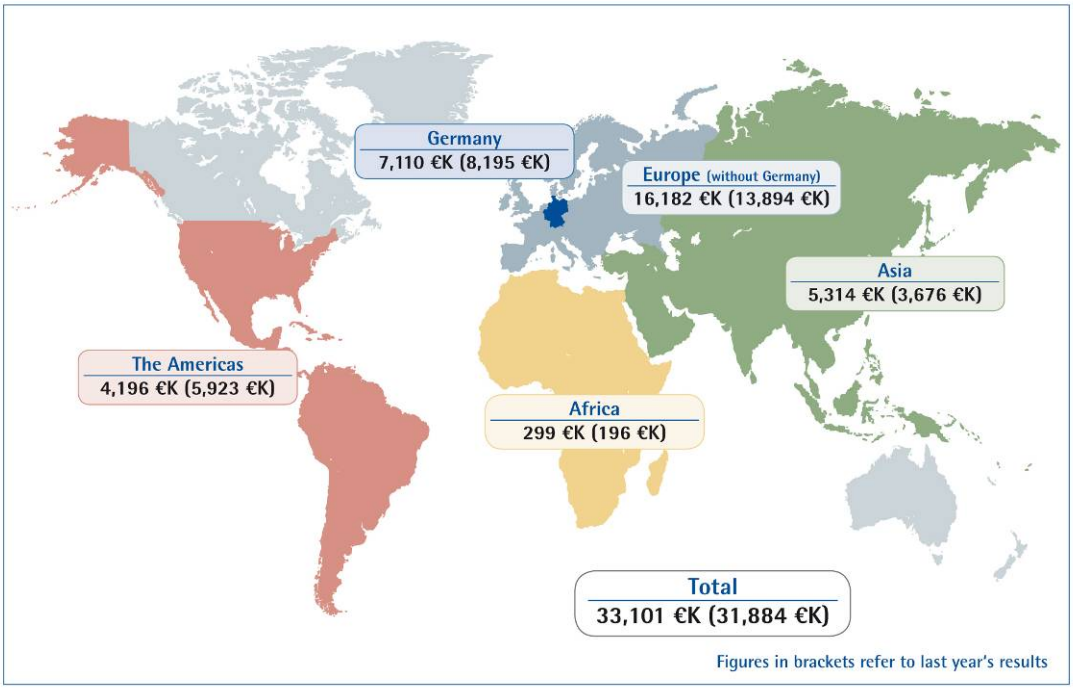
The stated Income tax in the amount of €816 thousand resulted from actual tax expenditure of €81 thousand and the costs from the balanced change in active and passive deferred taxes in the amount of €735 thousand. We refer to the information stated in the annex regarding the changes in the amount of deferred taxes. The result after tax is €1.9 million (previous year: -€5.2 million) and €0.07 per share according to DVFA/SG (previous year: -€0.20 per share).

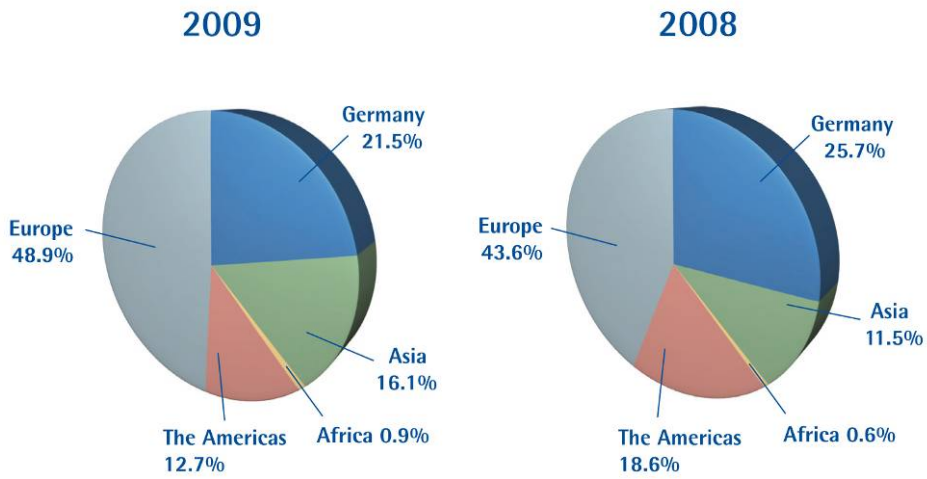
2. Analysis of the Most Significant Financial and Non-Financial Performance Indicators

As an innovative growth company, *aap* considers sustainable profitable growth, the development of long-term partnerships with leading global orthopaedics companies and the development of innovative products to be the main performance indicators. In addition, as part of the implementation of the new approach in the Ortho/Trauma/Spine divisions, as well as the restructuring of the *aap* Group, the focus is on customers, costs and liquid funds.

3. Developments in Sales and Order Position

Sales 2008 vs. 2009 by Region





The *aap* Group achieved its overall sales in two ways: on the one hand from biomaterials and implant products sold under its own label or manufactured for OEM-partners, and on the other hand from project sales and out-licensing.

The group sales improved in comparison to the previous year (€31.9 million) by 4% to €33.1 million. Sales in Germany fell primarily due to the switch of sales to other European countries and today accounts for just 21% of the overall sales. Sales in North- and South America fell mainly due to the reduced transaction volume with an OEM partner in the USA in comparison to the previous year in the Traumatology sector. The increase in sales in Asia was achieved first and foremost through the expansion of sales with existing and new distributors in these markets, as well as the licensing business with a distribution partner in the field of Medical Aesthetics.

The product area Traumatology & orthopaedics comprises all products for fracture healing for all main skeletal regions and joint replacements for the shoulders, hips and knees. In 2009, sales in this field fell 21% to €9.5 million (previous year: €12.1 million). The decline in this product area was due largely to the reduced transaction volume with an OEM-customer in Traumatology. In comparison with the same period in the previous year, *aap* achieved €1.6 million with this customer in 2009 (2008: €3.5 million), whereby sales in 2008 was dominated by initial purchases of instruments and implants to the value of €2.0 million. Based on current figures, *aap* expects

sales with this OEM-partner to decrease further in 2010. For this reason, *aap* presented this range of products to other global companies during the fiscal year and is currently in advanced negotiations. The main contributors to turnover in Traumatology continue to be cannulated screws and orthopaedic products for the hips.

The field of biomaterials with the product areas bone cement and cementing technologies, treatment of infections and bone & tissue regeneration boosted external sales to €23.6 million (previous year: €19.8 million). The increase in sales was attributable mainly to the three IP agreements concluded in the fiscal year 2009 with a total value of €4.5 million. All transactions are designed so that they do not have only a one-time effect but will also generate further growth for *aap* in years to come. Pursuant to the agreements, *aap* shall continue to be the contract manufacturer and supplier of the products concerned.

Through the expansion of the international business – in both areas with OEM-customers and local distribution partners – *aap* now attains 88% of sales outside German direct distribution (2008: 87%) freeing it up even more from costs pressures and structural changes in the German healthcare system.

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

The Total output (sum of profits from sales, inventory changes in finished goods and work in progress, as well as liquidated capital and development output) decreased from €36.5 million to €34.8 million primarily as a result of the significant reduction in stock of €1.4 million.

aap's adjusted cost of materials ratio – excluding sales revenue of €4.5 million for which there is no corresponding expenditure in terms of material - is 24% (previous year: 25%). The reason for the decrease was above all the reduction of inventory stock produced in the fourth quarter of 2008, which was not re-stocked to the same extent during the reporting period, as well as a change to the mix of products. Sufficient monitoring of inventories will continue to be a central element of *aap's* working capital management strategy in the future, particularly with the goal of reducing the volume of capital tied up in inventory stock.

The cost of personnel ratio remained the same as in the previous year at 38%, despite a reduction in overall performance. This is a result of the reduction in the number of staff in the course of the restructuring from 315 (December 31, 2008) to 242 (December 31, 2009). It should be noted that the significant reduction in the number of staff in 2008 did not take place until the end of the third and the fourth quarter and 32 employees left as a result of the sale of the Analytics division, which only took place in December 2009. The resulting savings will only be fully realised in 2010.

The company group employed 242 employees as per 31 December 2009, 193 full-time and 49 part-time employees (previous year: 315, 240 full-time, 75 part-time employees). In order to secure production capabilities in the long term, *aap* Implantate AG is continuing to train its own specialist staff.

The other operating expenses decreased in absolute terms by €1.6 million to €10.3 million (previous year: €11.9 million). The decrease resulted on the one hand from restructuring reserves set aside in the fiscal year 2008 in the amount of €525 thousand (*inter alia* relocation of *aap* bio implants markets GmbH to Berlin and resultant closure of the Düsseldorf office) as well as the costs savings achieved in the course of the restructuring measures. The ratio of other operating expenses fell along with the overall performance from 33% to 30%.

The planned depreciation of intangible assets adjusted by one-time effects (2008: €5.2 million), decreased from €3.2 million to €3.0 million; the adjusted depreciation ratio remained unaltered from the previous year at 9%.

Financial position

The operative cash-flow (before investments and financing) of the *aap* Group increased by €4.2 million to €4.8 million (previous year: €544 thousand). Of particular importance here is the change in short-term current assets (sum of inventory, receivables and other assets), which had a positive effect on the operative cash-flow. Excluding the claims under supplies and services resulting from the two transactions concluded in the third quarter (sale of patent for bone replacement material and license agreement Medical Aesthetic), in the amount of €2.2 million reduced the balance of the short-term current assets (excluding liquid funds) from €22.4 million to €16.9 million.

The cash-flow from investment activities in the amount of -€1.9 million (previous year: -€4.1 million) was dominated mainly by out-payments for development projects and investments in technical equipment and

machinery as well as factory and office equipment. In addition, the sale of the Analytics division contributed €2.2 million (assets and debts as well as goodwill) to the reduction of the cash-flow from investments.

The €3.9 million lower cash-flow from financing activities in the amount of -€546 thousand resulted first and foremost from the increased net change in financing debts (balance from taking out and repatriation of loans, fiscal year: -€1.8 million, previous year: €752 thousand). In this context it is worth noting that, among other things, *aap* significantly reduced interest-bearing liabilities in the fiscal year 2009. Thus, of the €2.0 million accrued in the fiscal year under a financing agreement, €500 thousand were amortised ahead of schedule to the end of the year. In addition, long-term financing obligations in the amount of €2.1 million were amortised as planned. The loans taken out in the fiscal year 2009 as well as the funds liquidated through the capital increase serve to secure the company financing and to finance the following business activities, among others

- R&D projects,
- Refunding the instalment payment agreement relating to the acquisition of Adcon® L ,
- Maintenance investments in the production facilities in Berlin, Nijmegen and Obernburg and
- Financing business assets.

aap will not be paying out any dividends in the foreseeable future, since the available liquid assets will be invested in full in the development and expansion of the company.

The Group's liquid assets as per December 31, 2009 were €2.4 million (previous year: €96 thousand). This level, which has increased significantly compared with December 31, 2008 is a result *inter alia* of the capital increase of €1,267,357 effected in March 2009 to secure the company's financing; the assumption by a shareholder of a financing obligation with a net accrual of €2.0 million; an improved debt management system and the cash revenue from the IP transactions concluded in the third quarter of 2009. Furthermore, *aap* was able to agree a reduction in time for payment with various global customers coupled with more favourable purchasing conditions. Various suppliers of the company agreed at the beginning of 2009 to a temporary extension of the term for payment. These measures are part of *aap´s* performance-improving program to encourage profitable company growth, which, in addition to optimising the capital structure, also features measures such as costs reduction, simplifying the corporate structure, divestment of non-core areas and continuing to maintain the rate of innovation achieved in the past.

As per December 31, 2009, the *aap* Group had at its disposal contractually guaranteed credit lines in the amount of €6.7 million, of which, as per the balance sheet date, €4.5 million gross and €2.2 million net were used. As a result of the sale of the Dutch Analytics division and the reduced need for financing this entailed, *aap* reduced the framework of the credit lines for the Dutch companies in February 2010 from €3.2 million to €1.5 million with a simultaneous significant reduction in financing costs. As a result, *aap* Group has at its disposal credit lines in the total amount of €5.0 million for 2010. As of July 1, 2010, the credit lines for the Dutch companies will be reduced by a further €250 thousand.

million €	31.12.2009	31.12.2008
Gross availment of credit lines	- 4.5	- 5.8
Credit available on credit lines	2.3	0.0
Net availment of credit lines	- 2.2	- 5.8

Interest risks result from financing debts and financial investments. The *aap* Group is attempting to optimise the interest result and minimise interest risks. To this end, a group-wide system of cash-management is in operation and original financial transactions have been concluded. Risks relating to interest and price changes are controlled by means of a mixture of terms and fixed- and variable rate items.

Liquidity risks result *inter alia* from lack of availability of sources of financing resulting among other things from failure to observe so-called "financial covenants" in loan agreements. If these financial covenants are not observed, the financing bank has the right to terminate the loans concerned and to require immediate repayment. Pursuant to current long-term loan agreements, for instance, *aap* may not fall below a certain minimum rating according to "Moody's", or must comply with specific maximum/minimum limits as regards the equity ratio, the level of indebtedness or the debt burden. *aap* considers the risk of non-compliance with the

financial covenants that could result from the retrograde calculation by the financing bank concerned to be very minor, since in the course of 2009 it was possible to markedly reduce interest-bearing liabilities and achieve a significantly better earnings situation. In this context, *aap* has a very transparent and open communication policy with its financing banks, to enable it to identify potential risks at an early stage and find a suitable solution together with the financing institutions.

Based on the planned budget for 2010, *aap* considers the liquidity situation to be sufficient due to the marked improvement towards the end of 2009 and the existing loan commitments. *aap* expects to end 2010 with a positive cash-flow. The standards introduced in 2009 for target values for debt coverage of less than 3 and interest coverage of more than 6 (in each case based on EBITDA) also apply for 2010. For further information on liquidity management please refer to the explanation set forth in the annex (capital management).

Asset Position

The asset position of the *aap* Group altered in comparison to the previous year above all on account of the sale of the Dutch Analytics division as well as reduced values for short-term assets. In the course of the sale of the Analytics division and the resultant divestment of the relevant assets, the balance sheet total of the *aap* Group decreased by €2.7 million. The proportion of goodwill attributable to this division amounts to €567 thousand, which also contributed to a reduction of the balance sheet amount in the course of the deconsolidation. For further information please refer to part C. 3. of the annex.

The €1 million increase in long-term intangible assets from €34.5 million to €35.5 million resulted primarily from access to capitalised service and development investments in the amount of €3.1 million.

The decrease in short-term assets (excluding liquid assets) by €3.3 million to €19.2 million (previous year: €22.4 million) is a result in particular of the consistent reduction of the inventory stock built up at the end of 2008 and a smaller volume of claims relating to deliveries and services and other assets.

Other major changes to the financial situation can be seen in equity capital, which was affected by the capital increase (increase in subscribed capital) and the annual surplus and increased to €44.7 million (previous year: €41.3 million).

The equity ratio increased primarily as a result of the reduced level of outside financing and the simultaneous increase in equity capital from 62% to 71% with a reduced balance sheet total.

The level of capitalised deferred taxes decreased from €2.3 million to €127 thousand currently. Since 2008, *aap*, in compliance with the IFRS, has been capitalising deferred taxes from the expected use of losses carried forward only to the extent that these are covered by passive deferred taxes that can be set off.

The development of important items in the consolidated balance sheet as per December 31, 2009 in comparison with the same period in the previous year is summarised in the diagram below:

C) Supplementary Report

There were no major business transactions during the period between the end of the fiscal year and the preparation of this report.

D) Risk Report

1) Internal system of controlling and risk management relating to the (group-wide) accounting procedure (report pursuant to Sections 289(5) and 315(2) No. 5 German Commercial Code [HGB])

The objective of the internal control system (ICS) for the accounting process is to ensure by implementing appropriate controls that a financial report that complies with the relevant provisions is produced. *aap* Implantate AG, as the parent company, prepares the annual financial statement for the *aap* Group.

With reference to the accounting ICS there can only ever be relative certainty, not absolute certainty that material errors in the accounting will be avoided or uncovered.

The accounting and reporting procedures at *aap* are controlled by the central financing division. Laws, accounting standards and other rules are continuously examined as to their relevance and effects on the group financial statement. Relevant requirements are communicated and, together with the group-wide reporting calendar these form the basis of the procedure for preparing reports.

In the organisation of the ICS, the Management Board exercises overall responsibility at the group level. Of the various control mechanisms and processes in accounting, several are essential. These are:

- Accounting guidelines for particularly relevant accounting provisions, both at the group level and within the individual group companies

- Involvement of external experts as necessary
- Use of suitable uniform IT-based financial systems wherever possible and use of detailed authorisation concepts to ensure that powers are commensurate to tasks
- Division of tasks between entry of transactions and review and approval thereof
- Clear allocation of important tasks by planning operative accounting processes – such as adjusting claims and liabilities using balance confirmations
- Inclusion of risks recorded and assessed in the risk management system in the annual financial reports, where this is necessary pursuant to existing accounting rules
- Strict powers of disposition in the course of the authorisation of agreements, credit notes etc. as well as consistent application of the "four-eyes principle"
- Allocation instructions for material transactions
- Clear instructions on the process of stock-taking and the capitalisation of development costs
- Regular training for employees involved in the group accounting process

All structures and processes described are subject to ongoing review by the respective persons responsible for debt management. Furthermore, *aap* operates an active benchmarking process concerning examples of Best Practice in other companies. Identified scope for improvement is implemented in a targeted manner.

2) Risk Management System

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

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

- Certified quality management system: clearly structured and explicitly documented processes in the course of the quality management system and quality control are a prerequisite for the authorisation and placing on the market of medical devices. The objective is risk prevention. The quality management systems implemented by *aap* were certified by DEKRA (*aap* Implantate AG, Berlin), TÜV [Technical Inspection Association] (*aap* Biomaterials GmbH) and the Dutch KEMA office (*aap* bio implants Netherlands–Group).
- Controlling instruments: the controlling department at *aap* regularly informs the Management Board, Supervisory Board and decision makers within *aap* in good time using summaries of revenue, assets and liquidity situation as well as figures relating to the economic position of the company and the status of potential risks.
- Risk management system: in order to identify and assess risks and to enable it to take appropriate countermeasures, *aap* has developed a risk management system. An important element of this is the regular recording, categorisation and evaluation of possible risks, the likelihood of these occurring and damage potential.

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

a) Market, Competition, New Products and Technologies

Competition in the market for medical technology in general and specifically in the market for orthopaedic and biological implants is expected to increase further. Thus, there is a risk that *aap* will be slower than its competitors to respond to market developments with new products or improvements to existing products. This could have a negative effect on the assets, earnings and financial position of the company and lead to a decline in its market position.

aap is taking active measures to counter this risk, by investing significant amounts in research and development and operating an ongoing system of market and technology screening.

In addition, government changes to the healthcare system could have a negative effect on sales and the revenue of the Group. *aap* is countering this risk through the progressive internationalisation of its sales as well as

intensive monitoring of the German healthcare system with the goal of anticipating negative developments in order to be able to counter these.

A constant process of corporate consolidation is underway on the global market which has also affected *aap* customers. *aap* is responding to this consolidation by cooperating with a large number of companies and is constantly building new partnerships.

b) Approval of Products

The medical technology and healthcare systems are subject to strict approval requirements that differ from one country to the next. Rejection or delays to the grant of approval applications for the company's products could have a negative effect on the future turnover and revenue of *aap*.

In order to recognise such developments at any early stage and to enable us to react appropriately, the company monitors developments in this area very closely and supervises approval procedures in great detail in the course of its quality management system.

The approval requirements for *aap* products are becoming increasingly stringent. For implants that remain in the patient's body (endoprosthetics, bone cement, resorbable regeneration materials) clinical trials are required in some cases as a prerequisite of approval. *aap* has reacted to this development by expanding the Regulatory and Clinical Affairs divisions and making sales more and more international, so that increased costs can be covered by higher production volumes.

The more strict classification of replacement joints for hips, knees and shoulders on the basis of Commission Directive 2005/50/EC of August 11, 2005 on the reclassification of hip, knee and shoulder joint replacements in the framework of Council Directive 93/42/EEC concerning medical devices posed a potential risk, since a conformity assessment procedure pursuant to Annex II title 4 of Directive 93/42/EEC had to be completed by August 31, 2009. All products affected by this were reclassified by December 2009.

Increasingly, demands are being voiced in the public discussion that the authorisation requirements for medical devices should be brought to the same level as those for medicinal products, which are far more stringent. In order to truly reflect the needs of the medical technology sector, the differences between it and the pharmaceuticals industry need to be understood and taken into consideration:

- In medicinal products, the main effect is achieved by pharmacological means. In contrast, the effects of medical devices on the human body are usually of a physical nature. The term "efficiency" is thus to be understood with regards to medical devices in the sense of functionality.
- Medicinal products affect complex biological systems and their therapeutic effect is the interaction between drugs and the human body. Medical devices, on the other hand, affect the human body – and not vice versa.
- Adverse effects of medicinal products often cannot be predicted. It is not possible to state when they may occur, how severe they will be and whether they can be reversed. Adverse effects of medical devices, meanwhile, are more predictable and can generally be reversed. In addition, clinical effects of medical devices are generally dependent on the skills, knowledge and experience of the user.

For these reasons, medical devices and medicinal products must also be handled differently.

c) Dependency on Customers and Suppliers

In addition to the products developed and produced by *aap* itself, *aap* supplements its range of products with consumer goods (e.g. instruments, lavage systems). Various *aap*-products are manufactured by outside suppliers if *aap* itself does not have sufficient production skills (e.g. injection-moulding, polymeres, collagen). Partnerships of this kind entail a higher degree of dependency on the quality and readiness to supply of these suppliers. *aap* protects itself as far as possible against this risk through strategic cooperation with a few qualified suppliers and regular reviews of their qualification for the job.

aap achieved 31% of sales in 2009 (previous year: 24%) (including project sales realised with the respective customers) with the company's three largest customers. The OEM sales are set to increase further in the next few years. The short-term withdrawal or any possible inability to pay on the part of one of these customers could threaten the Group's earnings and financial position. Due to the size of these OEM partners, however, we consider this risk to be very slight indeed.

aap is countering this risk through progressive internationalization and procurement of additional major clients (stability, sales power, financial power).

d) Patents and Intellectual Property

It cannot be excluded that third parties will assert claims based on the breach of industrial property rights against *aap* in the future. Any such breach could, under certain circumstances, delay the delivery of products. In the event of a negative outcome in litigation, *aap* could be required to enter into fee or license agreements. Thus, a suit filed against *aap* based on the breach of intellectual property rights could have a detrimental affect on the Group's assets, financial position and earnings.

In order also to actively protect the Group's intellectual property, *aap* set up a group-wide IP committee during the fiscal year that regularly monitors current developments on the patent and authorization market and protects own developments at an early stage through comprehensive patent protection.

e) Product Liability Risks

The products produced by *aap* are intended for insertion into, and in some cases, for permanent placement in the human body. Due to variations in healing as well as the varying degree of experience of the physicians using the products, it is not possible to fully exclude any malfunction of the products. No compensation claims of any significance have yet been asserted against *aap* under product liability rules, but the possibility of this occurring in the future cannot be excluded.

aap protects itself against possible product liability suits by means of a stringent system of quality control and product liability insurance as customary in the industry. There is of course a residual risk that the existing insurance protection may not be sufficient to secure potential claims, especially in the USA.

f) Legal Risks

At the extraordinary general meeting of *aap* Implantate AG on February 15, 2007 a capital interest in return for contributions in kind was passed to facilitate the takeover of Fame Holding B.V. The entry into the commercial register was delayed due to suits filed by individual shareholders. *aap* then proceeded with "fast track proceedings" introduced in 2006. This procedure is intended to afford companies affected by these kinds of lawsuits with a greater degree of legal certainty and to ensure a swifter process. Having won the suit at first instance, the pending proceedings were concluded in the third quarter of 2009, since the plaintiffs either did not appeal or withdrew their appeals.

On February 13, 2009, *aap* Biomaterials GmbH received notice of a lawsuit based on alleged unauthorised sharing and utilisation of operational secrets with a suggested amount in dispute of €30 million. Since *aap* is merely the contracting partner or contract manufacturer for another indicted company, *aap* currently expects that the case against *aap* will be dismissed and that it will not be under any obligation to pay compensation.

In the course of the termination of a distribution agreement, a former distributor asserted compensation claims against *aap* Biomaterials GmbH. Following an analysis of the facts and having obtained legal advice, the management of *aap* Biomaterials GmbH set aside reserves proportionate to the risk in the amount €70 thousand.

4) Further Information Required by Section 315 (2) No. 2 German Commercial Code(HGB)

Price adjustment risks cannot be fully excluded. *aap* is countering such risks by shifting sales to own developments and production of innovative products with higher profit margins.

Possible risks resulting from the loss of claims relating to deliveries and services are minimised by an active system of accounts receivable management. Moreover, *aap* regularly sets aside sufficient risk coverage for this purpose. Overall, however, the risk is very minor, since losses of accounts receivable in the reporting year amounted to just €324 thousand (1.0% of sales revenue).

The financing situation of the Group and *aap* Implantate AG is considered sufficient as per the reporting date of December 31, 2009 in view of the liquid funds available and open credit lines. As per December 31, 2009, the *aap* Group had at its disposal contractually assured credit lines in the amount of €6.7 million, of which €4.5 million gross and €2.2 million net had been used by the reporting date. As a result of the sale of the Dutch Analytics division and the resultant decreased need for financing, *aap* reduced the limit of the credit lines for the Dutch companies from €3.2 million to €1.5 million in February 2010 while at the same time significantly reducing financing costs. Thus, for 2010, *aap* Group has at its disposal credit lines to the total value of €5.0 million. From July 1, 2010, the credit lines for the Dutch companies will be reduced by a further €250 thousand.

million €	31.12.2009	31.12.2008
Gross availment of credit lines	- 4,5	- 5,8
Balance on credit lines	2,3	0,0
Net availment of credit lines	- 2,2	- 5,8

Liquidity risks result *inter alia* from lack of availability of sources of financing resulting among other things from failure to observe so-called "financial covenants", that are to be observed in the course of loan agreements. If these financial covenants are not observed, the financing bank has the right to terminate the loans concerned and to require immediate repayment. Pursuant to current long-term loan agreements, for instance, *aap* may not fall below a certain minimum rating according to "Moody's", or must comply with specific maximum/minimum limits as regards the equity ratio, the level of indebtedness or the debt burden. *aap* considers the risk of non-compliance with the financial covenants that could result from the retrograde calculation by the financing bank concerned, to be very minor, since in the course of 2009 it was possible to markedly reduce interest-bearing liabilities and achieve a significantly better earnings situation. In this context, *aap* has a very transparent and open communication policy with its financing banks, to enable it to identify potential risks at an early stage and jointly find a suitable solution.

To ensure company financing at the beginning of the fiscal year, *aap* effected a capital increase in the amount of €1,267,357 in March 2009. In 2009 *aap* was able to achieve net contribution of funds of €2 million through the assumption of a financing obligation by a shareholder. Furthermore, *aap* was able to agree a reduction in time for payment with various global customers and an extension of payment terms with selected suppliers. *aap* is not subject to any major fluctuations in cash flow.

In the fiscal year 2009, *aap* concluded only internal foreign currency hedging transactions, since there was only a minor currency risk and US Dollar claims and liabilities largely balanced one another out. However, in the future, *aap* plans to secure these claims externally for larger deals in US Dollars.

E) Forecast Report

The medical technology market is powered by an increasingly ageing society. Despite the steady growth in volume, we are seeing an increasing awareness of costs among customers that is reflected among other things in the bundled order procedure used by purchasing associations.

aap's business model is based on the development, manufacturing and marketing of innovative products and technologies. We are convinced that the quality of our products coupled with the breadth and depth of our product portfolio provides our customers with unique solutions. Accordingly, we are currently developing innovative combinations of traditional trauma products and biomaterials using new materials and bioactive substances.

Our financial goal will be to use product sales for the fiscal year 2010 to achieve a positive EBIT. The realisation of this goal will require growth at the product level of around 15%, which we hope to achieve with existing products and new customers (c~ment®, Cerabone® bzw. Adcon® and Ostim®), as well as with new products. These include anatomical fixed-angle plate systems with sliding hole fixing technology (sliding and locking screw fixation) and developments in endoprosthetic products for the shoulders, hips and knees, products for wound treatment and soft tissue regeneration, as well as bone cement and collagen products.

We are planning to achieve project sales in particular with the sliding and locking screw fixation technologies, Silver Coating, Magnesium and "all in one" mixing systems. The plan is to successfully conclude two of these projects by concluding semi-exclusive license agreements as part of our R&D partner program. For projects and/or products with no future potential in the form of two-figure growth we will be examining divestment options, since these projects are not compatible with our strategy of establishing *aap* as a product leader.

On the other hand, profitable growth is to be supported by further costs savings. The working capital must be reduced further and the current loan obligations replaced with new agreements with lower interest rates and more favourable payment terms.

The Management Agenda 2009, which set out these ambitious goals, has proved to be a useful tool. The Agenda for 2010 has defined goals in the following categories: customers, innovation, finances and internal organisation combined with the strategy of product leadership in specific ortho/trauma/spine-markets.

	Results Management Agenda 2009	Goals Management Agenda 2010
Customers	Expansion and development of global partnerships	Expansion of the international distribution network and global partnerships
	Establishment of a Center of Excellence for Marketing and Sales in Berlin	Development of an entry strategy for the US market
		Planned product launch of the fixed-angle sliding screw system → positive contribution to sales expected for 2010
		Additions to the Export- and Product Management Teams
Innovation	New definition of priorities for research and development projects	Conclusion of two semi-exclusive license agreements for development projects
	Group-wide organisation of the R&D division	Improving the freshness index by introducing IP-protected products (e.g. collagen, WSG, bone cement, Allograft)
	Creation of a strategic IP committee for portfolio management	Attaining milestones in key R&D projects (e.g. silver cement in Q4/2010)
	Supplementing IP portfolio with own products and purchase of licenses	Further expansion of the IP portfolios
Finances	Strong organic growth, EBITDA of €5-7 million, improving liquidity	Reduction of outside financing costs by at least 25%
	Realisation of turnover growth of at least 2%	Planned growth in sales at the product level of more than 15%; profitable growth with positive operative cash-flow
	Achieving a debt coverage level < 3 and interest coverage level > 6	Maintaining the strategic goals debt coverage level < 3 and interest coverage level > 6
	Divestment of the Analytics division	Reduction of operating working capital in all divisions by at least 10%
	Outsourcing of dental distribution to an exclusive distributor	Improving the central reporting and controlling at the group level
	Halting development of Medical Aesthetics and structured analysis of divestment options	Optimising benefits from stock market valuation
Organisation/IT	Creation of an Executive Management Team	Strengthening the Executive Management Team in the fields of Finance and R&D
	Implementation of an integrated business strategy (Biomaterials and Trauma & Ortho)	Implementation of a development program for the management team to boost individual skills
	Relocation and closure of *aap* bio implants markets GmbH	Boosting efficiency by means of new structures and responsibilities within divisions
	Appointment of a Director of Marketing and Sales and a Marketing Manager	R&D and Business Development are intended to attract and retain high potential candidates
	Reduction of the number of employees to below 250	Further reduction of costs by simplifying corporate structure
	Reduction of the number of offices from 6 to 4	Boosting efficiency by further reduction of the number of offices

aap's future success will be built on four pillars:

- "Customer-focused Marketing & Sales": *aap* will improve its customer focus not only by expanding personnel capacity and customer services, but also by creating highly-specialised teams and hosting more frequent workshops and seminars with interested customers.
- "People's Excellence": *aap's* potential is founded on the skills of its staff, the strength of team performance and the exchange of information both internally and with external networks. *aap* has commissioned professional consultants to help further develop and cement its management skills and corporate culture.
- "Partnerships for innovations": *aap* has an extensive network of international research centers at its disposal (universities and other knowledge-based organisations) as well as a number of teaching and non-teaching hospitals. This represents an impressive added value as far as the company's pool of knowledge is concerned.
- "Operational Excellence": *aap* is committed to the continual improvement of the effectiveness and efficiency of its processes, both internally and in comparison with other companies.

We are convinced that only coordinated team effort can deliver the desired result. This demands a clear customer focus, powered by innovation to develop new products and processes and a strong commitment to quality.

aap will take every effort to enter into mutually beneficial partnerships with all interest groups, including patients, medical and nursing staff as well as suppliers and investors. *aap* will apply only proper, recognised business principals and uphold ethical standards.

The Management Board of *aap* expects to continue this double-figure growth in sales in the product area in 2011. This growth will be powered primarily by considerable increase in sales from IP-protected products distributed under the *aap* brand name. In addition, the sales from marketing the IP portfolio initiated in 2009 will be continued in 2010 and 2011 and should also contribute to further profitable growth.

In order to be able to secure the international growth of *aap's* own products in the long-term, from 2011 *aap* will support its sales and marketing activities by building corresponding capacity outside of the German-speaking countries. Diversity, professionalism and sustainability will be our guiding principles when expanding our body of staff. In addition, the structures in Finance and IT will be made more professional, to enable these divisions to provide effective and efficient support for the Research and Development and Marketing and Sales divisions.

Overall, all of the aforementioned measures will contribute to the priority goal of sustainable increases in results per share and boosting the value of the company.

F) Other information

1. *Composition of Subscribed Capital*

On March 16, 2009 the Management Board decided with the approval of the Supervisory Board to increase the share capital from approved capital by approx. 5%, that is €1,267,357. The new shares were issued in exchange for cash contributions excluding subscription rights by means of private placement at a price of €1.00. The share capital of the company increased by €1,267,357, by entry of March 23, 2009 from €26,614,513 to €27,881,870.

As per December 31, 2009, the share capital of the company was €27,881,870.00, divided into 27,881,870 fully paid-up individual share certificates. Each share carries one vote at the general meeting. Only the statutory restrictions on voting rights apply. There are no differences in voting rights.

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

Management Board Remuneration

The remuneration of the Management Board members and the structure thereof are determined by the Supervisory Board. The goal is to provide the Management Board members with compensation appropriate to their work and responsibilities, taking into account personal performance, the economic situation, as well as the success and future prospects of the company. The management contract with Mr. Visser is due to run until December 31, 2010, while that with Mr. Alemu will remain in force until December 31, 2012.

The remuneration of Management Board members was amended with effect from January 1, 2009. The total cash remuneration comprises a fixed component and a performance-based component, whereby the variable component is limited to the maximum amount of the fixed component. The reference value for the variable component is the EBIT as stated in the group financial statement compiled in accordance with IFRS. In the event of unusually high positive changes in profits in comparison with the previous year, the Supervisory Board can decide at its discretion as to whether to issue an additional appropriate special share in the profits for the Management Board. Furthermore, the remuneration of the Management Board members includes benefits in kind and other earnings, above all the amounts for the use of company cars to be allocated pursuant to tax rules and premiums for accident insurance and pension program. Management Board members also have options under the *aap* Implantate AG Share Option Plan 2008 for a total of 800,000 shares, which are allocated according to the publication of individual quarterly results.

Please refer to point 7, below for information on the consequences for Management Board remuneration in the event of takeover offers.

If *aap* acquires another company or merges with another company representing more than 50% of sales for Traumatology & Orthopaedics or Biomaterials in 2008 (what is decisive is the division to which the acquired company belongs), the Management Board will receive an additional 75,000 options in *aap* Implantate AG as compensation for the time and effort involved, which can be drawn on at the next possible date following the conclusion of the transaction in accordance with the rules of the resolution of the general meeting 2008 on the option program, provided a sufficient number of options for the Management Board is available pursuant to the relevant resolution of the general meeting, or insofar as the option ratio for the Management Board has not yet been used in full. If there are no longer sufficient options available under the share option program 2008, the remainder will be distributed accordingly.

The income of the Management Board in the fiscal year 2009 was as follows:

	Remuneration components in thousands of €			
	Non-performance based	Performance-based	with long-term incentive effect	total
Biense Visser	152	135	19	306
Bruke Seyoum Alemu	275	135	57	467
				773

Supervisory Board Remuneration

In addition to the reimbursement of their expenses, the members of the Supervisory Board shall each receive remuneration per meeting in the amount of €1,250; the chairman receives double this amount, the deputy chairman one and a half times this amount.

Stock Option Program 2006

By resolution of the General Meeting of June 30, 2006, the Management Board – provided members of the Management Board of the company are among the entitled persons – with the consent of the Supervisory Board of the company is authorised to issue stock option programs by December 31, 2008 for the members of the Management Board of the company and members of the management of affiliated companies within the meaning of Section 15 ff. German Stock Corporation Act (AktG), and to grant option rights in up to 1,200,000 individual share certificates in the company with a term of up to four years from the date of issue. Only options entitling to purchase a maximum number of 600,000 shares are to be issued through stock option programs in one calendar year. The shareholders in the company do not have subscription rights. The option rights exercised can, at the company's discretion, be fulfilled either by exploiting the contingent capital 2006/I or pursuant to any authorisations to purchase own shares in the company to be decided in the future.

The total volume of the option rights is allocated to the entitled groups as follows:

- 65% to members of the management of the company and the members of the management of affiliated companies
- 35% to employees of the company and its affiliates.

The stock options are issued to the entitled persons only between the 10th and 20th trading day following publication of the quarterly or annual results of the company.

The exercise price to be paid when exercising the option concerned for an individual share is calculated based on the average value of the final auction price of the shares in *aap* Implantate AG in XETRA-trading (or a comparable replacement system) on the stock exchange in Frankfurt am Main during the last 10 trading days prior to the date of issue, but at least the minimum issue amount pursuant to Section 9 (1) German Stock Corporation Act, and thus not below the proportional amount per share of the share capital of € 1.00.

Subscription rights can only be exercised under the stock options if the average value of the final auction price of the shares in *aap* Implantate AG in XETRA-trade (or a comparable replacement system) on the stock exchange in Frankfurt am Main during the last 10 trading days prior to the date of issue exceeds the exercise price by at least 10% since the date of issue.

The option rights granted can be exercised at the earliest two years after the date of issue.

Stock Option Program 2008

By resolution of the general meeting of September 29, 2008, the Management Board and – provided members of the management of the company are entitled – the Supervisory Board of the company is authorised to issue stock option programs by September 28, 2013 for those persons belonging to one of the groups named in clause 1 below, and to grant up to 1,200,000 stock options with subscription rights in one share in the company each with a term of up to five years from the date of issue as defined in clause 3, below. The shareholders in the company do not have subscription rights. The stock options can also be taken over by a bank with the obligation to transfer them to the entitled parties as defined in clause 1, below, as instructed by the company; in this case also, options can only be exercised by the entitled persons. The fulfilment of the exercised option rights can be effected at the discretion of the company either by exploiting contingent capital 2008/I suggested for resolution under lit. b) below or through own shares in the company. The grant of the option to subscribe to shares in the company and the issue of these shares shall be effected in accordance with the following provisions:

(1) Entitled Persons

The following persons are entitled to acquire share options and to subscribe to shares in the company

(i) the members of the Management Board of the company,

(ii) selected executive staff of the company and members of the management – only if they were not also entitled pursuant to (i) as members of the management of the company on the date of issue – and selected executive staff of affiliates of the company within the meaning of Section 15 German Stock Corporation Act (referred to hereinafter as "affiliated companies"),

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

The total number of option rights is allocated as follows:

Up to 800,000 individual share options:	for the members of the Management Board of the company,
Up to 200,000 individual share options:	for selected members of executive staff of the company and members of the management of affiliated companies – but only if they are not also entitled pursuant to (i) as members of the Management Board of the company on the date of issue – and selected members of executive staff of affiliated companies,
Up to 200,000 individual share options:	for employees of the company and affiliated companies.

A report will be published on the issue of stock options to members of the Management Board once per year as an annex to the annual financial statement, stating the names of the beneficiaries and the respective number of stock options issued to them. The same applies to the number of subscription rights exercised under option rights by members of the Management Board in the previous fiscal year in

each case, the exercise price paid and the number of share options still held by members of the Management Board at the end of the year.

(2) Right to Purchase Stocks

Each option right entitles the holder of the option to purchase a bearer share in the company in return for the payment of the exercise price pursuant to clause 4. The new shares participate in the profits from the beginning of the financial year for which at the time of the exercise of the subscription right no general meeting resolution has yet been passed on the utilisation of the net profit.

(3) Purchase Periods

The issue of the stock options shall take place in no less than three annual tranches, subject to the proviso that no tranche may include more than 50% of the total volume. The stock options can only be issued to the entitled person between the 10th and the 20th trading day following the publication of the quarterly or annual results of the company (the date upon which the option agreement signed by the company is handed over to the entitled party is referred to as the "date of issue").

(4) Exercise Price

The exercise price to be paid for the exercise of the option for each share corresponds to the average value of the final auction price of the shares in *aap* Implantate AG in XETRA-trading (or a comparable replacement system) on the stock exchange in Frankfurt am Main during the last 20 trading days prior to the date of issue, but at least the minimum issue amount pursuant to Section 9 (1) German Stock Corporation Act, and thus not below the proportional amount per share of the share capital of €1.00.

(5) Adjustment in the Event of Capital Measures

The option conditions can in the event of measures during the term of the stock option that affect the value of the options (capital increase with grant of a direct or indirect subscription right for shareholders of the company, sale of own shares, the issue of bonds with conversion and/or option rights in shares in the company), be subject to adjustments in the exercise price and/or the subscription situation. A reduction will not be made if the entitled person has a direct or indirect subscription right in the new shares or own shares or new bonds are granted that places them in the same position as if he/she had exercised the option right. The option conditions can furthermore provide for an adjustment of the option rights in the event of a capital increase from company funds and a reduction in capital, in the event of a new division of the shares (share split) or a consolidation of shares as well as bonuses and extraordinary cash and/or dividend in kind corresponding to the practices on German and international futures exchanges. This is without prejudice to Section 9 (1) German Stock Corporation Act.

(6) Performance Targets

Subscription rights can only be exercised under stock options if the average value of the final auction price of the shares in *aap* Implantate AG in XETRA-trade (or a functionally comparable replacement system for the XETRA-system) on the stock exchange in Frankfurt am Main during the last 20 trading days prior to the date of the subscription right under the share option is at least 20% above the exercise price (absolute threshold).

(7) Waiting Periods

The option rights granted to individual entitled persons can be exercised at the earliest upon expiry of a waiting period of two years from the date of issue. In each case at the earliest two years after the date of issue 25%, 25% three years after the date of issue, another 25% after four years and the last 25% five years after the date of issue.

(8) Exercise Periods

Upon expiry of the preceding waiting periods, the subscription rights under the stock options can be exercised at any time, but not within the following periods:

- in the period from the last day upon which shareholders can register to attend the General Meeting of the company until the third banking day in Frankfurt am Main following the General Meeting;

- in the period from the date of publication of a subscription offer on new shares or on bonds with conversion and/or option rights in shares in the company in an official journal of the stock exchange in Frankfurt am Main until the date upon which the subscription period ends;

- in the period from four weeks prior to the publication of the relevant quarterly or annual results.

(9) Personal Rights

The stock options can only be exercised by the entitled persons themselves. This also applies if the stock options are assumed by a credit institute with the obligation to transfer them to the individual entitled persons as instructed by the company. Disposition rights in the share options are excluded, specifically, they are non-transferable. The share options can, however, be inherited. The option condition can, in derogation from this, provide special rules in the event that the entitled person dies or retires, or their employment agreement with the company or the affiliated companies is otherwise ended by means other than termination, or the affiliated company withdraws from the *aap* Group.

(10) Expiration

(a) The stock options expire six years from the date of issue.

(b) Stock options that are not exercised also expire upon receipt of the written termination of the option right agreement by the company. Such termination, which can be made with a notice period of one month, is possible if either a creditor of the entitled person effects compulsory enforcement measures in the stock options, if insolvency proceedings are initiated regarding the assets of the entitled person, the initiation of insolvency proceedings is rejected due to lack of assets or if the entitled person contravenes material obligations set forth in the law, the articles of association of the company or his/her employment contract with the company or an affiliated company, or in the option right agreement.

(c) Stock options that are not exercised also expire as soon as the respective service or employment relationship with the entitled person – be it as member of the Management Board, selected member of executive staff or employee of the company or as a member of the management, selected executive staff or employee of an affiliated company – is terminated or cancelled, or for other reasons, in particular if it ends through expiry of the term; upon termination or cancellation, the time of the receipt of the termination declaration or that of the effective conclusion of the cancellation agreement is decisive, even if the termination only enters into effect in the future. The options of a member of the Management Board of the company or the management of an affiliated company in this capacity granted stock options expire also upon the surrender of his office or the dismissal of this member of the Management Board or this member of the management of the affiliated companies.

(d) Insofar as the termination of the service or employment relationship at the company or an affiliated company with the initiation of a new service or employment agreement at the company or an affiliated company is connected with an affiliated company, the stock options granted to an entitled person do not expire. This applies accordingly to the end of the position as executive body, if this is related to a new appointment in the company or at an affiliated company.

(e) The option rights granted to an entitled person furthermore do not expire if his/her term of service or employment ends upon reaching pensionable age, or through invalidity or death. In these cases, the entitled person or his/her heirs can exercise the option rights upon expiry of the waiting period pursuant to clause 7 sentence 2 during the next exercise period. The options rights shall lapse if they are not exercised during this period.

(11) Cash Compensation

In place of subscription to new shares, the entitled person can be granted cash compensation. The Management Board shall decide on the exercise of this choice; insofar as Management Board members are affected, the Supervisory Board shall decide. The cash compensation shall correspond to the difference between the exercise price and the average value of the last auction price of the shares in *aap* Implantate AG in XETRA-trade (or a functionally comparable replacement system for the XETRA-system) on the stock exchange in Frankfurt am Main during the last 20 trading days prior to the date of the exercise of the subscription right under the stock option.

(12) Regulation of Details

The Management Board is authorised to specify the additional details for the issue of shares from contingent capital and the further conditions of the stock option program, including the conditions of the option for entitled groups of persons. In derogation from this, the Supervisory Board decides on behalf of the members of the Management Board of the company. These additional details include, in particular, provisions governing the allocation of option rights within the entitled groups of persons, the date of issue within the specified period, the procedure of allocation to the individual entitled persons and the exercise of the option rights, as well as other procedural rules.

3. Restrictions on Voting Rights and the Transfer of Shares

The Management Board is aware that certain subscribers of the share capital increase in 2004 joined together in a pool. The purpose of this pool was to coordinate votes in the general meeting. Restrictions on dispositions were not agreed. According to most recent information, the pool members held a total of 32.06% of the shares in *aap* as per December 31, 2008 (previous year: 32.06%). The pool was disbanded on January 13, 2009.

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

To our knowledge, as per December 31, 2009, the following direct and indirect shareholdings of more than 10% of the share capital in the amount of €27,881,870.00 were held in *aap* Implantate AG:

Name	Voting rights in %
1. Noes Beheer B.V.	19.12
2. Elocin B.V.	12.87
3. Jürgen W. Krebs	11.79

5. Statutory Provisions, Provisions of the Articles of Incorporation for Appointing and Dismissing Board Member and Amending Articles of Incorporation

The appointment and dismissal of members of the Management Board are governed by Section 84 f. German Stock Corporation Act as well as the Articles of Incorporation of the company. Pursuant to the articles of the company, the Management Board shall comprise one or more members. The Supervisory Board specifies the number of members and appoints them. The Supervisory Board can appoint a member of the Management Board as chairman and another as deputy chairman. As of January 1, 2009, the Supervisory Board appointed Mr. Biense Visser as chairman of the Management Board. The Supervisory Board also dismisses the members of the Management Board. The members of the Management Board are appointed for a maximum of five years. Re-appointment or extension of the period of office for an additional five years is also permissible. The Supervisory Board can revoke the appointment of a Management Board member before expiry of his term of office for good cause, for instance in the event of gross breach of material obligations, inability to properly carry out management tasks or if the General Meeting passes a vote of no confidence in the Management Board member, unless this vote of no confidence was passed for obviously irrelevant or non-business related reasons.

Amendments to the Articles of Incorporation must be made in accordance with the provisions set forth in Sections 179 ff. German Stock Corporation Act and the Articles of Incorporation of the company. Pursuant to the Articles of the company, the Supervisory Board is authorised to make amendments to the Articles that affect only the wording thereof.

6. Management Board Powers to Issue and Repurchase Shares

The Management Board is authorised to increase the share capital with the consent of the Supervisory Board up until June 10, 2010 (approved capital 2005/I). The shareholders' subscription right can be excluded. Following use of part of the approved capital, the approved capital now amounts to €4,192,786.

The Management Board is authorised, with the consent of the Supervisory Boards to increase the share capital of the company once or on several occasions up to the total amount of €2,988,935 in return for contributions in cash or in kind by August 26, 2012 (approved capital 2007/I) and, with the consent of the Supervisory Board, to determine the conditions for the issue of shares. The subscription right of the shareholders can be excluded with the agreement of the Supervisory Board. The approved capital, following partial use, now amounts to €1,721,578.

The Management Board is authorised, with the consent of the Supervisory Board, to increase the share capital once or on several occasions up to the total amount of €8,026,571 in return for contributions in cash or in kind by August 6, 2014 (approved capital 2009/I) and, with the consent of the Supervisory Board, to determine the

conditions for the issue of shares. The subscription right of the shareholders can be excluded with the agreement of the Supervisory Board.

The General Meeting of August 27, 2007 authorised the company to purchase and use own shares in accordance with Section 71 (1) No. 8 German Stock Corporation Act and to exclude subscription rights. Holdings in the share capital could be purchased up to an arithmetical share of €1,000,000 in total. This authorisation was valid until February 26, 2009. A new authorisation was passed at the General Meeting in 2009.

The General Meeting on August 7, 2009 authorised the company to purchase and use own shares in accordance with Section 71 (1) No. 8 German Stock Corporation Act and to exclude subscription rights. Holdings in the share capital can be purchased up to an arithmetical share of €1,000,000 in total. The acquired shares may not at any time, together with other shares owned by the company or attributable to it pursuant to Sections 71 a ff. German Stock Corporation Act, account for more than 10% of the share capital. The authorisation may not be used for the purpose of trade in own shares. The authorisation can be exercised by the company or by third parties on behalf of the company in full or in part, once or several times, in pursuit of one or several goals. The authorisation is valid until February 4, 2011. The purchase shall be effected at the discretion of the Management Board either via the stock exchange or by means of a public purchase offer or through a public tender for such offer:

- If the shares are purchased via the stock exchange, the consideration paid by the company per share (excluding ancillary purchase costs) may not exceed or fall below the rate in the XETRA-trading system (or a comparable replacement system) calculated on the trading day by the initial auction on the stock exchange in Frankfurt/Main by more than 5%.

- If the shares are purchased by way of a public offer or a public tender, the purchase price offered or the threshold values of the purchase price range per share (excluding ancillary purchase costs) may not exceed or fall below by more than 10% the average closing rates in the XETRA-trading system (or a comparable replacement system) on the stock exchange Frankfurt/Main on the three trading days prior to the date of the public announcement of the offer or the public tender for bids. If, following the publication of a public offer or the public tender there are considerable variations in the relevant rates, the offer or the tender can be adjusted accordingly. In this case, the average rate during the three trading days preceding the public announcement of any adjustment will be taken as the basis of calculation. The purchase offer or the call to tender a purchase offer can include further conditions. Insofar as the purchase offer is over-subscribed or in the event of a call to tender an offer with several equivalent offers and where not all of these are accepted, the acceptance must be carried out proportionally. A preferential acceptance of small numbers of up to 100 shares for the purchase of shares offered per shareholder can be specified. The provisions of the German Securities Acquisition and Takeover Act must be observed insofar as and to the extent that these apply.

The Management Board is authorised to use the shares in the company purchased on the basis of this authorisation for all legally permissible purposes, in particular for the following:

I. The shares can be called in, without this requiring another resolution of the General Meeting. They can also be called in using a simplified procedure without a reduction in capital by adjusting the proportionate arithmetical amount for the remaining individual shares in the share capital of the company. The calling in can be limited to only part of the shares purchased. The authorisation to call in shares can be exercised several times. If the shares are called in by means of a simplified procedure, the Management Board is authorised by the Articles of Association to adjust the number of individual shares.

II. The shares can be sold by methods other than via the stock exchange or through an offer to the shareholders if the shares are sold for cash at a price that is not significantly lower than the stock market value of equivalent shares in the company at the time of the sale. In this case, the number of shares to be sold together with the number of new shares issued since the grant of this authorisation to the exclusion of subscription rights pursuant to Section 186 (3) sentence 4 German Stock Corporation Act, may not exceed

10% in total of the share capital of the company at the time of the resolution of the General Meeting.

III. The shares can also be issued in return for contributions in kind, in particular in connection with the acquisition of companies, parts of companies or shareholdings in companies, as well as mergers.

IV. The shares can also be used to fulfill conversion rights under convertible bonds or bonds with warrants issued on the basis of the authorisation granted by the General Meeting of June 30, 2006 (Deed roll No. M 211/2006 of the Notary Klaus Mock, Berlin). The key points of the conditions of the authorization dated June 30, 2006 are set forth in the notarial recording of the General Meeting of June 30, 2006 and, as such, can be inspected at the Commercial Register of the Local Court of Charlottenburg.

The authorizations specified in II. to IV. above also cover the use of shares in the company purchased on the basis of Section 71 d sentence 5 German Stock Corporation Act.

The authorisations can be exercised once or on several occasions, in full or in part, individually or jointly; the authorisations under II. to IV. can also be exercised by independent companies or companies majority-owned by the company, or for their account or on the account of third parties acting on behalf of the company. The price (excluding ancillary costs of the realisation) at which the shares in the company are sold or issued pursuant to an authorisation under II. and III., may not fall more than 5% below the rate determined in the opening auction of shares in *aap* Implantate AG in XETRA-trading (or a comparable replacement system) on the securities exchange Frankfurt/Main on the day of the sale or the binding agreement with the third party. The price (excluding ancillary costs of the realisation) at which the shares in the company in accordance with the authorisation pursuant to IV. are used, must be at least 80% of the average value of the closing auction prices of the shares in *aap* Implantate AG in XETRA-trading (or a comparable replacement system) on the stock exchange in Frankfurt/Main during the last 10 trading days prior to the date of the resolution on the issue of convertible bonds or bonds with warrants. This is without prejudice to Section 9 (1) German Stock Corporation Act.

The subscription right of the shareholders in these own shares is excluded insofar as these shares are used in accordance with the preceding authorization under II. to IV.

The Supervisory Board can decide that measures may only be taken by the Management Board on the basis of this resolution of the General Meeting with its consent.

7. Important agreements concluded by the Company that are conditional on a change of control resulting from a takeover bid, and the consequences

In March 2009 the Company secured a €2.0 million loan by the terms of a loan commitment. As of December 31, 2009 the shareholder loan had a nominal value of €1.5 million. It is due for immediate repayment in the event of a takeover. Takeover here means the day on which it is publicly announced that more than 50% of *aap* stock has been acquired by a person or company, or various persons or companies acting in concert, as defined in Section 30 (2) of the German Securities Acquisition and Takeover Act (WpÜG).

There is a service agreement between an *aap* subsidiary and an external company on the provision of certain services that constitute a material business relationship for the subsidiary. In the event of a change of control the external company is entitled to cancel the agreement if a change in the subsidiary's share ownership occurs in the course of which another person, group or company takes over or acquires more than 50% of the voting rights or is found to hold them.

Between a subsidiary and another external company there is a distribution and license agreement for certain products of the subsidiary's that constitutes a material business relationship for the subsidiary. In the event of a change of control the external company is entitled to cancel the agreement. If the external company were to exercise this right and the buyer of the subsidiary were, in the final analysis, to be a company named in this agreement, *aap* would be required to repay all one-time and sales-related license fees paid by the terms of the agreement. A change of control by the terms of the distribution and license agreement means a person or company, or various persons or companies, gaining control over the company in one or more transactions or acquiring assets that individually or jointly play a material role in delivering performance by the terms of the agreement. Control here means holding – directly or indirectly – the right to determine the company's business policy and management.

By the terms of a loan agreement the Company (debtor) was granted a €1.0 million loan (debt obligation) to be repaid in full on maturity. Each of the creditors (lenders or assignees in the event of assignment) is entitled to call in his share of the loan wholly or in part for cause as defined in Sections 490 and 314 of the German Civil Code (BGB). One such cause would be, especially, if a qualified change in share ownership were to occur without the creditor's prior consent having been secured. A qualified change in share ownership takes place when a change in direct or indirect share ownership or partnership occurs that leads to the direct or indirect shareholders or partners at the time when the loan agreement was signed ceding control over the debtor or a a person or group of persons acting in concert acquires more than 50% of voting rights and/or more than 50% of the debtor's share capital.

Otherwise the Company has no material agreements in place that are conditional on a change of control.

8. Compensation Agreements in the Event of Takeover Offers with Members of the Management Board or Employees

If the company is taken over, the Management Board shall be issued any stock options not yet granted.

If a person or company or several persons or companies acting in concert (acting in concert as defined in the German Securities Acquisition and Takeover Act) acquires more than 50% of the shares in the company ("Change of Control") the Management Board is entitled to a bonus.

The amount of the bonus is calculated according 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 offer (or the average price paid in other acquisitions) and the preferential prices for the options pursuant to the stock option program 2008.

In the event of a Change of Control, the Management Board is entitled to a Change of Control Bonus, which is calculated based on the agreed purchased price. The bonus is due for payment on the day of the closing of the Change of Control.

G) Assurance from the Legal Representative (pursuant to Section 37y No. 1 Securities Trading Act)

We assure to the best of our knowledge that, pursuant to the applicable accounting principles, the group financial statement provides an accurate overview of the assets, finances and earnings of the group that reflects the factual circumstances and that the group financial statement portrays the development of the business, including the result and the position of the group, such that it reflects the factual circumstances and outlines the main opportunities and risks inherent in the expected development of the group.

Berlin, March 25, 2010

The Management Board

Biense Visser
Chairman of the Management Board/CEO

Bruke Seyoum Alemu
Management Board/COO

Consolidated Income Statement according to IFRS for the Period January 1 to December 31, 2009

	Notes	2009		2008
		€K	€K	€K
1. Sales revenues	(1)		33,101	31,884
2. Change in finished goods inventories and work in process			-1,409	1,717
3. Capitalized cost of self-constructed assets			3,096	2,875
4. Other operating income	(2)		2,666	2,230
5. Cost of materials				
a) Cost of raw materials, consumables and supplies, and of purchased materials		-6,186		-7,421
b) Cost of purchased services		-1,225		-1,812
			-7,411	-(9,233)
6. Personnel expenses	(3)			
a) Wages and salaries		-11,237		-11,765
b) Social security and other pension costs		-1,904		-2,055
			-13,141	-(13,820)
7. Depreciation of intangible fixed assets and tangible assets	(4)		-2,969	-8,348
8. Other operating expenses	(5)		-10,333	-11,940
9. Other interest and similar income	(6)		10	7
10. Depreciation on financial assets	(6)		0	0
11. Other interest and similar expenses	(6)		-850	-930
12. Result before Tax			*2,760*	*-5,558*
13. Taxes on income	(8)		-816	329
14. Other taxes			-6	-5
15. Result after Tax			*1,938*	*-5,234*
thereof: Result of other partner			-1	-34
thereof: Net Result//Result of shareholder of *aap* AG			1,937	-5,268
thereof: Earnings per share (undiluted)			0.07	-0.20
thereof: Earnings per share (diluted)			0.07	-0.20

Schedule of Total Comprehensive Income

	2,009	2008
	€K	€K
Result	1,938	-5,235
Other Comprehensive Income	0	0
Total Comprehensive Income	1,938	-5,235
thereof: account for shareholder of *aap* AG	1,937	-5,268
thereof: account for other partner	1	34

Consolidated Balance Sheet according to IFRS at December 31, 2009

ASSETS

	Notes	2009		2008
		€K	€K	€K
A. Long-term Assets	(10)			
I. Intangible Assets				
1. Concessions, industrial property rights and similar rights and values, and licenses		3,328		3,790
2. Goodwill		12,490		13,057
3. Capitalized services rendered for own account		16,408		14,283
4. Other intangible assets		3,132		3,376
5. Advances		170		0
			35,528	(34,506)
II. Tangible Assets				
1. Land and leasehold rights and buildings, including buildings on third-		846		1,771
2. Plant and machinery		3,146		4,383
3. Other fixtures and fittings, tools and equipment		1,033		1,155
4. Advances		30		
			5,055	(7,309)
III. Financial Assets				
Other Investments	(25)	356		358
			356	(358)
IV. Deferred Taxes			127	2,320
B. Short-term Assets				
I. Inventories	(12)			
1. Raw materials and supplies		2,811		3,629
2. Work in process		1,376		2,660
3. Finished services		0		108
4. Finished goods		7,301		7,317
5. Advances		50		0
			11,538	(13,714)
II. Accounts receivable and other Assets	(13)			
1. Accounts receivable (trade debtors)		6,007		6,795
2. Accounts due from other group companies		0		1
3. Other assets		1,638		1,931
			7,645	(8,727)
III. Cash and cash equivalents			2,406	96
			62,655	67,030

Liabilities and Shareholders' Equity

	Notes	2009		2008
		€K	€K	€K
A. Capital Stock	(15)			
I. Subscribed Capital		27,882		26,614
II. Capital Reserve		39,795		39,588
III. Revenue Reserve				
1. Legal reserve		42		42
2. Other revenue reserve		273		273
IV. Revaluation Reserve		608		608
V. Consolidated Balance Sheet Loss		-24,014		-25,950
VI. Adjustment Item for Interests Held by Parties Outside the Group		129		128
			44,715	(41,303)
B. Long-term Liabilities (above 1 year)	(18)			
1. Other long-term provisions		0		256
2. Long-term due to banks		1,836		3,008
3. Special items for investment grants		134		153
4. Deferred taxes		2,249		3,702
5. Long-term financial leasing liabilities		89		1,067
6. Shareholder provisions		0		1,153
7. Other long-term liabilities		36		54
			4,344	(9,393)
C. Short-term Liabilities (up to 1 year)	(17), (18)			
1. Other short-term provisions	(17)	193		361
2. Short-term tax provisions	(17)	0		0
3. Due to banks		5,684		7,434
4. Advances from customers		78		289
5. Accounts payable		1,799		3,218
6. Special items for investment grants		41		78
7. Accounts due from other group companies		4		22
8. Short-term financial leasing liabilities		56		463
9. Shareholder liabilities		2,265		0
10. Other short-term liabilities		3,476		4,469
			13,596	(16,334)
			62,655	67,030

Consolidated Cash Flow Statement according to IFRS

	2009	2008
	€K	€K
1. Net profit/loss for the year	1,938	-5,234
2. Stock options with effect on payments	222	436
	2,160	-4,798
3. Ohter profits from non effective payments	-427	0
4. Depreciation	2,969	3,193
5. Extraordinary Depreciation	0	5,155
6. Changes of deferred taxes	683	-472
7. Increase in provisions	-423	52
8. Loss from retirement of tangible assets	0	0
9. Profit from disposed Disposal group	-312	
10. Write-ups of intangible assets	0	0
11. Increase in inventories, trade receivables and other assets	2,302	-2,516
12. Increase/Decrease in trade accounts payable and other liabilitie	-2,135	-12
13. Income from retransfer of special item for investment allowances		
	-56	-58
14. Inflow of funds from current business activity	4,761	544
15. Payments for intangible and tangible assets	-4,054	-4,193
16. Inpayments from disposal of Disposal Group	2,150	0
17. Inpayments from investment grants	0	116
18. Payments from investment grants	0	-27
19. Outflow of funds from investment activity	-1,904	-4,104
20. Inpayments from capital increase and shareholder grants	1,267	2,763
21. Equity procurement transaction costs	-21	-156
22. Inpayments from the take-up of loans	2,601	2,648
23. Inpayments from new shareholder grants	2,000	0
24. Payments to redeem shareholder grants	-500	0
25. Payments to redeem loans and dormant equity holdings	-5,426	-1,828
26. Payments to financial leasing-agreements	-468	-68
27. Inflow of funds from investment activity	-547	3,359
28. Cash and cash equivalents at start of period	96	297
28. Cash and cash equivalents at end of period	2,406	96

Consolidated Schedule of Assets at December 31, 2009 according to IFRS

		Historical Cost of Acquisition					Cumulative Depreciation					Book Values	
		Status as at 1/1/09	Addi- tions	Retire- ments	Transfers	Status as at 12/31/09	Status as at 1/1/09	Depreciation in financial year	Retire- ments	Transfers	Status as at 12/31/09	Status as at 12/31/09	Status as at 12/31/08
		T€	T€	T€	T€	T€	T€	T€	T€	T€	T€	T€	T€
Long-term Assets													
I.	**Intangible Assets**												
1.	Concessions, industrial property rights and similar rights and values, and licenses thereto	20,422	140	994	-4,204	15,364	16,632	504	994	-4,106	12,036	3,328	3,790
2.	Goodwill	17,075	0	567	0	16,508	4,018	0	0	0	4,018	12,490	13,057
3.	Capitalized development activities	23,197	3,096	0	0	26,293	8,914	971	0	0	9,885	16,408	14,283
4.	Other intangible assets	3,661	0	0	0	3,661	285	244	0	0	529	3,132	3,376
5.	Advances	0	170	0	0	170	0	0	0	0	0	170	0
		64,355	3,406	1,561	-4,204	61,996	29,849	1,719	994	-4,106	26,468	35,528	34,506
II.	**Tangible Assets**												
1.	Land and leasehold rights and buildings, including buildings on third-party land	3,718	34	853	0	2,899	1,947	166	60	0	2,053	846	1,771
2.	Technical plant and machinery	13,543	396	1,543	0	12,396	9,160	845	755	0	9,250	3,146	4,383
3.	Other fixtures and fittings, tools and equipment	4,944	185	455	0	4,674	3,789	239	387	0	3,641	1,033	1,155
4.	Advances	0	30	0	0	30	0	0	0	0	0	30	0
		22,205	645	2,851	0	19,999	14,896	1,250	1,202	0	14,944	5,055	7,309
III.	**Financial Assets**												
1.	Other investments	376	0	20	0	356	18	0	18	0	0	356	358
2.	Other loans	38	0	0	0	38	38	0	0	0	38	0	0
		414	0	20	0	394	56	0	18	0	38	356	358
	TOTAL	86,974	4,051	4,432	-4,204	82,389	44,801	2,969	2,214	-4,106	41,450	40,939	42,173

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	ordinary Depreciation	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	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K
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. Land and leasehold rights and buildings, including buildings on third-party land	2,704	1,014	0	0	3,718	1,787	160	0	0	0	1,947	1,771	917
2. Technical plant and machinery	12,550	993	0	0	13,543	8,253	907	0	0	0	9,160	4,383	4,297
3. Other fixtures and fittings, tools and equipment	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

Schedule of the Movement in Equity

		Revenue Reserves								
	Subscribed Capital	Capital Reserve	Legal Revenue Reserve	Other Revenue Reserves	Re-valuation Reserve	Balance Sheet Loss/Profit	Other Comprehensive Income	Shares owned by the Group	Shares held Minority Interests	TOTAL
	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K
Status as at 1.1.2008	25,347	37,765	42	273	608	-20,682	0	43,353	94	43,447
Capital Increase March	1,267	1,495	0	0	0	0	0	2,762	0	2,762
Stock Options	0	437	0	0	0	0	0	437	0	437
Transaction costs	0	-109	0	0	0	0	0	-109	0	-109
Currence differences	0	0	0	0	0	0	0	0	0	0
Net Profit for the Year	0	0	0	0	0	-5,268	0	-5,268	34	-5,234
Status as at 31.12.2008/1.1.2009	26,614	39,588	42	273	608	-25,950	0	41,175	128	41,303
Capital Increase	1,268							1,268		1,268
Stock Options	0	222						222		222
Transaction costs	0	-15						-15		-15
Result	0	0				1,936		1,936	1	1,937
Other Comprehensive Income	(0)	(0)								
Total Comprehensive Income	(0)	(0)				(1,936)		(1,936)	(1)	(1,937)
Status as at 31.12.2009	27,882	39,795	42	273	608	-24,014	0	44,586	129	44,715

Notes to the Consolidated Annual Financial Statements dated December 31, 2009 in Accordance with IFRS

A. Company Data

Company Name, Domicile

aap Implantate AG, Berlin, Germany

Head Office

Lorenzweg 5, 12099 Berlin

Commercial Register

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

Stock Market Listing

aap Implantate AG was listed on the regulated market from May 10, 1999 and traded in the Frankfurt Stock Exchange's Neuer Markt segment under Security ID number 506 660. Since May 16, 2003 the Company has been listed in the Prime Standard regulated market section 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

Basic Principles

The consolidated financial statements of *aap* Implantate AG, Berlin, to December 31, 2009 were drawn up in accordance with International Financial Reporting Standards (IFRS) as applied in the European Union, and with the commercial law provisions of Section 315 a (1) of the German Commercial Code (HGB) and were released for publication by *aap* Implantate AG's Management Board on March 25, 2010. As a matter of 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.

The consolidated financial statements of *aap* Implantate AG to December 31, 2009 consist of the consolidated balance sheet, the consolidated income statement, the schedule of the total comprehensive income, the cash flow statement, the schedule of the movement in equity, and the notes. In contrast to previous years, the segment reporting is no longer included (Note B 3).

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 undertaken at 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 2009 are based on a reporting period from January 1 to December 31, 2009.

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.

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 sale of a disposal group are stated separately at C (3) below.

Segment Reporting

At the beginning of the fiscal year 2009 the Group was restructured as part of a performance improvement program. With a view to achieving sustainable profitable growth there was a clear focus on the Ortho/Trauma/Spine areas. As a result of this strategic alignment the previous Traumatology & Orthopaedics and Biomaterials segments were merged and are managed as a single unit. *aap*'s internal organizational and reporting structure was adjusted accordingly. Reportable business segments as defined in IFRS 8 no longer existed in the reporting year. Reporting has been discontinued.

C. Consolidation Principles

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 (25) below.

Subsidiaries:

	2009 Shareholding	2008 Shareholding
aap Biomaterials GmbH, Dieburg	100 %	100 %
OSARTIS Verwaltungs-GmbH, Elsenfeld	100 %	100 %
ADC Advanced Dental Care GmbH, Dieburg	54 %	51 %
aap bio implants Netherlands B.V., Nijmegen (Netherlands)	100 %	100 %
aap bio implants markets GmbH, Düsseldorf	0 %	100 %

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 fiscal year 2008. 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 (now ADC Advanced Dental Care GmbH) with economic effect from July 1, 2008 by way of a capital increase in kind. The capital increase was entered in the commercial register on August 13, 2009.

By the terms of an agreement dated August 7, 2009, *aap* bio implants markets GmbH was merged with *aap* Implantate AG by the transfer of its assets by dissolution without liquidation. The merger was entered in the commercial register on September 2, 2009.

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.

Disposal Group

On December 17, 2009, after approval by the Supervisory Board, the Management Board signed a contract to sell to a Dutch investor the shares in Bactimm B.V., Nijmegen, and, indirectly, its subsidiary Farmalyse B.V., Zaandam, held by *aap* bio implants Netherlands B.V. Bactimm B.V. (microbiological analysis) and the Farmalyse B.V. (chemical analysis) were companies that did business in analytics for *aap* itself and for third parties. In the course of restructuring *aap* and the focus on its core areas Ortho/Trauma/Spine, the Analytics segment was defined as a non-core business at the beginning of 2009. As a result of the contracts signed, *aap* bio implants Netherlands B.V. lost control over Bactimm B.V. and Farmalyse B.V. as defined in IFRS 3 with effect from December 17, 2009. From the viewpoint of *aap* Implantate AG and the Group, the companies sold constitute a disposal group as defined in IFRS 5. The disposal group's profits are stated in the consolidated income statement under other operating income (F (2)).

	2009 €'000
Proceeds of disposal	2,300
Assets and liabilities of the disposal group	
Current assets	
Receivables and other assets	820
Inventories	240
Non-current assets	
Goodwill	567
Financial investment	2
Machinery, office and plant equipment	1,649
Deferred tax assets	56
Total assets	3,334
Current liabilities	
Owed to banks	96
Trade payables	450
Non-current liabilities	
Other financial liabilities	950
Total liabilities	1,496
Net assets	1,838
Profit from the disposal group	
Proceeds of disposal	2,300
Net assets	./. 1,838
Disposal costs	./. 150

	312
Net cash flow from the disposal group	2009
	€'000
Proceeds of disposal	2,300
Disposal costs	./. 150
Net cash flow	2,150

Reporting Date of the Consolidated Financial Statements

The financial year of the companies included is the calendar year. The consolidated financial statements were accordingly prepared to December 31, 2009.

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.

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

Debt Consolidation

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

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.

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 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 tax assets that anticipate the use of loss carryovers are only included if they are already covered on the balance sheet date by deferred tax liabilities arising from temporary differences. 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 include material and manufacturing overheads and production-related administrative costs as well as straight-line depreciation of production plant and equipment. Loan capital costs are not capitalized as 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 (21).

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.

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

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- to five-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

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. The *aap* Group used the following for the first time in the reporting year.

IAS 1 (2007) Presentation of Financial Statements

This standard contains new regulations on the presentation of financial statements. They require inter alia a strict distinction between owner-related and non owner-related changes in equity and greater detail on other comprehensive income. Its first-time adoption has led in *aap*'s consolidated financial statements to changes in the presentation of results and in the statement of stockholders' equity and to greater detail in the notes to the statements.

IFRS 3 (2008) Business Combinations

IAS 27 (2008) Consolidated and Separate Financial Statements

IFRS 3 (2008) "Business Combinations" contains changes in how corporate acquisitions are to be stated in the balance sheet. In the case of successive changes in ownership interest, interests previously held are revalued with effect on results at the time when a controlling interest is acquired. The difference between the revalued book value of the shareholding in the subsidiary and the subsidiary's pro rata revalued net assets is to be stated as goodwill. In stating stock held by other stockholders there will be a choice in the future between stating them at market value or at their identifiable pro rata net asset value. Furthermore, liabilities stated at the time of acquisition can no longer be accounted for with regard to future purchase adjustments without effect on results by changes to the goodwill. Incidental acquisition costs must be stated as expenditure.

The revised version of IAS 27 (2008) amends the regulations governing the statement of transactions with non-controlling stockholders and in the event of loss of a controlling interest in subsidiaries. In the future, a reduction in the percentage holdings must be stated as an equity transaction without effect on results as long as the parent company retains an opportunity to exercise control. If control is lost, the subsidiary's assets and liabilities must be booked out entirely and the remaining shareholding must be stated at its market value. Shares held by other stockholders that become negative due to losses incurred must be stated at their negative balance.

IFRS 3 (2008) and IAS 27 (2008) must be applied at the latest to fiscal years beginning on or after July 1, 2009. They were adopted prematurely in the fiscal year under review.

Amendment to IFRS 7	Improving Disclosures about Financial Instruments

The changes require the statement of greater detail on financial instruments, especially details of how market values are determined and greater detail about liquidity risks.

First-time adoption of the following standards and interpretations that were mandatory for the fiscal year 2009 had no material influence on the presentation of the assets, financial and earnings position of the Group or on consolidated earnings per share. Its effect was not significant enough to require any adjustment of previous year's figures.

Amendment to IFRS 1 (2008) and IAS 27 (2008)	Costs of Acquisition of Shares in Subsidiaries, Joint Ventures or Associated Companies
Amendment to IAS 32 (2008) and IAS 1 (2008)	Callable Financial Instruments and Obligations Arising on Liquidation
Amendment to IFRS 2 (2008)	Share-based Payment: Vesting Conditions and Cancellations
Amendment to IFRIC 9 and IAS 39 (2009)	Embedded Derivatives

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

Accounting Regulations Published but not yet in Force

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

Improvements to IFRSs (2009): Collective Standard with Amendments to Various Financial Reporting Standards

The collective standard contains a large number of minor IFRS amendments aimed at making regulations more specific and at eliminating inconsistencies. Most changes apply to fiscal years beginning on or after January 1, 2010.

IFRS 9 (2009)	Financial Instruments

The standard will replace the previous provisions of IAS 39 on the classification and valuation of financial instruments. IFRS 9 (2009) will apply for the first time to fiscal years beginning on or after January 1, 2013.

IAS 24 (2009)	Related Party Disclosures

This standard mainly provides for easements in disclosures on related parties that are controlled or materially influenced by the state. IAS 24 (2009) will apply for the first time to fiscal years beginning on or after January 1, 2011.

The following standards and interpretations that did not yet apply in the fiscal year 2009 are unlikely to have any material effect on *aap*'s consolidated financial statements:

Amendment to IAS 32 (2009)	Classification of Rights Issues
IFRS 1 (2008)	First-time Adoption of International Financial Reporting Standards
Amendment to IFRS 1 (2009)	Additional Exemptions for First-time Adopters
Amendment to IFRS 1 (2010)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
Amendment to IFRS 2 (2009)	Group Cash-settled Share-based Payment Transactions
Amendment to IAS 39 (2009)	Suitable Underlying Transactions
Amendment to IFRIC 14 (2009)	Prepayments of a Minimum Funding Requirement
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-Cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

F. Notes on the Profit and Loss Statements

(1) Sales Revenues

	2009 €K	2008 €K
By region		
Germany	7,110	8,195
Other European countries	16,183	13,894
Asia	5,314	3,676
The Americas	4,196	5,923
Africa	298	196
	33,101	31,884
By lines of business		
Trauma & Orthopaedics	6,511	12,244
Biomaterials	28,929	19,654
Transfer/Consolidation	./. 2,339	./. 14
	33,101	31,884

Sales revenues include €2.644 million (previous year: €2.326 million) in income from the provision of services. The remaining sales revenues are income from the sale of products.

In the fiscal year 2009 three of the Company's main customers accounted for €10.295 million (previous year: €7.757 million) in sales revenue.

(2) Other Operating Income

	2009 €K	2008 €K
Income from selling the Disposal Group (C.3.)	312	0

Income from grants toward expenses	1,489	1,196
Income from private use of company cars	131	170
Income for periods unrelated to the accounting period	65	116
Income from exchange rate differences	12	106
Income from retransfer of provisions	147	85
Income from retransfer of special item for investment grants and allowances	57	69
Income from write-down of receivables	103	63
Income from disposal short term assets	0	45
Income from insurance compensation	92	23
Income from disposal long term assets	0	21
Other	258	336
	2,666	2,230

Other operating income includes €15K (previous year: €277K) in income from booking out trade accounts payable for which the time limit had expired.

(3) Personnel Expenses

	2009	2008
	€K	€K
Wages and salaries	11,237	11,765
Social insurance contributions and expenses for old-age provision and for support	1,904	2,055
	13,141	13,820
Average headcount over the year		
Wage-earners	139	155
Salary-earners	131	148
	270	303

(4) Depreciation

Scheduled depreciation of fixed assets amounted to €1.250 million (previous year: €1.413 million), and €1.719 million (previous year: €1.781 million) in intangible assets. There were no extraordinary development project write-downs in 2009 (previous year: €5.155 million).

(5) Other Operating Expenses

	2009	2008
	€K	€K
Costs of research, analysis, sampling and sterilization	1,161	1,880
Premises costs	1,782	1,755
Advertising and travel expenses	1,094	1,568
Consulting costs	1,430	878
Vehicle costs	613	652
Insurance	460	520
Office costs, phones, fax, postage	400	474

Repairs and maintenance	490	472
Losses and depreciation of receivables	325	411
Outgoing packaging and freight costs	347	391
Sales commission	153	267
Patent and other fees	294	263
Currency differences	191	249
Leasing	218	238
Expenses unrelated to the accounting period	362	225
Further training costs	79	132
Other expenses	934	1,566
	10,333	11,941

(6) Financial Results

	2009 €K	2008 €K
Other interest and similar income	10	7
Other interest and similar expenditure		
Interest on long-term loans	./. 357	./. 389
Interest on current debts to banks	./. 493	./. 541
	./. 850	./. 930
	./. 840	./. 923

(7) Exchange Rate Differences

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

	2009 €K	2008 €K
Income from exchange rate differences	12	106
Cost of exchange rate differences	./. 191	./. 250
	./. 179	./. 144

(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% since January 1, 2008, solidarity surcharge at 5.5% of the corporation tax payable, and trade tax at 14.4%.

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 not apply until after January 1, 2010. 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 and even if tax loss carryovers were potentially higher.

Deferred tax liabilities totaling €1.594 million (previous year: €1.727 million) were a result of first-time consolidation of the Dutch sub-group. Scheduled depreciation of undisclosed reserves of acquisitions

uncovered in purchase price allocation led to €133K (previous year: €158K) in deferred tax income. €6,000 (previous year: €47K) in tax expenses was stated in respect of equity capital transaction costs.

The tax ratio for the reporting period is therefore around 30% (previous year: 6%).

Reconciliation of income tax expenses to IFRS to theoretical tax expenses is as follows:

	2009	2008
	€K	€K
Earnings before tax	2,754	./. 5,564
Theoretical tax earnings/expense (income) 30.2% (previous year: 30.2%)	./. 831	1,679
Tax effects on		
- Not useable loss carryover/utilization of loss carryovers/depreciation on loss carryovers	./. 342	./. 976
- Disposal of none activated tax-deductable good will (disposal Group - C.3.)	./. 171	0
- Tax frees income from selling a group of assets (disposal Group - C.3.)	221	0
· Tax rate differences within the group	216	./. 266
· Permanent differences	113	./. 75
· Non-deductible expenses and applicable trade tax	./. 36	./. 61
· Tax-free income	9	25
· Other	5	4
Total adjustments	15	./. 1,349
Income tax expenses to IFRS	./. 816	330
Effective tax rate in %	30 %	6 %

Income tax expenses to IFRS include €81K (previous year: €37K) 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.

	2009	2008
Result for the period in €K	1,938	./. 5,268
Number of shares ('000s)	27,601	26,201
Earnings per share in €	0.07	./. 0.20

Diluted earnings per share take into account stock options granted between 2006 and 2009.

	2009	2008
Result for the period in €K	1,938	./. 5,268
Number of diluted shares ('000s)	27,601	26,201
Earnings per share in €	0.07	./. 0.20

In the reporting year, as in the previous 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.

G. Notes on the Balance Sheet

(10) 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 €3.096 million (previous year: €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 €748K (previous year: €781K) were made in the reporting period.

2. Development Costs

Development costs totaling €3.096 million (previous year: €2.843 million) were capitalized in the reporting period. They included €418K (previous year: €297K) in directly attributable borrowing costs based on the average Group financing cost rate of 7.19% (previous year: 6.02%). Development costs related for the most part to the following projects:

- Eurotrans
- Pericard Membran
- Magnesium-alloy
- CAP-Zement
- MEDOS
- Vertolast
- Allografts
- Duraselants duals
- All in one mixer
- Rebasol
- Rekoplate
- Anglestable-plate
- Silver Coating

In addition, research and other development costs totaling €1.196 million (previous year: €1.302 million) were capitalized as expenses Write-downs in the reporting period totaled €971K) (previous year: €6.154 million, of which €5.155 million was unscheduled depreciation). 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 four years.

The discount rates used were derived from market data and the project-specific risk run by the underlying development project and amount to between 9.5% and 14.6% p. a. (previous year: between 12.0% and 15.4%) before and between 9.5% and 11.3% p. a. (previous year: 9.4% and 12.2%) after taxes. There was no extraordinary depreciation requirement in the reporting year. The previous year's extraordinary depreciation requirement amounted to €5.155 million; affecting net income, it is stated under Depreciation (F (4)).

3. Goodwill

The following cash-generating units were identified on the basis of the smallest identifiable group of *aap* Group assets as defined in accordance with IAS 36.6 that generate cash inflows from continuing use and are largely independent of cash inflows from other assets or groups of assets.

Costs of Acquisition

	31.12.2009	31.12.2008
	€K	€K
Status at the beginning of the year	17,075	17,075
Disposal of a group of assets (disposal Group - C.3.)	./. 567	0
Status at the end of the year	16,508	17,075

Accumulated Impairment Losses

	31.12.2009	31.12.2008
	€K	€K
Status at the beginning of the year	4,018	4,018
Impairment losses stated in the course of the year	0	0
Status at the end of the year	4,018	4,018

Book Value

	31.12.2009	31.12.2008
	€K	€K
Status at the beginning of the year	13,057	13,057
Status at the end of the year	12,490	13,057

The *aap* Group's total goodwill as of December 31, 2009 amounted to €12.5 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 was found to be unimpaired, so – as in the previous year – no write-downs were undertaken.

The amount achievable by the cash-generating unit was determined on the basis of its useful value. Useful value is the cash value of the cash flow that a cash-generating unit is likely to generate in the future. It is determined internally. Determination of useful value is based on a discount rate of 12.7% p. a. (previous year: 12.4%) derived from market data. The discount rate after taxes is 9.5% (previous year: 10.8%).

Allocation of Goodwill to Cash-generating Units

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

	31.12.2009	31.12.2008
	€K	€K
Biomaterials	12,490	13,057

Goodwill results from the acquisition of *aap* bio implants Netherlands B.V. and Osartis GmbH & Co. KG and the majority shareholding in the former ADC Advanced Dental Care GmbH & Co. KG. The (partial) disposal results from the sale in the reporting year of Bactimm B.V., Nijmegen, and Farmalyse B.V., Zaandam, by *aap* bio implants Netherlands B.V. (C 3).

Impairment of the cash-generating unit's goodwill was tested using the cash flow forecasts in the four-year plan for the biomaterials cash-generating unit approved by the Management Board and a discount rate of 12.7% (previous year: 12.4%). In determining the perpetuity a growth discount of 1.5% of weighted average capital costs (WACC) and a safety discount of 10% (previous year: 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, 2009 was €350K (previous year: €1.939 million). The €145K (previous year: €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 €1.308 million (previous year: €2.884 million).

5. Financial Assets

Other Participating Interests	2009		2008	
	€K	Holding	€K	Holding
1. AEQUOS Endoprothetik GmbH, Munich	356	5.32 %	356	6.25 %

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.	0	0 %	2	20 %
Total		356		358	

The **book value** of the AEQUOS Endoprothetik GmbH shareholding is its market value. With the increase in capital stock based on the resolution adopted by the meeting of shareholders on May 27, 2009 and entered in the commercial register on January 18, 2010, *aap* Implantate AG's stake in AEQUOS Endoprothetik GmbH was reduced to 5.32%. Prisna B.V. is a part of the Bactimm/Farmalyse disposal group (C 3).

(11) Deferred Taxes

Deferred tax assets and liabilities are netted out against each other by company or by tax entity. In the reporting year the tax entity comprised *aap* Implantate AG and *aap* Biomaterials GmbH (C (1)).

Tax accruals carried as assets totaling €127K (previous year: €2.320 million) include the following capitalized tax credit entitlements arising from anticipated utilization of existing loss carryovers in the years ahead:

	2009	2008
	€K	€K
Corporate income tax, including solidarity surcharge	1,539	1,915
Trade tax	1,290	1,171
	2,829	3,086

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)). Deferred taxes apply almost entirely to the German part of the Group. The €612K in deferred taxes on the asset side relating to the Dutch sub-group was for the most part used up in the reporting year. €56K in deferred tax assets was disposed of by the sale of a group of assets (disposal group, C (3)).

As of the end of the reporting year, corporation tax or trade tax loss carryovers for which no deferred tax entitlements were capitalized amounted to around €10.5 million and €8.5 million (previous year: €9.9 million and €10.8 million) respectively.

Deferred taxes on the liabilities side amounting to €3.506 million (previous year: €3.702 million) and deferred taxed on the assets side amounting to €127K (previous year: €176K) 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. A further €1.594 million (previous year: €1.727 million) in deferred taxes on the liabilities side results from first-time consolidation of the Dutch sub-group.

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% (previous year: 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%).

(12) Inventories

Value adjustments totaling €175K (previous year: €783K) were made in the reporting year to state inventories at their net residual value. Depreciation of inventories amounted to €2.227 million (previous year: €2.342 million). The book value of inventories stated at their net residual value was €859K (previous year: €657K).

Inventories amounting to €530K (previous year: €1.183 million) were assigned as collateral for liabilities.

(13) Accounts Receivable and Other Assets

	31.12.2009 €K	Of which due in > 1 year €K	31.12.2008 €K	Of which due in > 1 year €K
Trade receivables	6,007	20	6,795	10
Accounts due from other group companies	0	0	1	0
Other assets				
- Tax refund claims	448	0	696	0
- Warranty claims	406	0	482	0
- Other	783	8	753	8
	1,637	8	1,931	8
	7,644	28	8,727	18

*RLZ = Restlaufzeit

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 €3.983 million (previous year: €4.816 million) were assigned as collateral for liabilities.

(14) Tax Refund Entitlements

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

(15) Equity

The Company's capital stock as of December 31, 2009 amounted to €27,881,870 and was divided into 27,881,870 bearer shares.

By a resolution adopted on March 16, 2009 the capital stock of *aap* Implantate AG was increased by €1,267,357 from €26,614,513 to €27,881,870 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, 2009. The issue price was €1.00. The commercial register entry was made on March 23, 2009.

The statutory reserve totaled €41,703.95 at the end of the fiscal 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 fiscal 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 fiscal 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 fiscal 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 1,200,000 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 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 fiscal 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 herefrom, 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 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.

Treasury Stock

The General Meeting held on August 27, 2007 authorized the Company to acquire and use Treasury stock in accordance with Section 71 (1) 8 AktG and rule out a subscription right. It was able to buy Treasury stock amounting to a €1,000,000 share of the capital stock. This authorization ran until February 26, 2009. At the 2009 General Meeting a further authorization was approved.

The General Meeting held on August 7, 2009 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 4, 2011.

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.

Approved Capital

The General Meeting held on June 10, 2005 authorized the Management Board to increase the Company's capital stock by June 10, 2010 on one or more occasions by up to €7,300,000 in cash or kind (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. Subject to Supervisory Board approval, subscription rights for existing shareholders may be ruled out:

a) To balance residual amounts,

b) If the capital increase in cash does not exceed 10% of the capital stock and the issue price of the new shares is not substantially lower than the market price (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.

After partial utilization the Approved Capital 2007 now totals only €1,721,578.

The General Meeting held on August 7, 2009 authorized the Management Board to increase the Company's capital stock, subject to approval by the Supervisory Board, by August 6, 2014 on one or more occasions by up to €8,026,571 in cash or kind (Approved Capital 2009/I) and, as agreed with the Supervisory Board, to lay down the terms and conditions of the share issue. Subject to Supervisory Board approval, subscription rights for existing shareholders may be ruled out:

a) To balance residual amounts,
b) If the capital increase in cash does not exceed 10% of the capital stock and the issue price of 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 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.

(16) Share Price-based Remuneration

In the fiscal 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. A further stock option program was launched in 2008.

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 €
22.11.2006	385,000	2.28 €
18.04.2007	152,500	2.37 €
30.11.2007	477,500	2.41 €
17.04.2008	131,500	2.27 €
10.09.2008	96,000	2.23 €
01.12.2008	200,000	1.61 €
26.05.2009	487,500	1.29 €

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

17.04.2008	0.87 €
10.09.2008	0.74 €
01.12.2008	0.55 €
26.05.2009	0.48 €

Fair market values were established in the reporting year by means of a binomial model. Volatility was measured on the basis of weekly yields. Expenditure on share-based remuneration in the reporting period totaled €222K (previous year: €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 2009, 190,500 options from the 2006 stock option program expired.
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	5.50 %	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	2009 Tranche
Outstanding at beginning of financial year	1,200,000	1,000,000
Issued in the financial year	200,000	487,500
Lapsed	0	0
Exercised	0	0
Outstanding at end of financial year	1,000,000	512,500
Exercisable at end of financial year	0	0

Stock Options	12/2008 Tranche	05/2009 Tranche
Target price	1.94 €	1.55 €
Risk-free interest rate	2.26 %	1.98 %
Volatility	50.35 %	55.74 %
Stock market price when the options were granted	1.49 €	1.20 €

Stock options issued at the end of the fiscal year had a weighted average term to maturity of 2.65 years (previous year: 2.92 years).

(17) Provisions

	As at 01.01.2009	Con-sumption	Write-back	Additions	As at 12.31.2009
	€K	€K	€K	€K	€K
Other provisions	15	0	0	0	15
Restructuring expense	510	- 363	- 147	0	0
Commitment employee	32	- 7	0	8	33
Storage costs	0	0	0	28	28
Other uncertain liabilities	10	0	0	25	35
Legal costs and risks	50	0	0	32	82
	617	- 370	- 147	93	193

The provisions shown have terms of up to one year.

(18) Liabilities

Terms to maturity of liabilities – arranged by balance sheet heading – are as follows:

		Time to maturity			
	31.12.2009 total	Up to 1 year	1-5 years	More than 5 years	Previous year
	€K	€K	€K	€K	€K
Amounts owed to banks	7,521	5,685	1,836	0	10,442
Prepayments received	78	78	0	0	289
Trade payables	1,799	1,799	0	0	3,218
Special investment grant item	175	41	134	0	231
Liabilities to associated companies	4	4	0	0	22
Liabilities to partners	2,265	2,265	0	0	1,153
Financial leasing liabilities	145	56	89	0	1,530
Other liabilities	3,511	3,476	35	0	4,523
Of which					
(Social Security-related)	(0)	(0)	(0)	(0)	(25)
(Taxes)	(429)	(429)	(0)	(0)	(176)
	15,498	13,404	2,094	0	21,408

Of the €2.094 million (previous year: €5.435 million) in non-current liabilities with terms to maturity of more than 1 year, €1.961 million (previous year: €5.281 million) bore interest. Of the €13.404 million (previous year: €15.973 million) in current liabilities with terms to maturity of up to 1 year, €8.050 million (previous year: €8.187 million) bore interest. Average interest paid was around 7% (previous year: 7%).

As of December 31, 2009 the *aap* Group had contractually guaranteed credit lines totaling €6.7 million at its disposal, of which €4.5 million gross and €2.2 million net had been taken up as of the balance sheet date. Cash and cash equivalents held as of December 31, 2009 totaled €2.406 million (previous year: €96K).

Mio. €	31.12.2009	31.12.2008
Gross availment of credit lines	- 4,5	- 5,8
Cash at banks	2,3	0,0
Net availment of credit lines	- 2,2	- 5,8

The *aap* Group's current and non-current liabilities to banks are all denominated in euro. Foreign current liabilities as of December 31, 2009 totaled €10K in USD and were stated under other liabilities.

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: 7%).

(19) Other Financial Liabilities

Other financial liabilities break down as follows:

	31.12.2009	31.12.2008
	€K	€K
Future rent payments	2,199	4,619
Future operating lease payments	1,008	1,202
Other financial obligations	0	227
	3,207	6,048

		Capital repayments		
	31.12.2009	2010	2011 till 2014	from 2015
	€K	€K	€K	€K
Future rent payments	2,199	1,215	984	0
Future operating lease payments	1,008	438	570	0
Other financial obligations	0	0	0	0
	3,207	1,653	1,554	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 €218K (previous year: €238K).

(20) Contingent Liabilities

Contingent liabilities totaling €115K relate to public sector grants in case preconditions for entitlement did not exist and continue not to do so, the funding received was not used for the stated purpose and the grant guideline requirements were therefore not fulfilled.

Contingent liabilities totaling €136K exist in respect of investment grants received. The grants are conditional on the assets financed remaining at the Berlin production facility for at least five years after completion of the investment project. And most of the goods manufactured must be sold in the region.

On February 13, 2009 *aap* Biomaterials GmbH was served a damages claim for allegedly passing on trade secrets and utilizing them without permission. The proposed value of the claim was €30 million. As *aap* is merely a contractual partner or contract manufacturer for another company against which the claim was lodged, *aap* currently assumes that the suit against it will be rejected and that it will not be required to pay damages.

H. Other Disclosures

(21) 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. Write-downs of trade receivables are shown in separate value adjustment accounts.

Market values are either stock market prices or calculated on the basis of recognized valuation methods.

The market values of cash and cash equivalents, of current receivables, of trade payables, of other financial liabilities and financial debts correspond to their book values, especially in view of the short term to maturity of financial instruments of this kind.

Non-current fixed-interest and floating-rate liabilities are valued on the basis of various parameters such as interest rates, the customer's creditworthiness and the risk structure of the financial transaction. The book values of these receivables less the value adjustments undertaken as of December 31, 2009 and December 31, 2008 more or less correspond to their market values.

The market value of money owed to banks and other financial debts, liabilities arising from financial leasing and other financial liabilities is valued by discounting the anticipated future payment streams at the going market rates of interest for similar financial liabilities with comparable terms to maturity.

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 2009	Trade receivables	Other receivables and other assets	Total
	€K	€K	€K
As of 1/1/09	284	354	637
Value adjustment in reporting year	189	76	265
Disposals	./.116	./. 31	./. 147
As of 12/31/09	357	399	755

Trade receivables include €347K (previous year: €240K) in accounts receivable that were value adjusted by €313K (previous year: €209K) in view of anticipated payment difficulties.

Value adjustment for receivables in 2008	Trade receivables	Other receivables and other assets	Total
	€K	€K	€K
As of 1/1/08	179	162	335
Value adjustment in reporting year	178	192	370
Disposals	./. 68	0	./. 68
As of 12/31/08	284	354	637

As of December 31, 2009, overdue receivables that had not been value adjusted were as follows:

	Book value as of	Thereof not value-adjusted but overdue as follows on the reporting date				
	Dec. 31, 2009	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	6,007	1,233	1,292	56	211	140
	6,007	1,233	1,292	56	211	140

	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, 2009	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	1,637	0	0	0	0	0
	1,637	0	0	0	0	0

	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

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

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, 2009 amounted to €2.989 million (previous year: €10.134 million). As of December 31, 2009 the market value of amounts owed to partners was €2.256 million (previous year: nil).

		Balance sheet valuation in accordance with IAS 39	
	Book value as of 12/31/09	Continued cost of acquisition	Fair value, no effect on operating result
	€K	€K	€K
Assets			
Other investments	356	0	356
Trade receivables	6,007	6,007	0
Other assets			
- financial assets	1,053	1,053	0
- non-financial assets	584	0	0

Cash and cash equivalents	2,406	2,406	0
Liabilities			
Amounts owed to banks	7,520	7,520	0
Financial leasing liabilities	145	145	0
Trade liabilities	1,799	1,799	0
Amounts owed to partners	2,265	2,265	0
Owed to undertakings with which the company is linked by participating interests	4	4	0
Other liabilities			
- financial liabilities	2,759	2,759	0
- non-financial liabilities	752	0	0

thereof aggregated by valuation methods in accordance with IAS 39:

		Balance sheet valuation as per IAS 39	
	Book value as of 12/31/09 €K	Continued cost of acquisition €K	Fair value, not affecting operating result €K
Loans and receivables, including cash and cash equivalents	9,466	9,466	0
Financial assets held as available for sale	356	0	356
Total financial assets	**9,822**	**9,466**	**356**
Liabilities valued at their continued cost of acquisition	14,492	14,492	
Total financial liabilities	14,492	14,492	**0**

		Balance sheet valuation in accordance with IAS 39	
	Book value as of 12/31/08 €K	Continued cost of acquisition €K	Fair value, no effect on operating result €K
Assets			

Other investments	358	0	358
Trade receivables	6,795	6,795	0
Due from undertakings with which the company is linked by participating interests	1	1	0
Other assets			
- financial assets	1,185	1,185	0
- non-financial assets	746	0	0
Cash and cash equivalents	96	96	0
Liabilities			
Amounts owed to banks	10,442	10,442	0
Financial leasing liabilities	1,530	1,530	0
Trade liabilities	3,218	3,218	0
Amounts owed to partners	1,153	1,153	0
Owed to undertakings with which the company is linked by participating interests	22	22	0
Other liabilities			
- financial liabilities	3,941	3,941	0
- non-financial liabilities	582	0	0

thereof aggregated by valuation methods in accordance with IAS 39:

		Balance sheet valuation as per IAS 39	
	Book value as of 12/31/08	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**

Expenses, income, losses and profits from financial instruments

2009	Income from interest	Interest costs	Expenses from loss in value	Income from appreciation	Net income
	€K	€K	€K	€K	€K
Loans and receivables, including cash and cash equivalents	10	-30	-325	103	-242
Financial assets held as available for sale	0	0	0	0	0
Liabilities valued at their continued cost of acquisition	**0**	**-820**	**0**	**0**	**-820**
Total	10	-850	-325	103	-1,062

2008	Income from interest	Interest costs	Expenses from loss in value	Income from appreciation	Net income
	€K	€K	€K	€K	€K
Loans and receivables, including cash and cash equivalents	7	0	-411	63	-341
Financial assets held as available for sale	0	0	0	0	0
Liabilities valued at their continued cost of acquisition	**0**	**-930**	**0**	**0**	**-930**
Gesamt	7	-930	-411	63	-1,271

(22) Management of Financial Risks

In view of its operating activities, 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, foreign 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.

Foreign Currency Risks

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

The major part of the Group's business activity is conducted in the euro zone. Business conducted outside of Europe 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. Yet as of December 31, 2009, *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. Lack of availability of sources of funding may result inter alia from failure to abide by so-called financial covenants that must be observed in connection with loan agreements. If these covenants are not observed, the financing bank is entitled to cancel loans without notice and demand their immediate repayment. By the terms of the current long-term loan agreements, for example, *aap* must not fall below a certain minimum Moody's rating or must abide by certain maximum or minimum levels of equity ratio, indebtedness, or borrowing. *aap* considers the risk of failure to comply with financial covenants that could result from downgrading by the financing bank to be very low because it achieved a significant reduction in interest-bearing liabilities and a marked improvement in earning position in the course of 2009. Furthermore, *aap* pursues a very open and transparent communication policy with the banks that finance it in order to identify possible danger potential at an early stage and draw up jointly solutions that are appropriate to the risk.

In addition, *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 €3.5 million and credit lines for its Dutch companies amounting to €3.15 million. Of the contractually assured credit lines totaling €6.7 million, €4.5 million was taken up gross and €2.2 million net as of the balance sheet date. As a consequence of the disposal of the Dutch analytics division and the resulting reduction in financing requirement, *aap* reduced in February 2010 the credit line framework for its Dutch companies from €3.2 million to €1.5 million along with a significant reduction in financing costs. The *aap* Group thereby now

has an initial total of €5.0 million in credit lines at its disposal for the year 2010. From July 1, 2010 the credit lines for the Dutch companies will be reduced by a further €250K.

Mio. €	31.12.2009	31.12.2008
Gross availment of credit lines	- 4.5	- 5.8
Cash at banks	2.3	0.0
Net availment of credit lines	- 2.2	- 5.8

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 12/31/09	Capital payments			Interest payments		
		2010	2011 - 2014	from 2015	2010	2011 - 2014	from 2015
	€K	€K	€K	€K	€K	€K	€K
Owed to banks	7,521	5,684	1,837	0	411	134	0
financial liabilities due to partners	2,265	2,265	0	0	60	5	0
Leasing liabilities	145	56	89	0	8	17	0
Other liabilities	83	48	35	0	3	2	0
Total	10,014	8,053	1,961	0	482	158	0

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 partners	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

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.

(23) 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

	31.12.2009	31.12.2008
	€K	€K
Interest-bearing Liabilities	7,853	13,288
EBITDA	6,562	3,708
Debt interest ratio	1.2	3.6

	31.12.2009	31.12.2008
	€K	€K
Interest expenses	-850	-930
EBITDA	6,562	3,708
Interest coverage ratio	7.7	4.0

Net Indebtedness

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

	31.12.2009	31.12.2008
	€K	€K
Interest-bearing Liabilities	7,853	13,288
Cash and cash equivalents	./. 2,406	./. 96
Net debts	5,447	13,192
Equity (i)	44,715	41,303
Net indebtedness to capital ratio	12 %	32 %

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

(24) Cash Flow Statement

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

Interest income	€8K (previous year: €7K)
Interest expenses	€836K (previous year: €863K)

Income tax paid totaled €128K (previous year: €183K); income tax refunded was €8K (previous year: €3K).

(25) Participating Interests

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

Name		Domicile	Participation %	Equity €K	Result €K
1.	*aap* Biomaterials GmbH	Dieburg	100	2,140	0
2.	OSARTIS Verwaltungs-GmbH	Elsenfeld	100	23	./. 2
3.	ADC Advanced Dental Care GmbH	Dieburg	54	191	3
4.	*aap* bio implants Netherlands B.V.*	Nijmegen (NL)	100	4,504	3,121

(* The figures stated related to the annual financial statements to IFRS)

By the terms of an agreement dated December 15, 2008, *aap* Biomaterials GmbH & Co. KG was merged with *aap* Biomaterials GmbH.
All shares in ADC Advanced Dental Care GmbH & Co. KG have been transferred by way of legal succession to ADC Advanced Dental Care GmbH. Since the capital increase was entered in the commercial register the shareholding quota has been 54%.
By the terms of an agreement dated August 7, 2009, *aap* bio implants markets GmbH was merged with *aap* Implantate AG by means of a transfer of its assets and dissolution without liquidation (C 2).

II. Participating Interests

Name		Domicile	Participation %	Equity €K	Result €K
5.	AEQUOS Endoprothetik GmbH	Munichen	5.32	703	./. 1,336
6.	Cybernetic Vision AG Health Monitoring Technologies	Berlin	5.69	-	-
7.	Rofil Medical International N.V.		10.00	-	-

The annual financial statements of Cybernetic Vision AG Health Monitoring Technologies and Rofil Medical International N.V. to December 31, 2009 are not available. The figures for AEQUOS Endoprothetik GmbH relate to the annual financial statements to December 31, 2009. With the increase in capital stock based on the resolution adopted by the meeting of shareholders on May 27, 2009 and entered in the commercial register on January 18, 2010, *aap* Implantate AG's stake in AEQUOS Endoprothetik GmbH was reduced from 5.6% to 5.32%.
In the fiscal year 2009 the shareholding in Prisna B. V. was sold along with the totality of Bactimm B. V. and Farmalyse B. V.

Insolvency proceedings in respect of the assets of Cybernetic Vision AG Health Monitoring Technologies (initiated in 2000) and the assets of Rofil Medical International N.V. (initiated in 2007) have yet to be concluded.

(26) Related Enterprises and Persons

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

The following transactions with related enterprises and persons took place during the reporting period:

2009	Related enterprises	Other related persons
	€K	€K
Selling of goods	202	1,652
Selling of assets	475	0
Purchased services	./. 126	./. 130
Financing		
- Loans	2,000	0
- Interest expense	./. 172	0
- Interest rate	8 %	-

2008	Related enterprises	Other related persons
	€K	€K
Selling of goods	467	0
Selling of assets	0	0
Purchased services	./. 173	./. 56
Financing		
- Loans	0	0
- Interest expense	./. 70	0
- Interest rate	6 %	-

All transactions are undertaken on market terms and conditions and do not, as a matter of principle, differ from delivery and performance relations with unrelated third parties.

Business with related enterprises and persons led to the following balance sheet items:

2009	Related enterprises	Other related persons
	€K	€K
Trade receivables	0	1,039
Liabilities loans	./. 2,265	0
Trade receivables from companies with which a participating relationship exists	4	0
Trade liabilities	0	2
Accrurals	0	13

2008	Related enterprises	Other related persons
	€K	€K
Trade receivables	0	0
Trade receivables from companies with which a participating relationship exists	1	0
Liabilities loans	./. 1,153	0
Liabilities from companies with which a participating relationship exists	./. 22	0

(27) Management Board, Supervisory Board

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

Mr. Biense Visser, businessman, Utrecht, Netherlands
Mr. Bruke Seyoum Alemu, Dipl.-Ing., Berlin

Management remuneration totaled €773K (previous year: €655K).

	Remuneration components in €K							
	Fixed		Performance-related		Long-term incentive		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Biense Visser	152	0	135	0	19	0	306	0
Bruke Seyoum Alemu	275	163	135	90	57	77	467	330
Oliver Bielenstein*	0	193	0	5	0	127	0	325
							773	655

* Until December 31, 2008

The Company has taken out D&O insurance cover for the management. Premiums paid in 2009 totaled €27K (2008: €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 OEG)
	HZPC Holland B.V.
	Kreatech Biotechnology B.V. (since Feb. 10, 2009)

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

Mr. Rubino Di Girolamo, business economist, Oberägeri near Zug, Switzerland (Chairman)
Mr. Jürgen W. Krebs, business economist, Kilchberg near Zurich, Switzerland (Deputy Chairman until Aug. 7, 2009)
Mr. Ronald Meersschaert, businessman, Arnhem, Netherlands (Deputy Chairman since Aug. 7, 2009)
Prof. Dr. Dr. med. Reinhard Schnettler, university professor, Hofheim/Taunus
Mr. Uwe Ahrens, Diplom-Ingenieur, Berlin
Mr. Marcel Boekhoorn, businessmann, Arnhem, Netherlands
Dr. Winfried Weigel, businessmann, Zurich, Switzerland (since Aug. 7, 2009)

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 fiscal year 2009.

Supervisory Board remuneration in the fiscal year totaled €36K (previous year: €36K) and breaks down as follows:

	2009	2008
	€K	€K
Mr. Rubino Di Girolamo	13	13
Mr.Jürgen W. Krebs (bis 7.8.2009)	4	9
Mr. Prof. Dr. Dr. med. Reinhard Schnettler	4	6
Mr. Uwe Ahrens	5	4
Mr. Ronald Meersschaert	7	1
Mr. Marcel Boekhoorn	1	0
Mr. Dr. Windfried Weigel (seit 7.8.2009)	2	0
Mr. Oliver Bielenstein (bis 30.11.2008)	0	1
	36	36

Payments in the reporting year totaled €17K (previous year: nil).

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

Mr. Rubino Di Girolamo	Deepblue Holding AG	Administrative Council Chairman
	Bastei Privatfinanz AG	
	Metalor Dental Holding AG	
Mr. Jürgen W. Krebs	Merval Holding AG	Administrative Council Chairman
(until Aug. 7, 2009)	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	
Mr. Uwe Ahrens	None	
Mr. Marcel Boekhoorn	Openlot Systems B.V.	
	Motip Dubli Group	
	Toeca International Company B.V. (since Oct. 24, 2008)	
Mr. Ronald Meersschaert	Toeca International Company B.V.	
	Voice Cash Holding B.V	
	Voice Trust AG	
Dr. Winfried Weigel	None	
(since Aug. 7, 2009)		

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

	Shares		Options	
	2009	2008	2009	2008
Supervisory Board				
Jürgen W. Krebs (bis 7.8.2009)	3,287,200	3,287,200	0	0
Rubino di Girolamo	1,622,357	1,530,000	0	0

Prof. Dr. Dr. med. Reinhard Schnettler	182,094	182,094	0	0
Uwe Ahrens	858,536	1,053,723	0	0
Marcel Boekhoorn	3,589,036	2,720,500	0	0
Biense Visser (bis 31.12.2008)	0	95,000	0	0
Dr. Winfried Weigel (seit 7.8.2009)	0	0	0	0
Ronald Meerschaert	0	0	0	0
Management Board				
Biense Visser (seit 1.1.2009)	355,000	0	200,000	0
Bruke Seyoum Alemu	70,000	45,000	400,000	400,000

Fair market values of the options when they were granted were between €1.14 and €0.42.

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

By March 25, 2010, the day on which the Management Board released the annual financial statements, *aap* Implantate 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
Uwe Ahrens		3%	13.01.2010	2.82 %
Jan Albert de Vries		20 %	26.03.2009	19.48 %
Noes Beheer B.V.	Nijmengen	20 %	26.03.2009	19.48 %
Jürgen W. Krebs		15, 20, 25, 30 %	13.01.2009	12.35 %
Merval AG	Zug	3, 5, 10, 15, 20, 25, 30 %	13.01.2009	1.30 %
Rubino Di Girolamo		10, 15, 20, 25, 30 %	13.01.2009	5.75 %
Deepblue Holding AG	Zug	10, 15, 20, 25, 30 %	13.01.2009	5.75 %
Oliver Bielenstein		3, 5, 10, 15, 20, 25, 30 %	13.01.2009	1.89 %
Bruke Alemu		3, 5, 10, 15, 20, 25, 30 %	13.01.2009	0.17 %
Bernhard Gottwald		3, 5, 10, 15, 20, 25, 30 %	13.01.2009	0.77 %
Oliver Benz		3, 5, 10, 15, 20, 25, 30 %	13.01.2009	0.15 %
Carpe Diem Holding AG	Uerikon	3, 5, 10, 15, 20, 25, 30 %	13.01.2009	0.15 %
KST Beteiligungs AG	Stuttgart	3, 5, 10, 15, 20, 25, 30 %	13.01.2009	2.36 %
Hanspeter Schwager		3, 5, 10, 15, 20, 25, 30 %	13.01.2009	2.49 %
DZ Bank AG	Frankfurt	5 %	05.09.2008	4.80 %
Ramphastos Investments N.V.	Arnhem	10 %	07.05.2008	10.04 %
Elocin B.V.	Arnhem	10 %	07.05.2008	10.04 %
Martinus Jacobus Johannes Boekhoorn		10 %	07.05.2008	10.04 %

Union Investment Luxembourg S.A.	Luxemburg	3 %	27.09.2007	2.57 %
Highclere International Investors Limited	London	3 %	26.09.2007	2.1 %
Highclere International Investors Smaller Companies Fund	Westport	3 %	26.09.2007	2.1 %
Asuncion Barrueto		3, 5, 10, 15, 20, 25, 30, 50 %	20.09.2007	0 %
Oliver Borrmann		3, 5, 10, 15, 20, 25, 30, 50 %	20.09.2007	0.01 %
Fermann AG	Zürich	3, 5, 10, 15, 20, 25, 30, 50 %	20.09.2007	0 %
Martin Lechner		3, 5, 10, 15, 20, 25, 30, 50 %	20.09.2007	0 %
Dr. Frank Husemann		3, 5, 10, 15, 20, 25, 30, 50 %	20.09.2007	0 %
Berlex AG	Berlin	3, 5, 10, 15, 20, 25, 30, 50 %	20.09.2007	0 %
Robert Schrödel		3, 5, 10, 15, 20, 25, 30, 50 %	20.09.2007	0 %
Christian Walliker		3, 5, 10, 15, 20, 25, 30, 50 %	20.09.2007	0 %

(29) Auditor's Fees

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

a) For auditing the annual financial statements (Company and Group)	€240K
(previous year: €121K)	
thereof for previous year: €60K	
b) Other certificates or valuation services	Nil
(previous year: €31K)	
c) Other services	€68K
(previous year: nil)	

(30) Events Since the Balance Sheet Date

No reportable events have occurred since the balance sheet date.

(31) Statement on the German Corporate Governance Code

aap Implantate AG has issued and made available to shareholders on our website at www.aap.de/de/Investor/Corporate_Governance/index_html the declaration on the German Corporate Governance Code required by Section 161 AktG.

(32) Publication

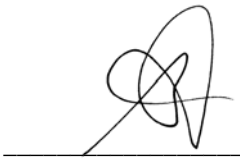
The Company's Management Board on March 25, 2010 authorized these consolidated financial statements to December 31, 2009 for publication.

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

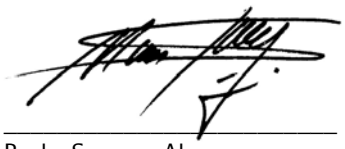
To the best of our knowledge and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the Group's assets, liabilities, financial and earnings position, and the group management report includes a fair review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

Berlin, March 25, 2010

The Management Board



Biense Visser
Chairman/CFO



Bruke Seyoum Alemu
Director/COO

Audit Certificate

We have audited the consolidated financial statements prepared by *aap* implantate Aktiengesellschaft comprising the balance sheet, the income statement, statement beginning with profit or loss and displaying components of other comprehensive income, statement of changes in equity, cash flow statement, and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law under section 315a (1) of the Handelsgesetzbuch (German Commercial Code, HGB) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken in to account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the consolidated financial statements, the determination of entities to be included in consolidation, the accounting and consolidation principles used, and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law under section 315a (1) of the HGB, and give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's positions and suitably presents the opportunities and risks of future development.

Berlin, March 26, 2010

RöverBrönner GmbH & Co.KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Helmut Schuhmann
Auditor

Bettina Grothe
Auditor