Consolidated Annual Financial Statement 2011

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Foreword by the Management Board

Ladies and Gentlemen,

Dear shareholders, employees and business partners,

In the course of 2011, the medical technology industry was influenced by various events and changes that will continue to affect the industry's growth and business models in the years ahead.

We would like to take this opportunity of citing three examples of these changes relating to the ongoing takeover activities by large corporations, the increasing importance of quality processes and a change in procurement policies in the healthcare sector.

First, the US Johnson & Johnson Corp. announced at the beginning of 2011 that it had acquired Synthes, the world market leader in the trauma sector, for USD 21.3 billion. The transaction will be completed in the course of 2012. With its subsidiary DePuy (hip and knee systems), Johnson & Johnson is already strongly placed in the orthopaedic products market. Total integration of Synthes will free up additional sales synergies, enabling Johnson & Johnson to make attractive offers both to hospital purchasing groups and in public tenders. This takeover is an example of how the medical technology industry is responding to the growing influence and rising power of purchasers and payers in the healthcare market.

Second, a US federal court found two former executives of a world-leading traumatology company guilty of having actively promoted the use of a product for an indication for which it had not gained approval. The incident dates back to 2003. In their commentaries on the ruling, analysts note the growing influence of regulatory authorities in medical technology. Inspections by the US FDA are leading more than ever to so-called warning letters that lead to a revision of quality assurance and approval processes in companies. Compliance with quality assurance requirements is thereby becoming increasingly complex and costly for companies. The investment required is so significant that it may lead to a selection process in the industry. For OEM suppliers this means more stringent quality processes and, in addition, qualification processes that now take 15 to 18 months compared with three to six months in the past.

Third, the medical devices industry is constantly developing new products that for years have been accepted and used almost without further ado by its customers. Higher prices, if such they were, were always seen as justified in view of the improved performance and/or better quality of the new products. Today, economists are increasingly in charge of procurement by hospitals and hospital groups, and they exert an increasing influence on the choice of products and prices. This trend has led to new and more advanced products being used more selectively "where they are needed" rather than "wherever possible."

These developments also affect *aap* Implantate AG. Their effects are apparent at the operational, tactical and strategic levels.

At the operational level we are confronted by many management changes at our OEM customers. These changes frequently lead to reassessments of our projects, which in turn delays the signing of contracts significantly in some cases. Last financial year there were delays in contract signings, but no projects were abandoned.

At the tactical level we note that national supervisory bodies are reappraising their guidelines and policies as soon as the sales approval of new medical devices is involved. They are even keener to do so if these products contain antimicrobial and/or other active agents. Furthermore, the approval environment in Europe is growing increasingly complex because EU directives are not implemented evenly at national level. The approval practice for coated or processed allograft products is a striking case in point. Another phenomenon is the fact that many BRICS are adopting new approval processes and no longer accepting mutual recognition (FDA/CE) as a guiding principle. These trends not only influence costs but also often lead to delays granting approval.

At the strategic level we wonder, in view of the latest trends, whether we should focus our activities even more intensively on the core areas of trauma, bone cement and cementing techniques and should be concentrating within these areas on IP-protected products. Over and above strategic issues relating to the portfolio we need to consider whether the current coexistence of a B2B and a B2C model is sustainable and profitable or opting for a strictly B2B model is to be preferred in the medium term.

The Management Board and Supervisory Board conduct continuous intensive discussions on these issues. The focussing process was initiated at *aap* in 2009 and we have successfully developed a highly promising IP portfolio in the trauma sector both with patents and with a strong brand name – LOQTEQ® – for our innovative angle-stable plate system with locking compression technology. In 2011, our 17% growth in the core area bone cement and cementing techniques was well above the market average for orthopaedic companies (5.7%[1]).

Analysts rate the growth prospects for trauma products and biomaterials positively in contrast to the market for orthopaedic products, which is marking time. To make use of these opportunities we must take the transformation to a focussed company forward faster and with even stronger commitment.

The following was accomplished in the reporting period:

- Sales growth at product level of 6% in all and of 17% in the core area of bone cement and cementing techniques
- A 68% improvement in cash EBIT at product level from -€2.2 million to -€0.7 million combined with a further stabilisation of the liquidity position
- The sales launch of our new flagship product LOQTEQ®, for which patent applications have been submitted and FDA approvals have been applied for
- The establishment of a center of excellence for bone cement and cementing techniques in Dieburg as a result of the merger with the R&D center, transferred from Obernburg
- Signing a development contract for a bone cement, with agreement imminent on the product design.

The interest that internationally active medical technology companies show in license and delivery agreements with *aap* is for us clear evidence of the outstanding quality of our development and manufacturing competences.

[1] Average 2011 sales growth of the world's seven largest orthopaedic enterprises (Stryker, DePuy, Zimmer, Medtronic, Synthes, Smith & Nephew and Biomet) based on own calculations.

As always at this point we would like to refer to our Management Agenda as a yardstick and to summarise the most important strategic, tactical and operational results for 2011 under the headings customers, innovation, organisation and finance.

Customers:

- Our growth in the US market was much higher than expected, amounting to 77% with bone cement as the main growth driver. Sales growth could have been even more spectacular if a cannulated screw (Trauma) shipment had not been delayed. The order, totalling about €0.5 million, was delivered in the first quarter of 2012.

- The official international LOQTEQ® launch was held in October at the DKOU congress in Berlin. Our aim is to achieve a sales total of €2.0 million in the first year. We earned over 20% of this target in 2011.

- Sales of *aap* label products fell short of expectations, due mainly to sales marking time in the orthopaedic products sector.

- With economic aspects in mind, we looked into founding an *aap* subsidiary in one of the EU 5 countries (Germany, the UK, France, Italy, and Spain and Portugal) or, alternatively, in a BRICS state. On balance, however, we still consider collaboration with internationally recognised distributors who market and sell *aap* brands such as LOQTEQ®, Perossal® and Jason® G to be the business model of preference. *aap* is in very advanced negotiations with a global med tech company that plans in the second quarter of 2012 to launch and sell *aap* biomaterials products under its own label. We have corresponding expectations for the distribution of our LOQTEQ® system in the EU 5 countries.

Innovation:

- The center of excellence for bone cement and cementing techniques in Dieburg has been operational since the first quarter of 2011. We will thereby further improve our OEM status in the bone cement and cementing techniques sector and will at the same time be able to work more efficiently.

- We were able to sign a development contract with a globally active orthopaedic company (we aimed to sign two such agreements). We are convinced that a further contract will be signed in the further course of the financial year 2012.

- The Freshness Index, which reflects the quality of our R&D pipeline, has yet to be improved. That was due primarily to the delay in shipment of products from our cannulated screws segment to the United States and to the slow sales launch of Jason® G. The outlook for an improvement in the Freshness Index in 2012 is promising. We have issued remuneration guidelines for inventions by employees. Our aim is to encourage employees to develop innovative products and contribute toward more effective processes and procedures. Our IP Committee will assess inventions by our employees for suitability for patenting and, if appropriate, make use of them. The first payments for inventions were made in 2011.

Organisation/IT:

- With the July 2011 merger of our Dutch subsidiaries TPI and *aap* implants Netherlands B.V. to form EMCM B.V., a center of excellence for contract manufacturing of sterile or aseptic

solutions and gels took shape. Sterile monomers make up much of the production and are delivered to our bone cement and cementing techniques center of excellence in Dieburg.

- EMCM has gained five new customers since the new website was launched. Agreements were signed with these customers, based in countries that include Israel, Switzerland, Italy and Brazil, on the production of so-called pilot batches for the purpose of registration (both FDA and CE). Following approval by the relevant regulatory authority, EMCM will take over the series production of these products as a contract manufacturer. A successful FDA inspection of the site has taken place.

- The new, uniform IT infrastructure has been almost entirely implemented in Berlin, Dieburg and Nijmegen. The next step is to set up new platforms to support R&D functions, especially across locations.

- We have reduced the number of our companies and locations continuously over the past two years. The *aap* Group now has three locations (2010: 4; 2009: 5) and six companies (2010: 8; 2009: 11). Subject to opportunities for further project business, such as by outlicensing or selling off non-core activities, the number of companies will be reduced further.

- A code of conduct has been drawn up but has yet to be adopted across the entire Group. Parts of the code relating, for example, to confidentiality and intellectual property have, however, been implemented. Delay in implementing the code is due mainly to a lack of capacities. Implementation will be taken further forward in 2012.

Finance:

- We again achieved our target of profitable growth, i. e. of higher EBIT growth than sales growth. But sales growth at product level was only 6% and not 10%.

- Positive cash EBIT at product level: despite a considerable improvement in the past four years, we were unable to achieve our break-even target, ending the year with cash EBIT at product level of -€0.7 million (2010: -€2.2 million; 2009: -€3.7 million; 2008: -€6.6 million). To ensure adequate liquidity, a capital increase from authorised capital of about 10% was undertaken, increasing *aap*'s share capital by €2,788,186 to €30,670,056.

- DCR and ICR: Both of these key ratios are above the bandwidth agreed with the banks.

To continue to be able to act transparently we have summarised our targets in the Management Agenda 2012. In the course of the year we will keep you informed about progress in our quarterly reports and in ad-hoc announcements and Press releases as appropriate.

We would like to take this opportunity of thanking our employees for their commitment, their creativity and their cooperation and to thank our business partners and shareholders who showed their confidence in us by staying with us last year. In the year ahead we will continue to work hard to earn their trust and confidence anew on a daily basis.

We look forward in confidence to completion of the transformation of *aap* into a company with a strong IP and quality orientation in the core areas Trauma and Cement – a company that addresses healthcare requirements at the level of patients, healthcare professionals and health payers. In the course of the year we will be accelerating this process with a view to generating above-average sales growth of our core products and an improved balance sheet structure and profitability.

Biense Visser Management Board Chairman/CEO	Bruke Seyoum Alemu Management Board member/COO	Marek Hahn Management Board member/CFO

In the following, relationships within the Group are reported using the terms "*aap,*" "*aap* Group," "Group" and "Group of Companies."

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

A) General Terms and Framework Conditions

1. Organisational and Legal Structure

aap Implantate AG is the *aap* Group's parent company. Presented commercially, the *aap* Group comprised the following active companies as of December 31, 2011: *aap* Implantate AG, *aap* Biomaterials GmbH, ADC Advanced Dental Care GmbH (ADC GmbH) and European Medical Contract Manufacturing (EMCM) B.V.

Subsidiaries

aap Biomaterials GmbH

All German development and manufacturing activities relating to medical biomaterials and cement and cementing techniques are subsumed in *aap* Biomaterials GmbH. The company is based in Dieburg, near Frankfurt am Main. The merger of the Dieburg and Obernburg sites was completed in March 2011.

European Medical Contract Manufacturing (EMCM) B.V.

EMCM, based in Nijmegen, bundles the Dutch development and manufacturing functions in the field of medical biomaterials. On 19 July 2011 the merger of the two Dutch subsidiaries TPI (Tissue Processing International B.V.) and *aap* implants Netherlands B.V. to form EMCM B.V. was completed.

ADC Advanced Dental Care GmbH

aap Implantate AG holds a majority share of 54% in ADC Dental Care GmbH, a distributor in the dental field.

Associated Companies

AEQUOS Endoprothetik GmbH

aap Implantate AG holds a 4.57% shareholding in AEQUOS Endoprothetik GmbH, a company that until the end of 2010 distributed the innovative AEQUOS® knee system, co-developed and manufactured by *aap* Implantate AG. As of the beginning of 2011 all assets relating to the AEQUOS® knee system were sold to an Italian group in return for shares and a sales-based licensing model.

Executive Bodies

Management Board

The Management Board of *aap* Implantate AG consists of three members. Mr. Biense Visser, 59, is the Management Board Chairman (CEO) and is in charge of Corporate Development, Legal Affairs and Investor & Public Relations.

Mr. Bruke Seyoum Alemu, 46, is the Chief Operating Officer (COO) and is in charge of Research & Development, Production, and Sales & Marketing across the Group.

Mr. Marek Hahn, 37, is the Chief Financial Officer (CFO) and in addition to Finance is in charge of Human Resources, IT and Administration.

Supervisory Board

The Supervisory Board of *aap* Implantate AG consists of three members. At its constitutive meeting held after the 8 July 2011 General Meeting, the Supervisory Board re-elected Mr. Rubino Di Girolamo as its chairman and Mr. Ronald Meersschaert as its deputy chairman.

2. Segments

The *aap* Group is managed both internally and externally as a company without separate segments. This approach is reflected in the Group's management and reporting structure.

3. Important Products and Business Processes

In Germany, *aap* has two manufacturing sites: Berlin and Dieburg. In Berlin, *aap* Implantate AG manufactures osteosynthesis and endoprosthetic products. In Dieburg, *aap* has one of the world's most efficient and state-of-the-art bone cement production facilities. Biomaterials are also manufactured in Dieburg. On completion of the merger of the Dieburg and Obernburg sites in March 2011, the development and production capacity for medical biomaterials and bone cement and cementing techniques was bundled in Dieburg. In the Netherlands, *aap* has in Nijmegen a modern biomaterials production facility where products are manufactured in clean room conditions and in

accordance with Good Manufacturing Practice (GMP) standards. In addition, there is in Nijmegen a logistics center and a distribution warehouse for international distributors.

Along with the center of excellence for Trauma, Marketing and Sales at *aap*'s headquarters location in Berlin, a further center of excellence for bone cement and cementing techniques was established in Dieburg in 2011 with the merger of the Dieburg and Obernburg sites. A cross-location research and development body and a quality management body promote synergy effects between metal implants and biomaterials technologies. Cross-functional teams ensure that business processes are optimised continuously. Slight delays occurred in the implementation of the group-wide uniform IT infrastructure; migration of all employees to the new infrastructure will be completed in the first half of 2012.

The highlight of the financial year 2011 was the successful CE approval and launch of our innovative LOQTEQ® product line. After the German launch at the end of the second quarter of 2011, LOQTEQ® was launched internationally at the end of October 2011 at the DKOU in Berlin.

4. Important Sales Markets and Competitive Positions

aap has three distribution channels. Direct sales to hospitals, buying syndicates and clinic groups in the German-speaking countries account for nearly 13% of sales (previous year: 14%). Sales are also handled by an international network of distributors in over 40 countries and by means of OEM partnerships with national and international customers. Distribution channels for existing and new products are developed consistently. International distribution activities are focused on key countries and regions such as the United States, the EU, Eastern Europe, the BRICS countries and the Middle East. *aap* also sells its products to distribution partners around the world under its own and third-party brand names and is one of the global technology leaders in a number of niche markets. A large part of *aap*'s sales consistcs of developing and manufacturing products for leading orthopaedics companies that distribute products made by *aap* all over the world under their own labels. In addition, *aap* has established another mainstay for future growth in the form of project sales, such as outlicensing or the sale of patents for IP-protected products or technologies. Project sales are planned in 2012 in the bone cement and cementing techniques technology areas and in the biomaterials sector in particular.

Analysis of the existing intellectual property portfolio identified products and technologies that by virtue of their unique selling proposition can contribute toward strengthening the Group's competitive position and thereby toward boosting its enterprise value. That is why continuous development of the strategic IP portfolio remains a cornerstone of the development of *aap* into an innovation and product leader.

aap continued in 2011 to present its range of products at leading international trade fairs such as the A.A.O.S. (American Academy of Orthopaedic Surgeons) in San Diego and the SICOT (Société Internationale de Chirurgie Orthopédique et de Traumatologie) in Prague. In Copenhagen, *aap* presented itself and its products at the 12th EFORT Congress and in Milan at EUROSPINE 2011. In Germany, *aap* was present inter alia at Medica 2011 in Düsseldorf, the annual conference of the German Society for Biomaterials (DGBM) in Giessen, the German Congress for Orthopaedic and Accident Surgery (DKOU) in Berlin, the Endoprosthetics Forum in Münster and the annual conference of South German Orthopaedic Surgeons in Baden-Baden.

In the course of the financial year various products were approved or registered in international growth markets. At the end of the second quarter, CE approval was granted for the first plate systems in the innovative LOQTEQ® product line. *aap* secured US market approval for all cannulated screws made of steel. In addition, *aap* continuously assists various large customers with securing approval of their products manufactured by *aap*.

In the trauma area, the first milestone was reached in the course of the year with CE approval of LOQTEQ®. The combination of "locking" and "technology" is intended to help LOQTEQ® to develop into an internationally successful and well-known brand. FDA approval documents were submitted to the relevant authorities in the fourth quarter. Subject to approval, *aap* expects to be able to launch the product line in the United States in the first half of 2012.

5. Fundamental Legal and Economic Influencing Factors

Official registration and approval are a precondition for marketing medical products in every market in the world. As the basic aim is to market *aap* products all over the world, the quality management system is based on the requirements of harmonized international standards and European regulations. The *aap* Group is regularly audited and certified accordingly so that its products can be CE-marked and marketed. Furthermore, production is undertaken at *aap*'s Dutch subsidiary EMCM in conformity with FDA requirements and according to Good Manufacturing Practice (GMP).

All of the Group's companies are certified according to relevant, currently valid EN ISO 13485:2003 standard for manufacturers of medical devices, and all of the companies except for EMCM are also certified in accordance with the European Medical Products Directive 93/42/EEC affix II. In addition, all of the Group's companies have undergone voluntary EN ISO 9001:2008 certification. In the course of their business activities all relevant environmental protection regulations are observed. Neither the manufacturing methods nor the products manufactured by *aap* pose a direct or an indirect risk to the environment.

6. Research and Development Activities

Medical technology is a dynamic and highly innovative industry. Germany is second in the world to the United States in terms of its world trade share and number of patents. German medical technology manufacturers earn about a third of their sales revenue from products that are less than three years old. On average, medical technology companies that carry out research invest about 9% of their sales revenue in research and development. That is why Germany plays a particularly important role for medical technology companies as an innovation and research location.

Further evidence of the industry's innovative power is that according to the European Patent Office in Munich, medical technology heads the list of registered inventions with 16,400 patents (as of 2009), or 10.2% of all patents applied for. Then, and only then, come electronic telecommunications and data processing.

a) Trends in Medical Technology

Developments in medical technology are highly dynamic. Evident trends include the following:

- Modern medical technology processes are making operating procedures increasingly gentle and access more and more minimally invasive
- Surgeons are receiving support from computer-assisted navigation
- Medical technology and IT are growing even closer together
- Nanotechnologies are just as much on the advance as biotechnologies.

According to the experts, the medical devices industry's "most promoted research areas" are orthopaedics (mainly spinal surgery and biomaterials), cardiology (mainly coating processes for medical devices and minimally invasive procedures) and internal medicine (mainly endoscopy and diabetes).

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

Many experts anticipate that medical technology for regenerative medicine will become significantly more important. One reason for this expectation is that cell and tissue technologies will be able to make the leap from basic research to application in the years ahead. The development of new functional biomaterials must also be taken into consideration. They are to have improved biomimetic properties (i. e. imitating natural conditions) to facilitate easier cell colonisation and integration in the body.

Implants are to be equipped with additional functionalities by way 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

aap continued to invest substantially in research and development in the financial year under review. In 2011, 23% of the company's employees worked in Research & Development, Clinical Affairs, Regulatory and Quality Management (previous year: 25%), and *aap* invested about 12% of its sales in the development of new products (previous year: 14%). Along with its own R&D activities, *aap* cooperates with a large number of academic institutions (research institutes, university hospitals) on new and further developments and clinical studies. In addition, during 2011 *aap* identified projects that could prove extremely interesting for the world's leading companies in the context of global technological competition in orthopaedics and traumatology. *aap*'s aim in this connection is to cooperate with the market leaders at an early stage and to secure technologies. *aap* intends with this model to set up another promising basis on which to achieve revenue and earnings.

With a view to establishing sustainable innovation leadership and developing enterprise value, *aap* consistently seeks to create and develop so-called platform technologies. Its strategic IP portfolio is aimed at safeguarding these technologies and the resulting products:

Platform Technology	Derivative Products	
Cement and Cement Mixing Technologies	PMMA-Cements HA-PMMA-Cements Vertebroplasty Cements Vacuum Mixing Systems	Prepack Mixing Systems Disposable Mixing Systems Disposable Mixing and Transfer Systems Accessories for articles for moden Cementing Techniques
Silver-Technology	Ag-Coating	Ag-Cement
Hydroxylapatite(HA) and Calciumphosphate (CaP) Technology	Ostim® PerOssal® Ostim® Granulate Nano-HA-Coating	OsteoCem® (CaP-Cement) Synthetic HA/CaP Ceramics Natural HA-Ceramics (Cerabone®) Synthetic non-resorbable HA-Ceramic
Magnesium-Technology	Small Plates, Screws and Pins	Interference Screws
Locking Compression Fixation Technology	Anatomical Plates Radius	Humerus LOQTEQ® Tibia & Femur & Humerus
Shoulder System Technology	Trauma Shoulder System	
Collagen Technology	Jason® Jason® G Jason® Membrane	Collagen with prolonged release of antibiotics

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

In biomaterials, the focus was on developing new bone cements. Other focal points were, in infection care, the further development of a silver cement and, in resorbable metals, the development of osteosynthesis products made of magnesium alloys.

Developments in traumatology and orthopaedics focussed on finalising and initiating development project for the LOQTEQ® product line. In addition, work was undertaken on further and new developments in both shoulder and knee endoprosthetics and screw osteosynthesis.

7. Overall Economic and Industry-Specific Framework Conditions

The Management Board's opinion on how overall economic and industry-specific development has affected the course of business

a) Overall Economic Conditions

The momentum of cyclical dynamics declined perceptibly in the course of 2011. After global gross domestic product (GDP) growth of 4.6% in 2010, 2011 growth seems likely to amount to only 3.4%. This decline was due mainly to slower growth in the industrialised countries, whereas most emerging economies continue to grow at a relatively sound pace.

In the euro zone, GDP growth is likely to have averaged around 1.6% in 2011. Strong corporate investment led to brisk growth at the beginning of the year, but the pace of growth slowed down significantly in the further course of the year. The German economy, in contrast, posted a perceptibly

stronger growth rate of 2.9%, due mainly to the healthy order position of German industry. In the final analysis, however, financial market uncertainties will probably have impaired both consumer and investment behaviour.

In the United States the pace of cyclical growth has slowed down perceptibly. The continuing difficult situation in the labour market, ongoing weakness in the real estate sector and the need to consolidate public sector spending weighed heavily on economic development. US economic growth in 2011 will have been only about 1.6%. In Japan, economic activity was seriously impaired by its natural disaster and the consequences. Japan's GDP will probably have declined by 0.5% in 2011.

The BRIC countries continued to grow strongly for the most part in 2011. Global economic slowdown may have burdened exports, but economic growth in Brazil and Russia is likely to have been 3.7% and in India and China 7.6% and 9.4% respectively.

b) Industry Framework Conditions

The medical technology industry is a global growth market and will continue to be one due to factors that include the following:

- Progress in medical technology enables clinical pictures to be treated for which no treatment was available 10 or 20 years ago. Using innovative, gentler techniques, more and more operations can be undertaken on increasingly older patients.
- Demographic development: There are more and more older people in Germany and many of them suffer from a number of diseases at the same time.
- The concept of health extended toward a better quality of life: Patients are increasingly calling for health-related services and are prepared to pay more for better quality and additional services.

As a consequence of all these factors, demand for healthcare services will continue to grow.

The growth industry medical technology achieves annual global growth rates of about 5% (cf. the German Economic Affairs Ministry's 2011 Innovation Impulses in the Healthcare Industry study).

In 2007 the world market for medical technologies totalled around €220 billion (AdvaMed/Eucomed estimates). According to a survey by the European consultancy group kon.m, medical devices and instruments with a world trade volume of more than US$280 billion were manufactured and sold in 2008. Of this total, market shares are as follows: North America about 41%, North-West Europe 25.2%, Asia/Oceania 18%, South-East Europe 14.4%, Latin America 1% and Africa 0.6%.

According to an Espicom Business Intelligence (EBI) study, the market volume of global medical technology in 2009 was US$224.1 billion. For 2009 to 2014 above-average annual growth of 7.3% is forecast.

According to a study by the Hamburg Institute of International Economics (HWWI), the demand for medical technology will grow by between 9% and 16% a year on average in the emerging markets until 2020. In the industrialised countries, growth is expected to be between 3% and 4% per annum (Source: *Frankfurter Allgemeine Zeitung,* 6 January 2011, article headlined Confidence Prevails in Medical Technology).

The European market is worth €70 billion a year, making it the world's second-largest after the US (€90 billion). Germany, with €23 billion, is the third-largest country market after the US and Japan (€25 billion) and the largest country market by far in Europe. It is roughly twice the size of the French market and about three times the size of the Italian, British or Spanish markets.

B) Earnings, Financial and Assets Position

Signing or Termination of Cooperation Agreements and Other Important Contracts

In the second quarter of 2011, *aap* Implantate AG signed a distribution contract with an international orthopaedics enterprise for supplying the US market with cannulated screws.

In the fourth quarter of 2011, *aap* Biomaterials GmbH signed a contract on the development of a new bone cement products with a globally active orthopaedics enterprise.

At the beginning of January 2012, *aap* subsidiary EMCM signed a memorandum of understanding with a US sales specialist that provides for sounding out the possibility of a sale of IP rights to an anti-adhesive product. Once the contract is signed, *aap* would continue to manufacture and supply the product.

Earnings Position

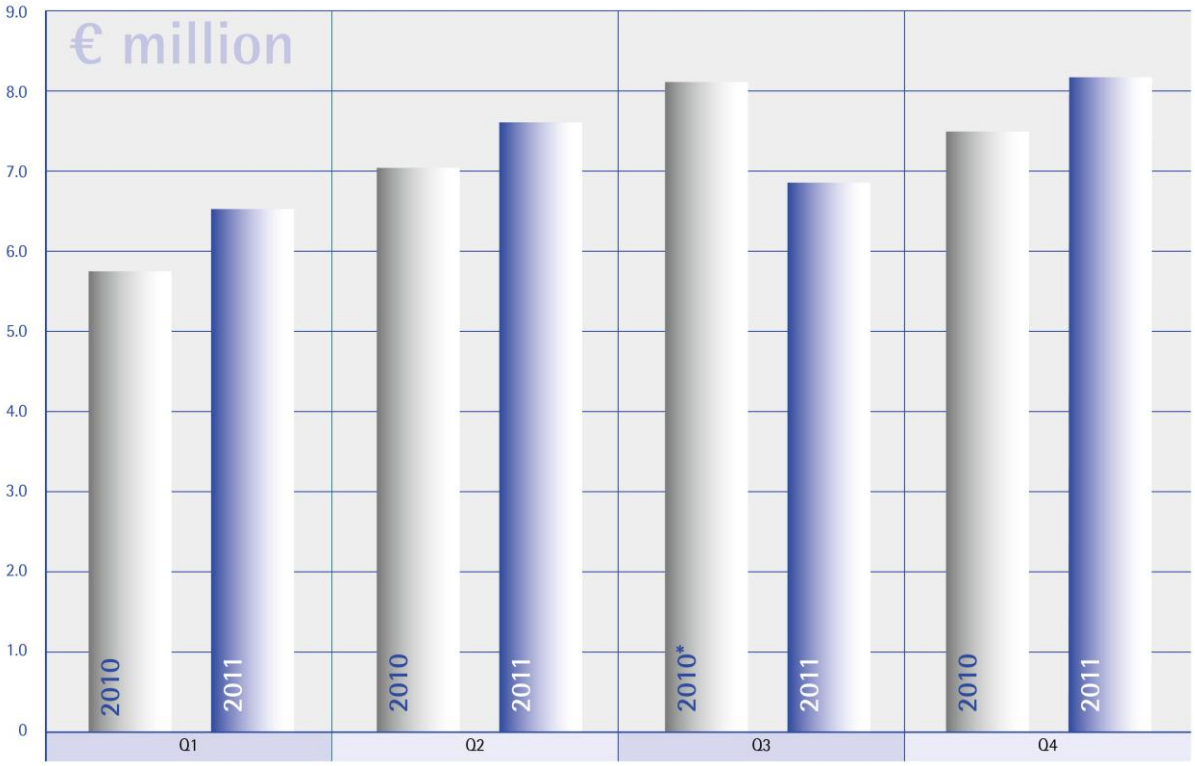
(1) Description of Development by Results/Results Structure

In financial year 2011, total sales rose by 3% on the previous year to €29.2 million from €28.4 million. The 2011 sales total consisted entirely of sales of products and services. Adjusted for project sales, like-for-like 2010 sales at product level were €27.5 million, making the 2011 increase to €29.2 million a 6% rise. For the financial year 2011, however, the 10% year-on-year sales increase at product level forecast at the beginning of the year was not achieved. There were two main reasons why *aap* did not quite succeed in achieving its ambitious sales targets for 2011. For one, a large shipment to the United States of our cannulated screw segment products in the fourth quarter was delayed. For another, developments in the orthopaedics segment fell short our expectations.

The different effects mentioned above can be summarised as follows:

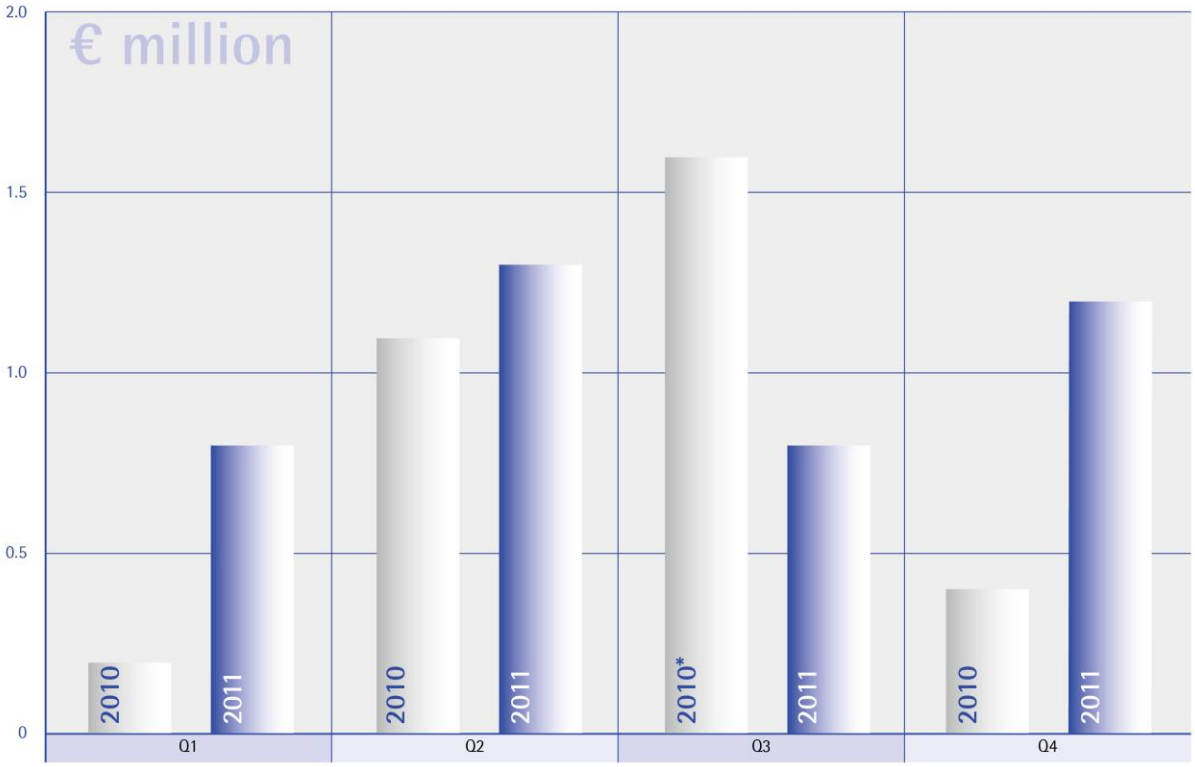
	2011 in € million	2010 in € million	Change in € million	Change in %
Total sales	29.2	28.4	0.8	3%
Project business	0.0	0.9	-0.9	-100%
Product sales (adjusted)	29.2	27.5	1.7	6%

The sales increase at product level to €29.2 million (2010 adjusted: €27.5 million) was due mainly to higher sales in our core competence areas of bone cement and cementing techniques and biomaterials.



* The third quarter 2010 contains project sales of €914K

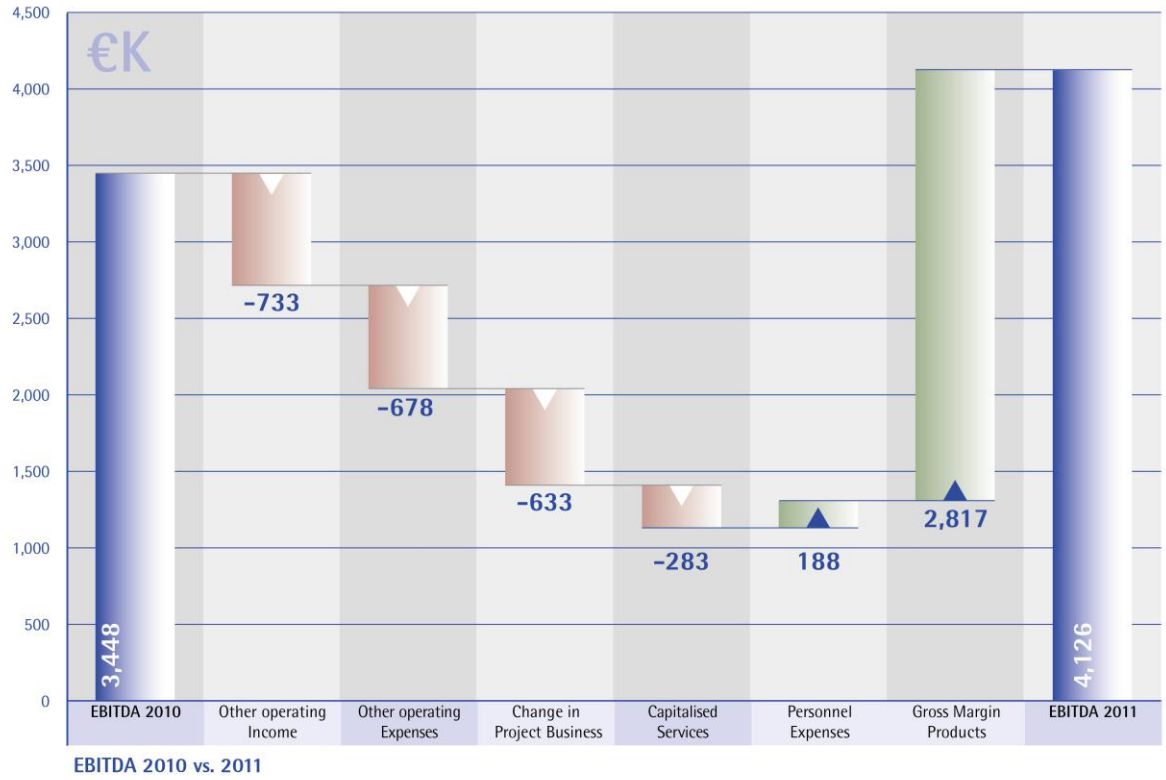
Sales 2010 vs. 2011 by Quarters



* The third quarter 2010 contains a project-EBITDA of €633K

EBITDA 2010 vs. 2011 by Quarters

In accordance with IFRS, *aap* as a development-intensive company capitalises not only internally produced capital goods but also spending on development projects that are highly likely to secure approval and achieve commercial marketing success (2011: €3.0 million; 2010: €3.3 million). After market launch these capitalised development costs are depreciated over the products' useful life. The continued high level of capitalisation of development costs clearly pursues the strategy to develop *aap* into an innovation driver for medical implants and biomaterials.



EBITDA 2010 vs. 2011

EBITDA rose by 21% to €4.1 million from €3.4 million. EBIT, or the operating result, improved to €1.2 million from €0.7 million. Disregarding the effect of project sales, like-for-like 2010 EBITDA was €2.8 million and like-for-like EBIT was €0.1 million. Mention must be made at this point that in 2011 *aap* not only continued to achieve a positive operating result from product sales (€1.2 million) but improved significantly on the previous year's €0.1 million, thereby showing that *aap* consistently continued to implement the profitable growth strategy on which it embarked in 2009. The different effects mentioned above can be summarised as follows:

	2011 in € million	2010 in € million	Change in € million	Change in %
EBITDA	4.1	3.4	0.7	21%
Project business	0.0	0.6	-0.6	-100%
EBITDA (adjusted)	4,1	2.8	1.3	46%

	2011 in € million	2010 in € million	Change in € million	Change in %
EBIT	1.2	0.7	0.5	71%
Project business	0.0	0.6	-0.6	-100%

EBIT (adjusted)	1.2	0.1	1.1	>100%

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

The financial result was unchanged on the previous year at -€0.5 million.

Income tax stated at €223K was the result of actual tax expenditure of €221K and the €2K balance of changes in deferred tax income and expenses. For the development of deferred taxes see the information in the Notes.

Earnings after taxes rose by €0.3 million to €0.4 million (previous year: €0.1 million).

(2) Analysis of Key Financial and Non-Financial Performance Indicators

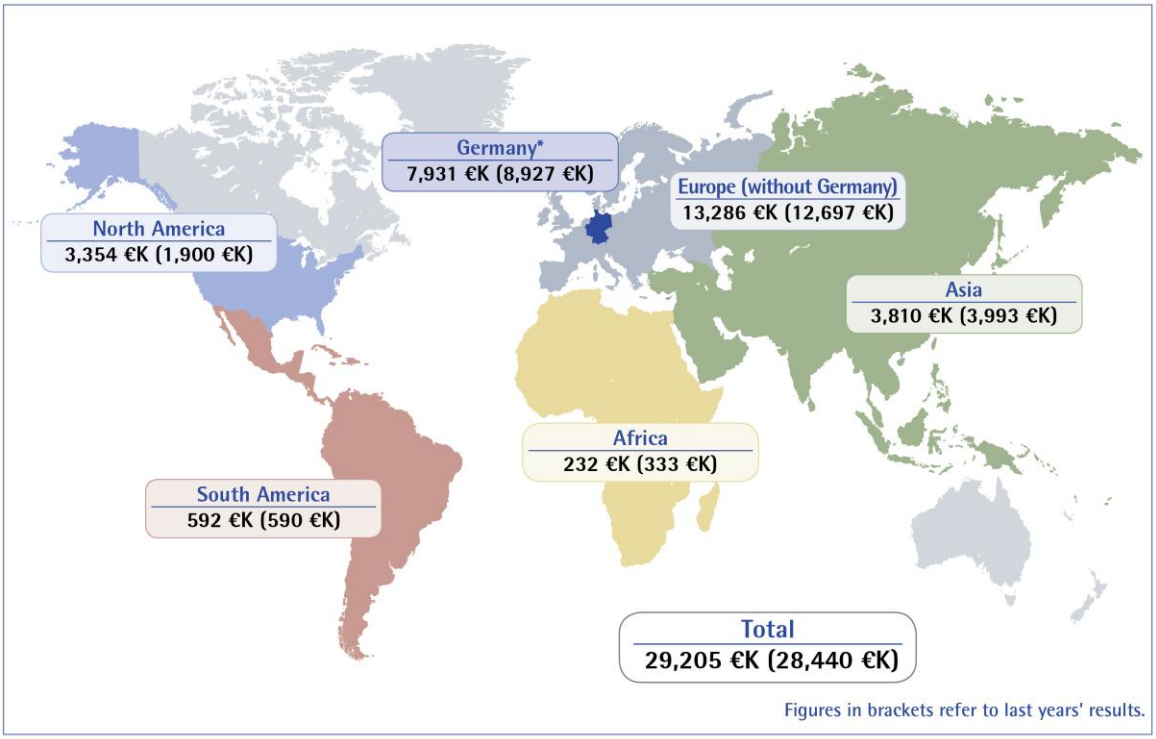
aap as an innovative growth-oriented company sees sustainable profitable growth, establishing long-term partnerships with leading global orthopaedics enterprises and developing innovative products as its primary performance indicators. In addition, in the course of the ongoing focus on the trauma and bone cement and cementing techniques segments and the transformation of the *aap* Group, there was a focus on customers, costs and cash and liquid funds.

Committed and well-trained employees are the key to corporate success at *aap*. Their professional expertise enables the company to develop and manufacture innovative medical products that meet market requirements. That is why it is important for *aap* to recruit qualified, talented employees, to retain their services and to create a work environment in which all of them can contribute their full potential. To ensure that it is able to do so, *aap* positions itself as an attractive employer. The cornerstones of personnel work at *aap* are support for in-service training, performance-based remuneration, a positive working atmosphere and measures to enable employees to reconcile work and the family.

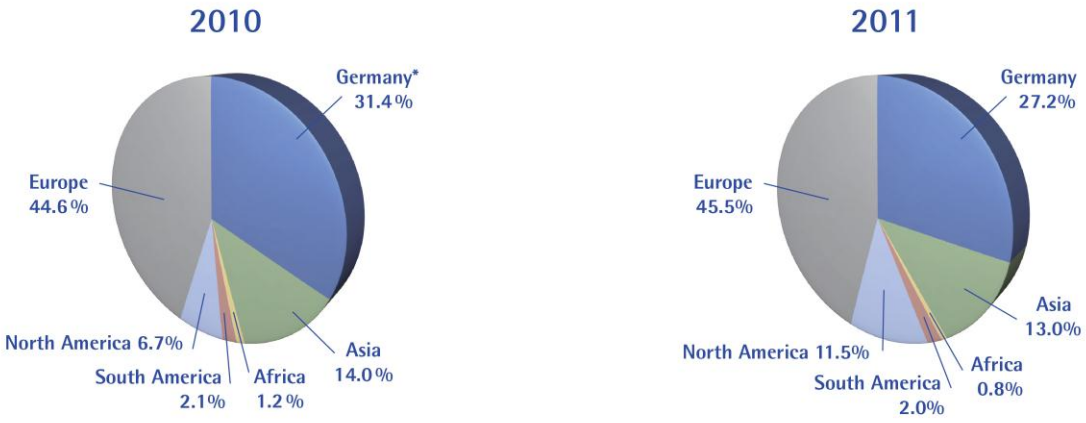
As an internationally active enterprise, *aap* collaborates in procurement with a large number of national and international suppliers. The aim of all procurement activities is to ensure product quality and delivery reliability by means of close and long-term cooperation with suppliers and thereby to gain a lasting competitive edge.

Decisive success factors in sustainable development at *aap* have been and, increasingly, continue to be close ties with customers and a sound knowledge of international markets. To make sure of these, *aap* exhibits at major industry trade fairs around the world, has a network of key opinion leaders in the relevant medical areas and is a member of various industry associations, such as BVMed.

(3) Development of Sales and Orders



Sales 2011 vs. 2010 by Region



* 2010 contains project sales of €914K

Total Sales 2010 versus 2011 by Region

The *aap* Group earns its overall sales in two ways: for one from sales of biomaterials and implant products sold under its own label or manufactured for OEM partners and for another from project sales and outlicensing.

Group sales in 2011 were up 3% on the previous year to €29.2 million from €28.4 million in 2010. The 2011 sales total consists entirely of sales of products and services. After adjustment for product sales, like-for-like 2010 sales at product level were €27.5 million, so the 2011 total represented a 6% increase.

After adjustment for project sales in 2010, sales in Germany were almost unchanged at €7.9 million (2010: €8.0 million, adjusted for project sales totalling €0.9 million). Sales were also almost unchanged in Asia, Africa and South America. A gratifying sales trend can be reported in North America and Europe (excluding Germany). Significant sales growth in North America was due mainly to higher sales of bone cements and cementing techniques and to the bundled worldwide sales of our anti-adhesive product ADCON® by an exclusive sales partner in the United States. The exclusive distribution agreement was signed in the third quarter of 2010 so that 2011 was the first full year's result. Sales in other European countries (excluding Germany) also rose as a result of strong growth in sales of bone cements and cementing techniques.

The Traumatology & Orthopaedics product sector consists of fracture healing products for all major skeletal areas and of shoulder, hip and knee joint replacements. In 2011 sales in this sector fell by 4% to €6.7 million (previous year: €7.0 million[2]). Two main factors were responsible for the sales decline in this sector. For one, a large shipment to the United States of our cannulated screw segment products in the fourth quarter was delayed. For another, developments in the orthopaedics segment fell short our expectations. The shipment of cannulated screw systems went ahead in the first quarter of 2012. *aap* has also reached an advanced stage of negotiations with other large US and European companies. That is why *aap* anticipates in 2012 dynamic sales growth in the Traumatology sector, driven mainly by our LOQTEQ® system. The main sales drivers in Traumatology continues to be cannulated screws and in Orthopaedics to be the hip product group.

In the Biomaterials sector with its core products areas bone cement and cementing techniques, infection therapy and bone and tissue regeneration, plus dental and medical aesthetics, sales rose to €22.5 million (previous year: €21.4 million[3]). Sales figures for the financial year 2010 include a special effect. In 2010, *aap* earned €0.9 million from the sale of know-how relating to a product in the dental sector. Adjusted for this effect, 2010 product sales totalled €20.5 million. Sales growth in 2011 was mainly in the bone cement and cementing techniques product sector.

Due to expansion of international business – with OEM customers and local distribution partners in both product sectors – *aap* now no longer earns 87% of its sales by means of direct sales in Germany (2010: 86%) and is thereby further limiting the consequences of cost pressure and structural change in the German healthcare system.

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

Total output (the sum of sales, changes in inventories of finished goods and work in progress, and capitalised internally produced assets and development work) rose slightly, with a lower change in inventories and a capitalisation of internally produced assets and development work, to €33.0 million from €32.6 million, due primarily to the increase in overall sales. The stated increase in inventories was due mainly to two factors, one being bone cement and cementing techniques orders by large customers completed or nearly completed as of the reporting date and the other being goods returned and returns from sales in previous financial years (for further details see the Notes on Other operating expenses). The increase in inventories in the bone cement and cementing techniques

[2] The previous year's €7.9 million sales total was adjusted by €0.9 million due to reallocation of a commercial product in 2011 (stated under Biomaterials).
[3] The previous year's €20.5 million sales total was adjusted by €0.9 million due to reallocation of a commercial product in 2011 (stated under Biomaterials).

sector was a direct result of a strong growth in production output in 2011 that is likely to continue in 2012.

Other operating income at €1.9 million was down on the previous year's €2.6 million and consisted largely of income from government and European grants, out-of-period income and income from write-ups of provisions and obligations.

The adjusted cost of materials ratio, excluding project sales for which there was no corresponding expenditure in terms of material (previous year: €0.9 million), was 25% (previous year: 30%). The main reason for this decline was a change in the product mix sales structure with lower cost of materials ratios. Appropriate inventory management will continue to be a key element of working capital management for *aap*, especially with a view to reducing the capital tied up in inventories.

The cost of personnel ratio fell from 37% to 36% due to a slight increase in total output and to lower personnel costs in absolute terms of €11.9 million (previous year: €12.1 million).

As of December 31, 2011, the *aap* Group had 266 employees, including 221 full-time and 45 part-time staff (previous year: 256, including 207 full-time and 49 part-time staff). To ensure long-term production capabilities, *aap* Implantate AG continues to train its own skilled employees. The planned expansion of personnel capacities was mainly in sales and marketing, along with production, and took place largely in the fourth quarter of 2011. This increase is intended mainly to take forward the marketing of *aap* products, first and foremost LOQTEQ®, and to lay the groundwork for the projected higher production output in 2012 and subsequent years.

Other operating expenses rose significantly to €10.8 million from €10.1 million. This increase was due primarily to the statement of goods returned and returns from sales in previous financial years totalling €0.6 million that are show as out-of-period expenses under Other operating expenses. They are mainly a consequence of the present unstable political situation in Middle Eastern and North African countries. The goods returned can for the most part be sold on to *aap* customers after being checked and processed as required. They were thus stated as a €0.5 million increase in inventories. Other operating expenses were burdened by higher consulting costs in connection with negotiations on various project business dealings, start-up costs in connection with LOQTEQ® technology platform and personnel recruitment costs. The other operating expenses ratio rose accordingly from 31% to 33%.

Scheduled depreciation of intangible and tangible fixed assets rose to €3.0 million from €2.7 million and was due mainly to scheduled depreciation of development projects completed in the financial years that are now being actively marketed. The depreciation ratio rose slightly from 8% to 9%.

Financial Assets

The *aap* Group's operating cash flow (before investment and financing activities) rose by €0.5 million to €3.2 million (previous year: €2.7 million), due mainly to profitable sales growth in the financial year and to advance payments received in connection with future projects. Prefinancing of higher current assets as a result of higher product sales had the effect of reducing the operating cash flow.

Cash flow from investment activities totalling -€3.7 million (previous year: -€4.4 million) consisted mainly of disbursements for development projects and investments in technical plant and machinery,

office furniture and equipment. *aap* also received investment grants totalling €0.3 million in the financial year (previous year: nil).

The €1.5 million increase to €1.8 million (previous year: €0.3 million) in cash flow from financing activities was due mainly to the capital increase undertaken in the financial year along with a simultaneous higher repayment of loans. Borrowing in the 2011 financial year served to finance further corporate growth and to strengthen the company's financial basis. *aap* will not be paying dividends in the foreseeable future because liquid assets will be invested in full in the development and expansion of the company.

The Group's liquid assets amounted to €2.2 million as of December 31, 2011 (previous year: €0.9 million). This increase on December 31, 2010 was due inter alia to the higher operating cash flow as a result of profitable sales growth along with a reduction in investment cash flow and of a reduction in scheduled loan repayments along with the funds raised in connection with the capital increase. In January 2011 the shareholders notified *aap* that they would be leaving the loans in the company. That is still the case and will be so until further notice. *aap*'s stated aim for 2012 is to achieve further profitable growth and a further reduction in net indebtedness by means of scheduled loan repayments and a lower take-up of credit lines and by generating surplus liquidity from, say, the proceeds of project business in order partly to repay the shareholders' loans.

As of December 31, 2011, the *aap* Group had at its disposal contractually guaranteed credit lines totalling €4.8 million, of which €4.4 million had been taken up as of the balance sheet date. As of December 31, 2011, *aap* had at its disposal €2.5 million in freely available liquidity (the sum of cash and cash equivalents held and freely available lines of credit), compared with the previous year's €1.0 million.

In € million	31.12.2011	31.12.2010
Gross take-up of credit lines	-4.4	-4.8
Credit available on credit lines	1.9	0.8
Net take-up of credit lines	-2.5	-4.0

Until further notice the *aap* Group has at its disposal in 2012 credit lines totalling €4.8 million. Based on the budget for 2012, the company's liquidity position should show a further improvement in 2012. *aap* expects to end 2012 with a positive cash flow. The possibility that short-term funding of working capital may prove necessary to ensure sales growth in 2012 cannot, however, be ruled out.

The debt coverage ratio and interest coverage ratio, strategically important key financial figures for *aap,* continue to develop pleasingly. The rolling debt coverage ratio, based on the past four quarters, was 1.7 (31.12.2010: 2.7) and the rolling interest coverage ratio, based on the past four quarters, was 6.8 (31.12.2010: 6.1). With these figures, which were an improvement on the previous year, *aap*'s ratios continue to be well above the minimum that the banks usually require and therefore provide a sound basis for ensuring the *aap* Group's ongoing profitable growth. The strict targets of a debt coverage ratio of less than 2.5 and an interest coverage ratio of more than 6, each in relation to the rolling EBITDA, continue to apply in 2012. For further information about liquidity management please see the Notes (under the heading Capital management).

Assets Position

On April 28, 2011, *aap* Implantate AG's Management Board decided, with the Supervisory Board's approval, to increase the capital stock by €2,788,186 from authorised capital, corresponding to about 10% of the capital stock. The 2,788,186 new shares were issued at a price of €1.09 each paid in cash by way of a private placement, ruling out subscription rights. The company's capital stock thereby increased by €2,788,186 to €30,670,056 from €27,881,870. The capital increase was entered into the commercial register on May 16, 2011. The funds raised, amounting to about €3.0 million, serve to finance the company's further growth by means of launching new products and opening up new markets in Europe and the United States and to strengthen *aap*'s financial basis.

The *aap* Group's balance sheet picture did not change materially on the previous year. Its balance sheet total increased by 4% from €63.6 million to €66.2 million due mainly to high inventories of capitalised internally produced assets and development work, higher current assets and the increase in capital stock.

The €1.2 million increase in non-current intangible assets from €37.0 million to €38.2 million was due primarily to €1.8 million in net additions to the Group's capitalised development work.

The €0.2 million increase in current assets (excluding cash and cash equivalents) to €20.3 million (previous year: €20.1 million) resulted in particular from the scheduled increase in inventories and the decrease in trade receivables and other current assets in connection with sales growth.

The Group's equity capital rose as a result of the capital increase in the financial and the net surplus for the year from €44.9 million to €48.4 million. The equity ratio rose from 70% to 73% due to the disproportionate increase in equity capital compared with the increase in the balance sheet total. The adjusted equity ratio (after deducting goodwill, capitalised development work and other intangible assets) also rose – from 37% to 42%.

The level of capitalised deferred taxes fell from €41K to nil at the time of writing. In accordance with IFRS, *aap* has since 2008 capitalised deferred tax assets from the expected use of losses carried forward only to the extent that they are covered by deferred tax liabilities against which they can be set off.

The development of important items in the consolidated balance sheet to December 31, 2011 compared with the previous year is summarised in the following chart:

C) Supplementary Report

aap Biomaterials GmbH signed on March 23, 2012 an exclusive license agreement with a world-leading medical technology company. *aap* grants the company an exclusive license to an IP-protected Biomaterials product yet remains the product's manufacturer. The exclusive license applies to all product applications areas except dental, mouth and tooth care and food additives and is valid all over the world except in the United States, with *aap* receiving with the signing of the agreement a one-time license fee of around €2.1 million. The anticipated effect on earnings before taxes is likely to be €1.0 million.

On March 26, 2012 *aap* acquired a further 46% of the shares of ADC Advanced Dental Care GmbH, of which it is now the sole shareholder.

There were no further material business transactions during the period between the end of the financial 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 Section 289 (5) and 315 (2) 5 of the German Commercial Code [HGB])

The aim of the internal control system (ICS) for the accounting process is to ensure adequately by undertaking checks that the financial statements drawn up in accordance with the regulations. *aap* Implantate AG as the parent company prepares the annual financial statements for the *aap* Group.

With reference to the accounting ICS there can only ever be relative certainty and no absolute certainty that material errors in the accounting will be avoided or uncovered.

At *aap,* the Finance department controls the accounting and reporting procedures used. Laws, accounting standards and other rules are continuously analysed for their relevance to and effects on the Group's financial statements. Relevant requirements are communicated and, together with the group-wide reporting calendar, 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 used in preparing the accounts, several are essential. They are:

- Accounting rules for especially relevant accounting standards both at the group level and at individual group companies
- Involvement of third-party experts insofar as their services may be required
- Use of suitable, largely uniform IT financial systems and of detailed authorisation concept to ensure that powers correspond to the tasks in question
- Division of tasks between entry of transactions and review and approval of them
- A clear allocation of important tasks by planning operational accounting processes, such as adjusting claims and liabilities by means of balance confirmations
- Inclusion of risks recorded and assessed in the risk management system in the annual financial reports where this is required by existing accounting regulations
- Strict powers disposal in the course of authorising contracts, credit notes and the like as well as consistent implementation of the "four-eyes principle"
- Allocation instructions for material transactions
- Clear instructions on the process of stocktaking and capitalisation of development costs
- Regular training for employees involved in the group accounting process

All of the structures and processes described are subject to constant review by the persons in charge of debt management. Furthermore, *aap* operates an active benchmarking process based on examples of best practice in other companies. Any scope for improvement that is identified is implemented in a targeted manner.

2) Risk Management System

By the nature of its operative business, the *aap* Group is of course exposed to a large number of risks that are inherent in entrepreneurial 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 of medical devices and for placing them on the market. The objective is risk prevention. The quality management systems in use at *aap* are certified by DEKRA (*aap* Implantate AG, Berlin), TÜV (*aap* Biomaterials GmbH) and the Dutch DEKRA Certification B.V. (EMCM B.V.).
- Controlling instruments: The Controlling department informs the Management Board, the Supervisory Board and decision makers at *aap* regularly and in good time using summaries of revenue, assets and liquidity as well as key figures relating to the company's economic position and the status of potential risks.
- Risk management system: To identify and assess risks and to enable the company to take appropriate counter-measures, *aap* has developed a risk management system. An important element of this system is regular recording, categorisation and evaluation of possible risks, the likelihood of them occurring, and the potential for damage.

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 the market for orthopaedic and biological implants in particular is expected to continue to increase. Thus there is a risk that *aap* may be slower than its competitors to respond to market developments with new products or with improvements to existing products. This could have a negative effect on the assets, earnings and financial position of the company and lead to a deterioration of its market position.

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

In addition, government changes to the healthcare system could have a negative effect on the Group's sales and earnings. *aap* counters this risk by means of progressive internationalisation of its sales and by intensive monitoring of the German healthcare system with a view to anticipating negative developments in order to be able to counteract them.

A constant process of corporate consolidation is under way in the global market that is affecting *aap*'s customers. *aap* is responding to this industry consolidation by cooperating with a large number of companies and is constantly building new partnerships.

b) Approval of Products

Medical technology and healthcare are subject to strict approval requirements that differ from country to country. Rejection or delayed approval of the company's products could have a negative effect on future *aap* sales and earnings.

To recognise such developments at an early stage and enable us to react appropriately, the company monitors developments in this area very closely and supervises approval procedures in great detail in implementing its quality management system.

Approval requirements for *aap* products are growing stricter. For implants that remain in the patient's body (endoprostheses, bone cement, resorbable regeneration materials), clinical trials are required in some cases as a prerequisite for approval. *aap* has responded to this by expanding its Regulatory and Clinical Affairs divisions and by making sales more and more international so that higher production volumes can cover increased costs.

Increasingly, demands are made in the public debate for authorisation requirements for medical devices to be brought to the same level as those for medicinal products, which are much stricter. To do justice to the medical technology sector, the differences between it and the pharmaceuticals industry must 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 therefore to be understood with regard 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, in contrast, affect the human body – and not vice-versa.
- Adverse effects of medicinal products can frequently not be predicted. It is not possible to state when they may occur, how serious they will be and whether they can be reversed. Adverse effects of medical devices, in contrast, are more predictable and can generally be reversed. In additional, clinical effects of medical devices are generally dependent on the skills, knowledge and experience of the user.

That is why medical devices and medical drugs must be dealt with differently.

c) Dependence on Customers and Suppliers

In addition to products developed and manufactured by *aap* itself, the company supplements its product portfolio with commercial products such as instruments, lavage systems and parts of the Genius® knee system. Various *aap* products such as injection-moulding, polymers and collagen are manufactured by third-party suppliers if *aap* itself does not have the production competence Partnerships of this kind entail a higher degree of dependence on the quality and readiness to supply of these suppliers. *aap* protects itself as far as possible against this risk by means of strategic cooperation with a few qualified suppliers and regular reviews of their qualification for the job.

In 2011, *aap* achieved 36% (previous year: 27%) of its sales, including project sales realised with the respective customers, with the company's three largest customers. OEM sales are set to increase

further in the years ahead. Short-term withdrawal or possible inability to pay on the part of one of these customers could pose a threat to the Group's earnings and financial position. Due to the size of these OEM partners, however, we consider this risk to be very slight.

aap counters this risk by developing its sales organisation, by means of further internationalisation and by acquiring additional major clients (stability, sales power, financial power).

d) Patents and Intellectual Property

The possibility of third parties asserting claims against *aap* for breach of industrial property rights in the future cannot be ruled out. Any such breach could, in certain circumstance, delay the delivery of products. In the event of a negative outcome of litigation, *aap* could be required to enter into fee or license agreements. A suit filed against *aap* for breach of intellectual property rights could therefore have a detrimental effect on the Group's assets, financial and earnings position.

To actively protect the Group's own intellectual property, *aap* has a cross-site IP Committee that regularly monitors current developments in the patents and approvals market and protects own developments at an early stage by means of comprehensive patent protection.

e) Product Liability Risks

aap products are intended for insertion into and, in some cases, permanent placement in the human body. Due to variations in healing as well as the varying experience of the physicians using the products, it is not possible to rule out a malfunction of the products entirely. 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 ruled out.

aap protects itself against possible product liability suits by means of a strict system of quality control and product liability insurance to the extent that is customary in the industry. There is, of course, a residual risk that the existing insurance cover might not be sufficient for potential claims, especially in the United States.

f) Legal Risks

On February 13, 2009, the *aap* subsidiary *aap* Biomaterials GmbH received notice of a lawsuit for alleged unauthorised sharing and utilisation of operational secrets with a proposed sum in dispute of €30 million, with *aap* merely being the contracting partner or contract manufacturer for another indicted company. In the course of proceedings during the reporting period the plaintiff dismissed *aap* from the case, so there is no further risk of liability to pay damages.

In the course of termination of a distribution agreement, a former distributor asserted compensation claims against the *aap* subsidiary *aap* Biomaterials GmbH, filing on December 30, 2010, a claim for €350K. The management of *aap* Biomaterials GmbH considers the €70K provision made for this case in 2009 and totalling €80K as of December 31, 2011, to be sufficient. This sum takes into account legal fees associated with the case.

A former consultant whose services were used by *aap* Implante AG applied for a €100K court order against *aap* in respect of fees for alleged consulting services provided in the past. The dispute was settled out of court in January 2011 with the consultant waiving all alleged fee claims against the *aap* Group.

g) Data Protection

Companies from a certain size upward are required by law to appoint a data protection officer. *aap* Implantate AG complied with this statutory requirement by appointing an external data protection officer.

In the course of his work the data protection officer first reviewed the existing situation and drew up a status report. He found that at the time of writing the report a high level of data protection was already in place at *aap* Implantate AG. As part of the evaluation of the status report further measures were jointly developed that will lead to a further improvement in the level of data protection. Initial measures have already been successfully implemented.

A large number of employees have been instructed in data protection, so an effective commitment to data secrecy as per Section 5 of the German Data Protection Act (BDSG) is in place. A further point that is of relevance in this connection is that employees have been instructed in how to handle personal and other sensitive data property and do so in practice. This process is continued on a permanent basis in order to maintain a constant high level of data protection.

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

Price change risks cannot be ruled out entirely. *aap* counters them by shifting sales to products that it has developed itself and to innovative products with higher profit margins.

Possible default risks in respect of trade receivables are minimised by an active system of receivables management. Moreover, *aap* sets aside sufficient risk cover for this purpose in the form of individual and general debt provisions (2011: €340K, previous year: €412K). Overall, however, the risk can be regarded as limited because write-offs of receivables in the reporting year amounted to just €106K, or 0.4% of sales.

The financing position of the Group and of *aap* Implantate AG can be considered adequate in view of the cash and cash equivalents or open credit lines available as of the reporting date. As of December 31, 2011, the *aap* Group had at its disposal contractually assured credit lines totalling €4.8 million, of which €4.4 million gross had been taken up as of the reporting date. As of December 31, 2011, *aap* had at its disposal free and open liquidity (the sum total of cash and cash equivalents held and freely available lines of credit) totalling €2.5 million.

In € million	31.12.2011	31.12.2010
Gross take-up of lines of credit	-4.4	-4.8
Balance of lines of credit	1.9	0.8
Net take-up of lines of credit	-2.5	-4.0

For 2012 the *aap* Group has until further notice credit lines totalling €4.8 million at its disposal. On the basis of the budget for 2012 the company's liquidity situation should show further improvement in the course of the year. *aap* expects to end 2012 with a positive cash flow, but the possibility of short-term funding proving necessary to ensure sales growth in 2012 cannot, however, be ruled out.

Another pleasing trend continues to be that of what, for *aap*, are the strategically important key financial indicators debt coverage ratio and interest coverage ratio. The rolling debt coverage ratio, based on the past four quarters, was 1.7 (31.12.2010: 2.7) and the rolling interest coverage ratio, based on the past four quarters, was 6.8 (31.12.2010: 6.1). With these figures, which were an improvement on the previous year, *aap*'s ratios continue to be well above the minimum that the banks usually require and therefore provide a sound basis for ensuring the *aap* Group's further profitable growth. The strict targets of a debt coverage ratio of less than 2.5 and an interest coverage ratio of more than 6, each in relation to the rolling EBITDA, continue to apply in 2012.

Interest rate risks result from financial debts and investments. The *aap* Group tries to optimise the interest result and minimise interest rate risks. To do so it operates a Group-wide cash management system and enters into original financial transactions. Interest rate and price change risks are managed by means of a mixture of terms to maturity and of fixed and floating interest rates. Except for current account credit lines, all of the Group's debts on which interest is payable are subject to interest at fixed rates. As of December 31, 2011, about 30% (previous year: 30%) of the Group's borrowing was at fixed rates of interest. Market interest rate changes only affect financial instruments that must be stated at fair value, but that is not the case here. Sensitivity analyses have been carried out for financial liabilities to which floating interest rates apply. A similar change in interest rates for all financial liabilities and all currencies was assumed. A 1% change in interest rate was found to lead to an increase or decrease in earnings before taxes of €41K (previous year: €38K).

Liquidity risks result inter alia from a lack of availability of sources of funding due, amongst other things, to a failure to observe so-called financial covenants agreed by the terms of loan agreements. If these financial covenants are not observed, the financing bank has the right to terminate the loans in question and require immediate repayment. By the terms of existing long-term loan agreements or those that expired in 2011, *aap* must not, for example, fall below a certain minimum Moody's rating or must comply with certain maximum or minimum levels of own funds ratio, indebtedness or burden of borrowing. *aap* considers the risk of failure to observe the financial covenants that could result from downgrading by the financing bank to be low. In addition, *aap* pursues a very open and transparent communication policy with its financing banks in order to be able to identify possible threats at an early stage and to arrive jointly at solutions commensurate with the risks.

Furthermore, *aap* was able to maintain in 2011 the shorter periods allowed for payment agreed with various large global customers in 2009. *aap* is not subject to any material payment flow fluctuations.

In the financial year 2011, *aap* for the most part only entered into internal foreign currency hedging transactions because the foreign currency risk was low and payable and receivables denominated in US dollars largely balanced each other out. Hedging (an option and foreign currency swap) was undertaken only for project sales considered almost certainly safe in the fourth quarter of 2011. It led, due to failure of the underlying transaction to come about, to a €0.1 million loss. In future, however, *aap* plans to take external hedging precautions for significant sales denominated in US dollars.

E) Forecast Report

Forward-Looking Statements

The statements made here about overall economic trends and the company's development are forward-looking statements. The actual results can therefore differ materially – both positively and negatively – from expectations of likely developments.

Development of Economic Framework Conditions / Opportunities for *aap*

Since it began in 2008 the financial crisis has intensified and spread from the banks and investment companies to entire economies. It also affects the healthcare market in general. In Europe especially there is a strong link between national budgets and healthcare spending. In addition to these financial constraints there is a growing awareness of the need to be more cost-conscious in handling healthcare expenditure so that costs per patient can be coupled to (inter)national protocols on effective disease control.

This constellation leads to the growing demand for medical products not being reflected to an equal extent in companies' sales because although the demand for products may have increased, the products have to be less expensive. *aap* anticipates an increased demand for trauma and cement products, and although globalisation is making further progress, *aap* notes the existence of significant differences between the US and European markets in pricing, sales channels, health insurance payments and, at times, in the properties and requirements of products – products such as bone cement.

For a number of reasons *aap* might well benefit from these trends. First, our US sales have hitherto been relatively low and higher sales in the market with the highest prices would improve our margins considerably. We expect that the growing number of trauma products such as LOQTEQ® and cannulated screws for the US market, combined with new customers for FDA-approved bone cements, will take our profitable sales forward in this market. Second, *aap* products are outstanding value for money and our products fit a policy that is aimed at achieving affordable healthcare.

Finally, *aap* products offer advantages from the clinical viewpoint. That applies to both our present products and our product pipeline. In infection management a number of products can be used for prevention and healing. In 2011 we applied for a number of patents for medical products and carried out a clinical evaluation of silver cement. We are also active in the development of magnesium products that, for example, eliminate the cost of a second operation due to the resorbability of magnesium screws and thereby reduce the risk of further infection.

Overall Statement on the Group's Likely Development

In view of the trends outlined above we are convinced that *aap* is well positioned to make good use of these changing market conditions. In the future, *aap* will continue to participate in the growing healthcare market. We will adjust our marketing mix accordingly, partly by revising our website.

Results of the Management Agenda 2011

Customers	Successful business development in the US market with sales of €3.3 million
	Increase in sales of *aap* label products by our own sales organisation fell short

	of expectations
	National and international launch of the innovative LOQTEQ® product line
	Planning and launch of an *aap* sales organisation in a large EU market and one of the BRICS countries was abandoned in favour of a B2B model with existing and new distributors
Innovation	No improvement in the Freshness Indices[4] (2010: 13%)
	Establishment of a center of excellence for research and development of bone cement and cementing techniques at the Dieburg site
	Signing of a development contract in the bone cement segment
Financials	Improvements in reporting and controlling
	Growth at product level: 6% sales growth
	DCR ≤ 3 and ICR ≥ 6
	In spite of a considerable €1.5 million improvement to -€0.7 million, *aap* failed to achieve a positive cash EBIT[5] at product level
	Realisation of cost savings, especially costs of external services and external R&D expenditure
Organisation/IT	Reduction in site numbers from 4 to 3 and of companies from 8 to 6
	Corporate Governance: Code of Conduct not yet fully adopted across the Group in 2011
	Uniform Group-wide IT infrastructure almost entirely implemented
	Contract manufacturing activities extended under the EMCM label

Goals of the Management Agenda 2012

Customers	LOQTEQ® sales in the financial year 2012 > €2.4 million
	After full FDA approval appointment of a US distributor for LOQTEQ® in third quarter
	Appointing distributors in the UK, Spain, Italy and France, preferably before the end of the second quarter
	Renew OEM contracts with existing customers
	EMCM: Secure new customers for aseptic/sterile medical products
Innovation	Silver coating technology (Trauma/Orthopaedics: successful conclusion of animal tests in the fourth quarter
	Freshness Index >17 %
	Finish clinical study of silver cement before end of second quarter
	Sign a further development agreement on a bone cement and/or a cementing application
	EMCM: Launch a new treatment method for allografts and generate initial sales revenue: B2B model with EU bone banks such as Sanquin and others
Financials	10% sales growth
	Cash EBIT: improve to at least €1.0 million
	DCR ≤ 2.5 and ICR ≥ 6

[4] The Freshness Index is the percentage share of product sales achieved by products newly approved in the United States and Europe in the past three years.

[5] EBIT excluding capitalised in-house development work and amortisation thereof

	Stabilise company financing
	Continued profitable growth
	Test alternatives for further non-core products such as Adcon®
Organisation/IT	IT infrastructure: test outsourcing for risk and quality management
	Adopt Code of Conduct

Strategic Alignment

In the long term, Traumatology, Bone Cements and Cementing Techniques and Infection Care will form the core of our product range. A balanced combination of license business, OEM contracts and direct sales is to take our sales forward and minimise our risks.

As already explained in the Management Agenda 2012, further optimisation in respect of customers, innovation, financials and organisation is our stated aim for 2012. This transformation process will be continued in 2013.

We are convinced that only coordinated teamwork will deliver the desired results. This requires a clear customer orientation driven by innovation to develop new products and processes and a strong commitment to quality.

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

Anticipated Business and Sales Development

The main sales growth areas in the financial year 2012 are the trauma sector with a focus on the LOQTEQ® product family and the bone cement and cementing techniques sector. Overall, we anticipate sales growth of 10%. We aim in particular to increase our sales in the US market, where the LOQTEQ® product system will be the sales driver. To achieve this objective, timely FDA approval of the system is indispensable. In Europe LOQTEQ® sales are being taken forward by sales partners in the main EU markets. We also aim to make progress with LOQTEQ® approval in Russia, China, India and Brazil. In the cement sector we want to boost our license and delivery business further by recruiting new customers and, even more importantly, by renewing existing supply contracts. With these initiatives *aap* is laying the groundwork for further profitable sales growth in the years ahead.

In 2011 we repositioned our Dutch subsidiary EMCM as a contract manufacturer with a clear focus on sterile/aseptic solutions and gels. New business, supported by a new website, was generated with companies around the world – in countries such as Israel, Brazil, Italy and Switzerland. We aim to maintain this trend. We assume that CE and FDA approval and holding a pharmaceutical license will prove especially attractive. EMCM will also intensify its services in the allograft market with a focus on European bone banks. The process by which the *aap* Group is to be transformed from a highly diversified healthcare company into a focused medical technology company is to be taken further forward in 2012. In the course of this process we have launched projects to evaluate alternatives for different products, such as outlicensing or selling off IP rights. Companies in Germany and other countries have shown interest and we expect to be able to announce at least one transaction in the financial year 2012. In the past we have disposed of segments such as Analytics and products such as Cerabone® (a xenograft bone product) and Artecol® (a wrinkle filter for use in medical aesthetics).

The companies that bought these products continue to have *aap* manufacture them. In future transactions in 2012 and subsequent years we aim to make use of similar opportunities.

Our focus on innovation in the trauma and bone cement and cementing techniques sector continues. The Freshness Index reflects the overall outcome of these endeavours. Since the financial year 2009 we have reduced the number of our projects and the number of our main focus areas. The results of this revision of our research and development sector are not yet apparent, there having been no improvement in our Freshness Index in 2011. In the financial year 2012, however, we are confident that the influence of this change of focus will have a significant effect on the Freshness Index. Two of our research and development projects are located in infection care. One project is a silver cement, the other is a silver coating of trauma products. In our Management Agenda 2012 we list two important milestones to measure the progress and success of these products. We also see as a clear point to the quality of our research and development competences the interest shown by established global medical technology enterprises in participating in *aap* projects. In 2011 we were able to announce the signing a contract for one such project. We aim to conclude another cooperation agreement of this kind in the course of 2012. Contracts of this kind for development, approval and subsequent production will be an additional guarantee of long-term entrepreneurial success.

Anticipated Earnings, Financial and Assets Position

Positive cash EBIT at product level is intended not only to ensure profitable growth but also to lead to *aap*'s liquidity being less dependent on project sales. Along with growth in product sales this is also to be achieved by means of an above-average improvement in EBITDA and EBIT in relation to sales. Long-term entrepreneurial success can only be achieved by consistently implementing the profitable growth strategy so that earnings rise faster than the underlying costs. In the long term we will thereby also minimise our dependence on banks or other external sources of financing.

aap has set itself the target of improving its Freshness Index from the present 13% to >17% in the years ahead. The 2012 Freshness Index is to be improved with the launch of new products such as the LOQTEQ® system and by the launch of existing products in new markets.

In working capital management we have set ourselves the target of reducing operating working capital as a share of sales by at least 10%. Continuing to maintain an average payment target of less than the benchmark 70 days and reducing our operating working capital will lend a positive boost to the development of liquidity.

F) Other Information

1. Composition of Subscribed Capital

As of December 31, 2011, the company's share capital amounted to €30,670,056 consisting of 30,670,056 fully paid-up individual share certificates. There are no differences in voting rights.

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

Management Board Remuneration

Remuneration of Management Board members is in accordance with the statutory provisions of the German Stock Corporation Act (Aktiengesetz/AktG) and, as far Management Board contracts newly concluded in 2010 is concerned, with the recommendations of the German Corporate Governance Code, which are to apply to all new contracts in the future. In particular, the remuneration structure as per the Act on the Appropriateness of Management Board Compensation (VorstAG; Section 87 (1) AktG) for contracts newly concluded in 2010 is aimed at sustainable corporate development.

Two kinds of Management Board contract are currently in force. The following remarks will deal first the provisions of the contract that enjoys protection and then with the provisions of the two contracts newly concluded in 2010. All Management Board contracts run until December 31, 2012.

By the terms of the contract that enjoys protection, the total cash remuneration consists of a fixed and a variable, performance-related component with the variable component limited in amount to that of the fixed component. The yardstick for the variable component is EBIT as stated in the IFRS consolidated financial statements. In the event of extraordinarily large positive profit changes on the previous year the Supervisory Board may, at its discretion, award the Management Board a further appropriate extraordinary profit participation. Management Board members' remuneration also includes benefits in kind and other payments such as, primarily, the value as per tax guidelines of the use of a company car, accident insurance premiums and pension contributions. If *aap* acquires another company or is merged with one that accounts for more than 50% of sales revenue earned by the Traumatology & Orthopaedics or Biomaterials segment in 2008 (dependent on the segment to which the company acquired belongs), the Management Board will receive in compensation for the effort and expense involved a further 75,000 *aap* Implantate AG stock options that on closure of the transaction can be taken up, in accordance with the terms of the stock options resolution adopted by the 2008 General Meeting, on the next possible issue date insofar as a sufficient number of options is available for the Management Board by the terms of the relevant resolution adopted by the General Meeting. If a sufficient number of options from the 2008 stock options Program is no longer available, the remaining options will be shared.

What follows is an outline of the two Management Board contracts newly concluded in March 2010. The total cash remuneration consists of a fixed and a performance-related variable component. The fixed component ensures a basic remuneration that enables the individual Management Board member to perform his duties in the company's interest and in keeping with the duties of a prudent businessman without having to depend on merely short-term performance targets. The variable components, in contrast, being partly dependent on the company's economic results, ensures a long-term incentive effect.

In the reporting year, Management Board members received fixed remuneration totalling €653K (previous year: €625K). The fixed remuneration included benefits in kind and other payments such as, primarily, the value as per tax guidelines of the use of a company car and accident insurance premiums. The tax due on benefits in kind was paid by *aap* AG.

Variable remuneration is based on achieving both qualitative and quantitative targets. It is limited to a maximum and by the company's future development over a three-year period. Qualitative targets

are determined in advance by the Supervisory Board on the basis of the Management Agenda as part of their approval of the annual budget and make up 25% of the variable remuneration component.

Quantitative targets account for 75% and are based on the following year's budget as approved by the Supervisory Board. The yardsticks for the quantitative variable remuneration component are EBITDA (part bonus 1, weighting 2/3) and sales (part bonus 2, weighting 1/3). Bonus are graduated on the basis of target performance and limited to an absolute amount.

Payment of the qualitative bonus is made in full on achievement of the target after the following year's general meeting, whereas only 25% of the quantitative bonus is paid at the same time. Half of the remaining 75% is paid after the annual general meetings in the second and third years after the bonus year.

If quantitative targets for the year after the bonus year or the year after that are only 85% fulfilled or less, the quantitative bonus for the bonus year will be reduced by 37.5%. The budget bonus for 2010 could be reduced if the budget targets are not met in 2012 and 2013, and the budget bonus for 2011 could be reduced if the budget targets for 2013 and 2014 are not met, with part bonus 1 and part bonus 2 being weighted equally.

If a contract begins or ends in the course of a financial year, the bonus is paid pro rata with 100% target achievement being assumed.

In determining the remuneration basis the Supervisory Board is entitled to eliminate extraordinary business developments that have led to one-off additional revenue that is not due to an increase in operative business.

In the event of a change of control over the company the two Management Board members have a special right of termination that they can exercise at the end of the second month after the change of control (but not including the month in which the change of control occurred) to the end of the month with 14 days' notice. There are three cases in which a change of control entitles them to exercise this special right of termination. They are if an existing shareholder or a third party acquires at least 50% of the voting rights and thereby exceeds the mandatory offer threshold laid down in the German Acquisition and Takeover Act (WpÜG), if the company concludes an affiliation agreement as a dependent company, or if it is merged with another company.

For the consequences of takeover bids in relation to Management Board remuneration, see 7 (below).

In addition, Management Board members receive stock options from the company's stock option Programs. Stock options are a remuneration component with a long-term incentive effect.

Management Board remuneration in financial year 2011 was as follows:

	Remuneration components in €'000				
	Performance -unrelated	Performance -related	With long-term incentive effect	Total (2011)	Total (2010)
Biense Visser	201	25	39	265	260
Bruke Seyoum Alemu	285	24	35	344	341
Marek Hahn	167	19	14	200	163[6]
				809	764

Supervisory Board Remuneration

Supervisory Board members receive in addition to reimbursement of their expenses a fixed remuneration of €5,000 per Supervisory Board meeting. No remuneration is paid for meetings held by conference call.

Stock Option Program 2006

By resolution of the General Meeting of June 30, 2006, the Management Board – provided members of the company's Management Board are among the entitled persons – with the consent of the Supervisory Board is authorised to issue stock option Programs by December 31, 2008 for the members of the company's Management Board and members of the management of affiliated companies within the meaning of Section 15 ff. of the 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 of 600,000 shares are to be issued through stock option Programs in any one calendar year. Shareholders in the company do not have subscription rights. The option rights exercised can, at the company's discretion, be fulfilled either by recourse to the continent capital 2006/I or pursuant to any authorisations to purchase own shares in the company to be decided in the future.

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

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

Stock options are issued to the entitled persons only between the 10th and 20th trading day after publication of the company's quarterly or annual reports.

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

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

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

[6] 01.04.2010 -31.12.2010

Stock Option Program 2008

By resolution of the general meeting of September 29, 2008, the Management Board and – provided members of the company's management are entitled – the Supervisory Board is authorised to issue stock option Programs by September 28, 2013 for 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 to 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. 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 too only the entitled persons may exercise the options. The fulfilment of exercised option rights may be effected at the company's discretion either by recourse to contingent capital 2008/I suggested for resolution under lit. b) below or through own shares in the company. Granting the option to subscribe to shares in the company and issuing 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) Members of the company's Management Board

(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 as defined in Section 15 of the German Stock Corporation Act (AktG) (hereinafter referred as "affiliated companies"),

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

(iv) The total number of option rights is allocated as follows:

Up to 800,000 individual share options:	to members of the company's Management Board
Up to 200,000 individual share options:	to 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 company's Management Board on the date of issue – and selected members of executive staff of affiliated companies
Up to 200,000 individual share options:	to 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 a year as an annex to the annual financial statements stating the names of beneficiaries and the 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 financial year, to the exercise price paid and to the number of share options still held by members of the Management Board at the end of the year.

(2) Right to Purchase Shares

Each option right entitles the holder of the option to purchase a bearer share in the company in return for payment of the exercise pursuant to clause 4. New shares participate in the profits from the beginning of the financial year for which at the time when the subscription right was exercised no general meeting resolution has yet been passed on the appropriation of the balance sheet profit.

(3) Purchase Periods

The issue of 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 after publication of the company's quarterly or annual results (the date on which the option agreement signed by the company is handed over to the entitled party is referred as the "date of issue").

(4) Exercise Price

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

(5) Adjustment in the Event of Capital Measures

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 of shareholders in the company, sale of own shares, the issue of bonds with conversion and/or option rights to shares in the company), the option conditions can 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 to the new shares or own shares or new bonds are granted that place 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) of the German Stock Corporation Act (AktG).

(6) Performance Targets

Susbscription rights can only be exercised under stock options if the average value of the final auction price for shares in *aap* Implantate AG in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange 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 on expiry of a waiting period of two years from the date of issue. At the earliest two years after the date of issue 25%, three years after the date of issue a further 25%, four years after the date of issue a further 25% and five years after the date of issue the remaining 25% may be exercised.

(8) Exercise Periods

On expiry of the above waiting periods, 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 on which shareholders can register to attend the company's general meeting until the third banking day in Frankfurt after the general meeting;
- In the period from the date of publication of a subscription offer of new shares or bonds with conversion and/or option rights to shares in the company in an official journal of the Frankfurt Stock Exchange until the date on which the subscription period ends;
- Within the four weeks prior to publication of the relevant quarterly or annual results.

- (9) Personal Rights
- Stock options can only be exercised by the entitled persons themselves. This also applies if the stock options are taken over by a bank with the obligation to transfer them to the individual entitled persons as instructed by the company. The right of disposal over stock options is ruled out; specifically, they are non-transferable. Share options can, however, be inherited. The option conditions can, in derogation from this, provide for special rules in the event that the entitled person dies or retires, or their employment with the company or the affiliated companies is otherwise ended by means other than termination, or the affiliated company leaves the *aap* Group.

(10) Expiry

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

(b) Stock options that are not exercised also expire on receipt of 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 a creditor of the entitled person effects compulsory enforcement measures in the stock options, if insolvency proceedings are initiated with regard to the entitled person's assets, if the initiation of insolvency proceedings is rejected due to lack of assets or if the entitled person contravenes material obligations set forth in law, in the company's articles of association, in his or her employment contract with the company or with 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 a member of the Management Board, a selected member of executive staff or an employee of the company, a selected member of executive staff or an employee of an affiliated company – is terminated or cancelled, or for other reasons, in particular if it ends through expiry of the term. On termination or cancellation the time of receipt of the termination declaration or that of the effective conclusion of the cancellation agreement shall count, even if termination only enters into effect at a future date. Options granted to a member of the company's Management Board or the management of an affiliated company in this capacity also expire when the member of the company's Management Board or the management of an affiliated company retires or is dismissed.

(d) Insofar as termination of the service or employment relationship with the company or with an affiliated company is connected with entering into a new service or employment relationship with the company or with an affiliated company, the stock options granted to an entitled person do not expire, however. This applies in equal

measure to the end of a contract as a member of an executive body if it is followed by a new appointment with the company or with an affiliated company.

(e) Furthermore, option rights granted to an entitled person do not expire if his or her term of service or employment ends on reaching retirement age or through invalidity or death. In these cases the entitled person or his or her heirs can exercise the option rights on expiry of the waiting period specified in clause 7 sentence 2 during the next exercise period. The option 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 exercise of this option is at the Management Board's discretion. If 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 of shares in *aap* Implantate AG in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange during the last 20 trading days prior to the date on which the subscription right under the stock option was exercised.

(12) Regulation of Details

The Management Board is authorised to specify the 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 of this, the Supervisory Board decides on behalf of the members of the company's Management Board. 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 option rights as well as other procedural rules.

Stock Option Program 2010

The Management Board and, if members of the company's Management Board are among the entitled persons, the company's Supervisory Board are authorised to draw up by December 19, 2011 a stock option Program ("Stock Option Program 2010") for the entitled persons named in (1) below and to grant up to 1,486,000 stock options each with a subscription right to one share in the company for a term of up to eight years from the date of issue according to (6) below. Shareholders in the company do not have subscription rights. Subscription rights may also be taken over by a bank with the obligation to transfer them to the entitled parties as defined in (1) below. In this case too, only the entitled persons themselves may exercise the subscription rights. Fulfilment of exercised option rights can be effected at the company's discretion either by recourse to the contingent capital proposed, by recourse to own shares in the company or by means of cash compensation. Granting of subscription rights and issuing shares was subject to the following provisions:

(1) Entitled Persons

As part of the Stock Option Program 2010, subscription rights are issued to employees and Board members of the company and to employees and management of affiliated companies.

(2) Acquisition of Subscription Rights

Subscription rights are granted by the conclusion of an option agreement between the company and the entitled person.

Each subscription right entitles the holder to subscribe to one bearer share in the company in return for payment of the exercise price. New shares participate in profits from the beginning of the financial year in which they are issued. The option terms can provide for the company offering the entitled person in fulfilment of the subscription right at its discretion own shares with recourse to conditional capital or cash compensation instead of new shares. Details are to be specified by the Management Board or, if it is affected, by the Supervisory Board.

(3) Purchase Periods

Subscription rights are to be issued in two annual tranches on condition that no one tranche accounts for more than 60% of the total volume. An option agreement must be concluded during a purchase period in 2010 or 2011. The purchase periods are as follows:

- The fourth and the nine following bank working days after the company's annual general meeting ("purchase period 1")
- The fourth and the nine following bank working days after publication of the company's preliminary report for the third quarter of the financial year ("purchase period 2")

The granting of subscription rights on the basis of this resolution will last be permissible in purchase period 2 of 2011.

The subscription rights issued in the course of a purchase period will form a tranche so that in all, over a period of two years, two annual tranches may be issued.

If subscription rights expire before the end of the last purchase period they may be offered to other members of the group specified at (5) below.

(4) Exercise Price

The exercise of subscription rights is free of charge for the entitled person. Each subscription right entitles the holder to purchase one share in the company at the exercise price. The exercise price for subscription rights that are granted as part of a tranche is the average final price (arithmetic mean) for *aap* shares in electronic trading (Xetra or a successor system) on the Frankfurt Stock Exchange on the five trading days prior to the first day of the purchase period in question. A trading day here means a day on which the Frankfurt Stock Exchange quotes prices for shares in the company in electronic trading.

The pecuniary gain resulting from exercise of the subscription right by the entitled person (the difference between the final auction price of the *aap* share in XETRA trading or a comparable successor system on the day the subscription right was exercised and the exercise price) may not exceed four times the exercise price ("the limit") set when the stock option was issued. If this figure is exceeded, the exercise price will be adjusted accordingly and will correspond to the difference between the final auction price for the *aap* share in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange on the day the subscription was exercised and four times the exercise price. The Management Board or, if a member of the Management Board is involved, the Supervisory Board may decide in individual instances to reduce the limit appropriately.

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 of shareholders in the company, sale of own shares, the issue of bonds with conversion and/or option rights to shares in the company), the option conditions may be subject to an adjustment of the

exercise price in the same proportion as the average price of the subscription right to which shareholders are entitled on all trading days on the Frankfurt Stock Exchange compared with the final auction price of the company's shares in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day before the deduction of subscription rights.

The option conditions may also provide for an adjustment in the event of capital measures (a stock split or reverse stock split, a capital increase from company funds or a capital reduction) during the term of the subscription rights.

The minimum exercise price whatever happens is the lowest issue price as defined in Section 9 (1) of the German Stock Corporation Act (AktG).

(5) Allocation

Of the total number of possible subscription rights to up to 1,486,000 shares, subscription rights may be granted

- for up to 40% of the shares to the group of Board members ("group 1") and
- for up to 60% of the shares to the group of employees of the company and members of the management and employees of affiliated companies ("group 2").

The Management Board or, if stock options are granted to its members, the company's Supervisory Board will specify the precise groups of entitled persons and the scope of the stock options that are to be offered to them. A double allocation due to membership of both groups is ruled out. Shareholders do not have a subscription right.

(6) Waiting Period, Exercise Periods, Final Exercise

Subscription rights under stock options can only be exercised after the end of a waiting period and then only until the end of the option term. The waiting period is four years, the option terms is eight years.

Subscription rights may only be exercised (exercise periods) within four weeks beginning on the second trading day at the Frankfurt Stock Exchange

- after the company's annual general meeting
- after the day on which the management of the stock exchange has made the company's annual report, six-month report or interim report for the first or third quarter of the financial year available to the public.

The waiting period and the option term begin on the day after the stock options are issued. Subscription rights granted during the purchase period 1 in 2010 can therefore be exercised for the last time in 2018. Subscription rights granted in subsequence purchase periods may be last exercised accordingly, so that subscription rights granted during the last purchase period, period 2 of 2011, can be exercised for the last time in 2019. Subscription rights that are not exercised will expire.

(7) Performance Target

Subscription rights from stock options can only be exercised if the final auction price for shares in the company in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day before the exercise date is at least 10% higher than the exercise price.

(8) Other Exercise Conditions

The option agreement must specify that only someone with an unterminated service or employment relationship with the company or with an affiliated company may exercise subscription rights. In derogation from this, the right to exercise subscription rights shall only be retained then and for the next exercise period if the termination of an employment relationship is due to permanent incapacitation or reaching retirement age. The right to exercise subscription rights shall also be retained if the Management Board or, if the Management Board or members of the Management Board are affected, the Supervisory Board decides in the individual instance that the right continues to exist. Subscription rights are non-transferable. If the entitled person dies, provision must be made for his or her subscription rights to be inheritable. The option agreement must also make provisions for adjustment of the exercise conditions in the event of capital measures by the company. It must further state that all taxes and duties are to be paid by the entitled persons.

The Management Board is authorised to specify further details for the issue of shares from the conditional capital increase and the further conditions of the Stock Option Program 2010. The Management Board is authorised, with the consent of the Supervisory Board, to specify the further details of implementation of the capital increase. If the stock option Program and implementation of the capital increase affect the Management Board, the Supervisory Board will make these authorisations.

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

To the best of our knowledge, the following direct and indirect shareholdings of more than 10% of the share capital in *aap* Implantate AG totalling €30,670,056 were held as of December 31, 2011:

Name	Voting rights in %
1. Elocin B.V.	20.89
2. Noes Beheer B.V.	17.82
3. Jürgen W. Krebs	11.70

4. Statutory Provisions and Provisions of the Articles of Association for Appointing and Dismissing Management Board Members and Amending Articles of Association

The appointment and dismissal of members of the Management Board are governed by Section 84 f. of the German Stock Corporation Act (AktG) and by the company's articles of association. By the terms of the company's articles of association the Management Board consists of 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. The Supervisory Board also dismisses members of the Management Board. Management Board members are appointed for a maximum of five years. Reappointment or extension of their period in office for an additional five years is also permissible. The Supervisory Board can revoke the appointment of a Management Board member before his term of office expires for good cause, such as a gross breach of duty, inability to properly perform management duties or if the general meeting passes a vote of no confidence in the Management Board member unless the vote of no confidence was passed for obviously improper reasons.

Amendments to the articles of association must be made in accordance with the provisions set forth in Sections 179 ff. of the German Stock Corporation Act (AktG) and the company's articles of association. By the terms of the company's articles of association the Supervisory Board is entitled to make amendments to the articles that affect only the wording thereof.

5. Management Board Powers to Issue and Repurchase Shares

The Management Board is authorised, with the Supervisory Board's consent, to increase the company's share capital until August 26, 2012, on one or more occasions by up to €2,988,935 against cash or contributions in kind (approved capital 2007/I) and to lay down the terms and conditions of the share issue, again subject to the Supervisory Board's consent. Subject to Supervisory Board consent, subscription rights for shareholders may be ruled out. After partial use, this approved capital now amounts to only €1,721,578.

The Management Board is authorised, with the Supervisory Board's consent, to increase the company's share capital until August 6, 2014 on one or more occasions by up to €8,026,571 against cash or contributions in kind (approved capital 2009/I) and to lay down the terms and conditions of the share issue, again subject to the Supervisory Board's consent. Subject to Supervisory Board consent, subscription rights for shareholders may be ruled out. After partial utilisation the authorised capital now amounts to €5,238,385.

The Management Board is authorised, with the Supervisory Board's consent, to increase the company's share capital until July 15, 2015 on one or more occasions by up to €4,192,786 against cash or contributions in kind (approved capital 2010/I) and to lay down the terms and conditions of the share issue, again subject to the Supervisory Board's consent. Subject to Supervisory Board consent, subscription rights for shareholders may be ruled out.

The August 7, 2009 general meeting of shareholders authorised the company to buy and use own shares in accordance with Section 71 (1) No. 8 of the German Stock Corporation Act (AktG) and to rule out subscription rights. It may purchase own shares up to a notional €1,000,000 share of the capital stock. The authorised agreed by the general meeting on August 7, 2009 expired on February 4, 2011. By the terms of Section 71 (1) No. 8 AktG as amended by the July 30, 2009 Act implementing the European Directive on Shareholders' Rights (ARUG), this authorisation may now be granted for a period of up to five years. The July 16, 2010 general meeting accordingly authorised the company to buy and use own shares in accordance with Section 71 (1) No. 8 of the German Stock Corporation Act (AktG) and to rule out subscription rights. It may purchase own shares up to a notional €1,000,000 share of the capital stock. Shares purchased, together with own shares already held by the company or attributable to it by the terms of Sections 71 a ff. AktG, must at no time exceed 10% of the share capital. The authorisation may not be used for trading in the company's shares.

Use may be made of the authorisation wholly or in part, on one or more occasions, in pursuit of one or more objectives, by the company or by third parties on its account. The authorisation is valid until July 15, 2015.

Shares may be purchased at the Management Board's discretion either on the stock market or by public tender or by a public call for a tender submission:

- For shares purchased on the stock market, the price per share paid by the company (excluding ancillary purchase costs) may not be more than 5% higher or lower than the opening auction price in the XETRA trading system (or

comparable successor system) on the trading day at the Frankfurt Stock Exchange.

- For shares purchased by public tender or by a public call for tender submission the offer price 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 successor system) on the Frankfurt Stock Exchange on the three trading days prior to the date of the public announcement of the offer or the public tender for bids. If, following publication of a public offer or the public tender there are substantial variations in price, the offer or tender may be adjusted accordingly. In this case the average price on the three trading days prior to 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. If the purchase offer is oversubscribed or if, in the case of a call to tender an offer with several equivalent offers, not all of them are accepted, the acceptance must be carried out proportionately. 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 (WpÜG) insofar as they are applicable.

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 proportional arithmetical amount for the remaining individual shares in the company's share capital. 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 by means of an offer to shareholders if 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 in accordance with Section 186 (3) 4 of the German Stock Corporation Act (AktG) may not exceed 10% of the company's share capital at the time of the resolution adopted by the general meeting.

III. The shares can be issued against contributions in kind, especially in connection with the acquisition of companies, parts of companies or shareholdings in companies, as well as mergers (including measures connection with the German Conversions Act (UmwG).

IV. The shares can be used for issuing to strategic partners.

V. The shares can be used to pay for consulting services.

VI. The shares can be used for issuing to lenders instead of interest payments in cash or in addition to cash payments as so-called equity kickers, especially in connection with mezzanine financing.

VII. The shares can be used to repay loans or other liabilities.

VIII. The shares can be used to fulfil conversion rights under convertible bonds or bonds with warrants issued on the basis of the authorisation granted by the June 30, 2006 general meeting (deed roll No. M 211/2006 of the Berlin notary Klaus Mock). The key points of the conditions of the authorisation dated June 30, 2006 are set forth in the notarial record of the June 30, 2006 general meeting and as such can be inspected at the commercial register of the Charlottenburg district court in Berlin.

IX. The shares can be used to fulfil option rights resulting from stock options issued on the basis of the authorisation granted by the June 30, 2006 general meeting (deed roll No. M 211/2006 of the Berlin notary Klaus Mock). The key points of the conditions of the authorisation dated June 30, 2006 are set forth in the notarial record of the June 30, 2006 general meeting and as such can be inspected at the commercial register of the Charlottenburg district court in Berlin.

X. The shares can be used to fulfil option rights resulting from stock options issued on the basis of the authorisation granted by the September 29, 2008 general meeting (deed roll No. M 334/2008 of the Berlin notary Klaus Mock). The key points of the conditions of the authorisation dated September 29, 2008 are set forth in the notarial record of the September 29, 2008 general meeting (deed roll No. M 334/2008 of the Berlin notary Klaus Mock) and as such can be inspected at the commercial register of the Charlottenburg district court in Berlin.

XI. The shares can be used, subject to authorisation by the July 16, 2010 general meeting, to fulfil option rights issued on the basis of the authorisation agreed by the July 16, 2010 general meeting. The key points of the conditions of the July 16, 2010 authorisation are outlined in the resolution by the July 16, 2010 general meeting. If the meeting approves the proposal submitted by the Management Board and Supervisory, the key points of the conditions of this authorisation are set forth in the proposal by the Management Board and Supervisory Board as Agenda Item 5 that is included with this invitation to attend the general meeting.

Authorisations specified in lit. d) II. to XI. also apply to the use of shares in the company acquired on the basis of Section 71d (5) of the German Stock Corporation Act (AktG).

Authorisations specified in lit. d) can be used on one or several occasions, in full or in part, individually or jointly, while the authorisations under lit. d) II. to XI. can also be used by dependent or majority-owned enterprises of the company on their account or on the account of third parties acting on the company's behalf.

The price, excluding ancillary costs of realisation, at which shares in the company are sold or issued in accordance with an authorisation as per lit. d) II. to VII. must not be more than 5% lower than the opening auction price of *aap* Implantate AG shares in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange on the day of the sale or binding agreement with the third party.

The price, excluding ancillary costs of realisation, at which shares in the company are used in accordance with the authorisation as per lit. d) VIII. must amount to at least 80% of the average value of the final auction prices for *aap* Implantate AG shares in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange during the 10 trading days before the day on which the Management Board decided to issue the convertible bonds or option bonds.

The price, excluding ancillary costs of realisation, at which shares in the company are used in accordance with the authorisation as per lit. d) IX. must amount to the average value of the final auction prices for *aap* Implantate AG shares in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange during the 10 trading days before the day on which the option agreement signed by the company on the basis of the authorisation to grant stock options agreed by the June 30, 2006 general meeting (deed roll No. M 211/2006 of the Berlin notary Klaus Mock) is handed over to the entitled person in question (the "issue date"). The option conditions specified on the basis of the above-mentioned June 30, 2006 authorisation to grant stock options can provide in the event of measures being undertaken during the term of these stock options that influence the value of the options (a capital increase with a direct or indirect subscription right for shareholders in the company, sale of own shares, the issue of bonds with conversion and/or option rights to shares in the company) to make adjustments to the exercise price and/or subscription relationship. There is no reduction on the basis of the above-mentioned June 30, 2006 authorisation to grant stock options if the entitled person is granted a direct or indirect subscription right to the new shares or own shares or new conversion bonds that leaves him in the same position as if he had exercised the option. The option conditions laid down on the basis of the above-mentioned June 30, 2006 authorisation to grant stock options can also provide for an adjustment of option rights in the event of a capital increase from company funds or a capital reduction, a share split or a conversion or shares or of bonuses and extraordinary disbursements in cash and/or kind in accordance with usage on German and international futures exchanges.

The price, excluding ancillary costs of realisation, at which shares in the company are used in accordance with the authorisation as per lit. d) X. must amount to the average value of the final auction prices for *aap* Implantate AG shares in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange during the 20 trading days before the day on which the option agreement signed by the company on the basis of the authorisation to grant stock options agreed by the September 29, 2008 general meeting (deed roll No. M 334/2008 of the Berlin notary Klaus Mock) is handed over to the entitled person in question (the "issue date"). The option conditions specified on the basis of the above-mentioned September 29, 2008 authorisation to grant stock options can provide in the event of measures being undertaken during the term of these stock options that influence the value of the options (a capital increase with a direct or indirect subscription right for shareholders in the company, sale of own shares, the issue of bonds with conversion and/or option rights to shares in the company) to make adjustments to the exercise price and/or subscription relationship. There is no reduction on the basis of the above-mentioned September 29, 2008 authorisation to grant stock options if the entitled person is granted a direct or indirect subscription right to the new shares or own shares or new conversion bonds that leaves him in the same position as if he had exercised the option. The option conditions laid down on the basis of the above-mentioned September 29, 2008 authorisation to grant stock options can also provide for an adjustment of option rights in the event of a capital increase from company funds or a capital reduction, a share split or a conversion or shares or of bonuses and extraordinary disbursements in cash and/or kind in accordance with usage on German and international futures exchanges.

The price, excluding ancillary costs of realisation, at which shares in the company are used in accordance with the authorisation as per lit. d) XI. must amount to the average auction price (arithmetic mean) for *aap* shares in electronic trading (XETRA or a successor system) on the Frankfurt Stock Exchange on the five trading days prior to the first day of the purchase period in which the stock options in question were issued. A trading day as meant here is a day on which the Frankfurt Stock Exchange issues prices for the company's share in electronic trading. The pecuniary gain resulting from exercise of the subscription right by the entitled person (the difference between the final auction price of the *aap* share in XETRA trading or a comparable successor system on the day the subscription right was exercised and the exercise price) may not exceed four times the exercise price ("the limit") set when the stock option was issued. If this figure is exceeded, the exercise price will be adjusted accordingly and will correspond to the difference between the final auction price for the *aap* share in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange on the day the subscription was exercised and four times the exercise price. The Management Board or, if a member of the Management Board is involved, the Supervisory Board may decide in individual instances to reduce the limit appropriately. If during the term of the stock options the company's share capital is increased by an issue of new shares with a subscription right for shareholders or of own shares or of bonds with conversion or option rights to shares in the company, the option conditions can provide for an adjustment of the exercise price in the same proportion as the average price of the subscription right to which shareholders are entitled on all trading days on the Frankfurt Stock Exchange compared with the final auction price of the company's shares in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange on the last trading day before the deduction of subscription rights. The adjustment will not apply if no subscriptions are traded or the holders of stock options are offered a subscription right that is equivalent to that of the shareholders. The option conditions may also provide for an adjustment in the event of capital measures (a stock split or reverse stock split, a capital increase from company funds or a capital reduction) during the term of the subscription rights.

This is without prejudice to Section 9 (1) of the German Stock Corporation Act (AktG).

The subscription right of shareholders to these own shares is ruled out insofar as the shares are used in accordance with the above authorisation as per lit. d) II. to XI.

The Supervisory Board can decide that the Management Board may only take measures on the basis of this general meeting resolution with its consent.

6. 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 secure a €2.0 million loan by the terms of a loan commitment. As of December 31, 2010 the shareholder loan had a nominal value of €2.0 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* shares has been acquired by a person or company, or by various persons or companies acting in concert, as defined in Section 30 (2) of the German Securities and Takeover Act (WpÜG).

There is a service agreement between two *aap* subsidiaries and an external company on the provision of certain services 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 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.

There is a supply agreement and a development and delivery agreement between an *aap* subsidiary and another external company 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 a change in the subsidiary's share ownership occurs in the course of which a competing company takes over, acquires or otherwise gains control of more than 50% of the voting rights.

Between a subsidiary and another external company there is a distribution and license agreement for certain of the subsidiary's products 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-off and sales-related license fees paid in accordance with 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 or 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 debtors or 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.

7. Compensation with Members of the Management Board or Agreements in the Event of Takeover Bids

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

If a person or company or several persons or companies acting in concert (as defined in the German Securities and Takeover Act/WpÜG) acquires more than 50% of the shares in the company ("change of control"), the Management Board shall be 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 bid (or the average price paid in other acquisitions) and the option prices as per the Stock Option Program 2008.

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

when the change of control is agreed. The other two Management Board members are entitled in the event of a change of control to a special right of termination of contract and to payment amounting to 90% of their capitalised overall annual salaries for the remainder of their contracts up to a maximum of three full annual salaries.

Consolidated Statement of Comprehensive Income according to IFRS for the period January 1 to December 31, 2011

		Note	2011	Previous year
			€K	€K
1.	Sales	(1)	29,205	28,440
2.	Changes in inventories of finished and unfinished goods and services		753	792
3.	Capitalised own work	(2)	3,045	3,328
4.	Other operating income	(3)	1,913	2,646
5.	Material expenses	(4)	-8,078	-9,535
6.	Personnel expenses	(5)	-11,946	-12,135
7.	Depreciation	(6)	-2,961	-2,729
8.	Other operating expenses	(7)	-10,766	-10,088
9.	Operating income (EBIT)		*10,165*	*719*
10.	Financial income		58	34
11.	Financial expenses		-605	-567
12.	Financial result	(8)	*-547*	*-533*
13.	*Result before taxes*	*(9)*	*618*	*186*
14.	Taxes	*(9)*	-223	-135
15.	Result after taxes/Total comprehensive income		*395*	*51*
	thereof: Non-controlling interests		*3*	*4*
	thereof: Net result/Result of shareholders in aap AG		*392*	*47*
16.	Earnings per share in euro			
	Undiluted/diluted	(10)	0.013	0.00

Consolidated Balance Sheet according to IFRS as of December 31, 2011

ASSETS

		Note	2011		2010
			€K	€K	€K
A.	**Non-current assets**				
	Intangible assets	(11)			
	Goodwill	(12)	12,490		12,490
	Capitalised development costs	(13)	20,286		18,451
	Other intangible assets	(14)	5,472		6,059
	Tangible assets	(15)	5,071		5,200
	Financial assets	(16)	356		356
	Deferred taxes	(9)	0		41
				43,675	(42.597)
B.	**Current assets**				
	Inventories	(17)	13,991		12,688
	Accounts receivable	(18)	5,508		6,204
	Other financial assets	(19)	331		674
	Other assets	(20)	494		543
	Accounts receivable due from taxes on income	(21)	0		17
	Cash and cash equivalents	(22)	2,152		909
				22,476	(21,035)
Total				66,151	63,632

LIABILITIES

		Note	2011		2010
			€K	€K	€K
A.	**Capital stock**	(23)			
	Subscribed capital		30,670		27,882
	Capital reserve		40,422		39,968
	Revenue reserve		228		228
	Other reserve		608		608
	Consolidated balance sheet result		-23,575		-23,967
	Non-controlling interests		-3		133
				48.350	(44,852)
B.	**Non-current liabilities (over 1 year)**	(26)			
	Financial liabilities	(26)	74		1,163
	Other financial liabilities	(28)	150		175
	Deferred taxes	(9)	2,176		2,218
	Provisions	(25)	35		30
	Other liabilities	(29)	240		208
				2.675	(3,794)
C.	**Current liabilities (up to 1 year)**	(26)			
	Financial liabilities	(26)	5,479		5,501
	Advances from customers	(26)	337		220
	Development orders with a net debit balance toward customers	(26)	32		0
	Accounts payable	(26)	3,120		2,967
	Shareholder liabilities	(26)	3,522		3,305
	Other financial liabilities	(28)	1,626		2,104
	Provisions	(25)	186		191
	Other liabilities	(29)	824		698
				15.126	(14,986)
Total				66,151	63,632

Consolidated Cash Flow Statement according to IFRS

		2011	2010
		€K	€K
1.	Result after taxes/Total comprehensive income	395	51
2.	Stock options without effect on payments	210	173
		605	224
3.	Depreciation	2,961	2,729
4.	Change in deferred taxes	2	55
5.	Increase in provisions	0	27
6.	Loss from disposal of long-term assets	4	5
7.	Increase in inventories, accounts receivable and other assets	-497	-599
8.	Increase/Decrease in trade accounts payable and other liabilities	198	302
9.	Income from retransfer of special item for investment	-60	-89
10.	Outflow/Inflow of funds from current business activity	3,213	2,654
11.	Payments for investment in intangible and tangible assets	-3,986	-4,446
12.	Inpayments from investment grants	266	0
13.	Outflow of funds from investment activity	-3,720	-4,446
14.	Inpayments from capital increases and shareholder grants	3,039	0
15.	Equity procurement transaction costs	-11	0
16.	Distribution of profits to other shareholders	-34	0
17.	Inpayments from take-up of loans	44	1,596
18.	Inpayments from take-up of shareholder grants	0	1,875
19.	Payments to redeem shareholder grants	-35	-693
20.	Payments to redeem loans	-1,155	-2,454
21.	Payments for financial leasing agreements	-98	-74
22.	Payments for the purchase of Treasury stock	0	45
23.	Inflow of funds from financing activity	1,750	295
24.	Cash and cash equivalents at start of period	909	2,406
25.	Cash and cash equivalents at end of period	2,152	909

Consolidated Schedule of Assets as of December 31, 2011, according to IFRS

	Historical cost of acquisition					Cumulative depreciation					Book values	
	Status as of 01.01.2011	Additions	Transfers	Retirements	Status as of 31.12.2011	Status as of 01.01.2011	Depreciation in Financial year	Unscheduled depreciation	Retirements	Status as of 31.12.2011	Status as of 31.12.2011	Status as of 31.12.2010
	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K
Assets												
Intangible assets												
Goodwill	16,508	0	0	0	16,508	4,018	0	0	0	4,018	12,490	12,490
Capitalised development costs	29,332	3,045	0		32,377	10,880	1,205	6	0	12,091	20,286	18,451
Other intangible assets												
a) Concessions, industrial property rights similar rights and values, and licenses thereto	15,456	109	0	3	15,562	12,454	452	0	2	12,904	2,658	3,001
b) Customer relationships	3,661	0	0	0	3,661	773	244	0	0	1,017	2,644	2,888
c) Advances	170	0	0	0	170	0	0	0	0	0	170	170
	65,127	3,154	0	3	68,278	28,125	1,901	6	2	30,030	38,248	37,000
Tangible assets												
Land and leasehold rights and buildings, including buildings on third-party land	2,390	10	0	0	2,400	1,611	88	0	0	1,699	701	779
Technical plant and machinery	13,006	545	0	36	13,515	9,813	673	0	35	10,451	3,064	3,193
Other fixtures and fittings, tools and equipment	4,754	320	41	102	5,013	3,605	293	0	100	3,798	1,215	1,149
Advances	79	53	-41	0	91	0	0	0	0	0	91	79
	20,229	928	0	138	21,019	15,029	1,054	0	135	15,948	5,071	5,200
Financial assets												
Other investments	356	0	0	0	356	0	0	0	0	0	356	356
Other loans	38	0	0	0	38	38	0	0	0	38	0	0
	394	0	0	0	394	38	0	0	0	38	356	356
Total	85,750	4,082	0	141	89,691	43,192	2,955	6	137	46,016	43,675	42,556

Consolidated Schedule of Assets as of December 31, 2010, according to IFRS

	Historical cost of acquisition				Cumulative depreciation					Book values	
	Status as of 01.01.2010	Additions	Retirements	Status as of 31.12.2010	Status as of 01.01.2010	Depreciation in financial year	Unscheduled depreciation	Retirements	Status as of 31.12.2010	Status as of 31.12.2010	Status as of 31.12.2009
	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K
Assets											
Intangible assets											
Goodwill	16,508	0	0	16,508	4,018	0	0	0	4,018	12,490	12,490
Capitalised development costs	26,293	3,320	-281	29,332	9,885	996	0	0	10,881	18,451	16,408
Other intangible assets											
a) Concessions, industrial property rights, similar rights and values, and licenses thereto	15,364	120	-28	15,456	12,036	447	0	-28	12,455	3,001	3,328
b) Customer relationships	3,661	0	0	3,661	529	244	0	0	773	2,888	3,132
c) Advances	170	0	0	170	0	0	0	0	0	170	170
	61,996	3,440	-309	65,127	26,468	1,687	0	-28	28,127	37,000	35,528
Tangible assets											
Land and leasehold rights and buildings, including buildings on third-party land	2,899	18	-527	2,390	2,053	85	0	-527	1,611	779	846
Technical plant and machinery	12,396	701	-91	13,006	9,250	654	0	-91	9,813	3,193	3,146
Other fixtures and fittings, tools and equipment	4,674	423	-343	4,754	3,641	303	0	-339	3,605	1,149	1,033
Advances	30	49	0	79	0	0	0	0	0	79	30
	19,999	1,191	-961	20,229	14,944	1,042	0	-957	15,029	5,200	5,055
Financial assets											
Other investments	356	0	0	356	0	0	0	0	0	356	356
Other loans	38	0	0	38	38	0	0	0	38	0	0
	394	0	0	394	38	0	0	0	38	356	356
Total	82,389	4,631	-1,270	85,750	41,450	2,729	0	-985	43,194	42,556	40,939

Consolidated Schedule of Changes in Equity

				Revenue reserves		Changes in equity that do not affect net income							
	Note	Subscribed capital	Capital reserve	Statutory revenue reserve	Other revenue reserves	Revaluation reserve	Financial assets held for disposal	Financial derivatives	Total	Consolidated balance sheet result	Group share	Non-controlling interests	Shareholder equity
		€K	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K
Status as of 01.01.2010		27,882	39795	42	273	608	0	0	608	-24,014	44,586	129	44,715
Capital increase		0	0	0	0	0	0	0	0	0	0	0	0
Stock options		0	173	0	0	0	0	0	0	0	173	0	173
Treasury stock		0	0	0	-87	0	0	0	0	0	-87	0	-87
Result after taxes		0	0	0	0	0	0	0	0	47	47	4	51
Status as of 31.12.2010/01.01.2011		27,882	39,968	42	186	608	0	0	608	-23,967	44,719	133	44,852
Capital increase		2,788	251	0	0	0	0	0	0	0	3.039	0	3,039
Stock options		0	210	0	0	0	0	0	0	0	210	0	210
Transaction costs		0	-7	0	0	0	0	0	0	0	-7	0	-7
Distribution of profits/Repayment of contributions		0	0	0	0	0	0	0	0	0	0	-139	-139
Result after taxes		0	0	0	0	0	0	0	0	392	392	3	395
Status as of 31.12.2011	(23)	30,670	40,422	42	186	608	0	0	608	-23,575	48,353	-3	48,350

Notes to the Consolidated Annual Financial Statements to December 31, 2011 according to 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 No. 506 660. Since May 16, 2003 the company has been listed in the Prime Standard regulated market segment 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 research, development, manufacture and sale of implants, medical instruments, bone cements and replacement materials. The company's production facilities are in Germany and the Netherlands. Its principal sales areas are the European Union, Asia and the United States.

B. General Information

1. Basic Principles

aap Implantate AG, with its registered head office in Berlin, Germany, is the parent company of the *aap* Group, hereinafter also referred to as *aap* or the Group. The consolidated financial statements of *aap* Implantate AG to December 31, 2011 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 (Handelsgesetzbuch/HGB). In principle, all International Financial Reporting Standards that are mandatory as of the reporting date are applied. Figures for the previous year are drawn up on the basis of the same principles.

The consolidated financial statements of *aap* Implantate AG to December 31, 2011 consist of the consolidated balance sheet, the consolidated statement of comprehensive income, the cash flow statement, the statement of changes in equity and the Notes.

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 German Commercial Code and the German Stock Corporation Act (Aktiengesetz/AktG). Reconciliation based on IFRS rules was undertaken at the individual company level.

The consolidated balance sheet and the consolidated statement of comprehensive income are structured in accordance with IFRS. The consolidated statement of comprehensive income was drawn up using the total cost method. The balance sheet is structured according to whether assets and liabilities are current or non-current. The consolidated financial statements are denominated in euros (€). Unless otherwise specified, all amounts are stated in thousands of euros (€K) rounded up or down in accordance with commercial principles.

The financial statements for financial year 2011 cover the reporting period January 1 to December 31, 2011.

The consolidated financial statements of *aap* Implantate AG were drawn up on the basis of historic cost of acquisition or manufacture with the exception of assets available for sale, which are stated at market value, and financial assets and liabilities, which are stated at fair value with an effect on net income. In general, historic cost of acquisition and manufacture are based on the fair value of the financial consideration given in return for the asset. The essential accounting and valuation principles are outlined at D (below). The methods described were applied consistently to the reporting periods unless stated otherwise.

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

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

2. Cash Flow Statement

The consolidated cash flow statement was prepared in accordance with IAS 7 using the indirect method. It is arranged by payment flows from commercial, investment and financing activity. Total cash and cash equivalents shown in the cash flow statement correspond to the total 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.

3. Segment Reporting

The *aap* Group is managed both internally and externally as a company without separate segments. This approach is reflect in the management and reporting structure. So reporting by business segment as defined in IFRS does not apply.

C. Consolidation Principles

1. Consolidation Entity

The consolidated financial statements include, in addition to the parent company *aap* Implantate AG, all subsidiaries in which *aap* Implantate AG directly or indirectly holds a controlling interest.

Consolidated Subsidiaries:

	2011	2010
	Shareholding	Shareholding
aap Biomaterials GmbH, Dieburg	100%	100%
OSARTIS Verwaltungs-GmbH, Dieburg	100%	100%
European Medical Contract Manufacturing B.V. (2010: *aap* bio implants Netherlands B.V.), Nijmegen (NL)	100%	100%
ADC Advanced Dental Care GmbH, Dieburg	54%	54%

There have been no changes in the Group's holdings in existing subsidiaries or mergers since January 1, 2011. In the course of the year, *aap* bio implants Netherlands B.V. as the previous parent company of the Dutch sub-group was merged with its subsidiary European Medical Contract Manufacturing B.V. (EMCM) and Tissue Processing International B.V. with its affiliate EMCM, each with effect from January 1, 2011. EMCM's sole remaining subsidiary is Broockeville Corporation N.V.

For the preparation of its management report and disclosure and audit of its annual financial statements the consolidated subsidiary *aap* Biomaterials GmbH made use of the exemption provision of Section 264 (3) HGB.

2. Reporting Date of the Consolidated Financial Statements

These consolidated financial statements cover the financial year 2011 on the basis of a reporting period from January 1 to December 31. The consolidated companies also use the calendar year as their reporting year.

3. 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 prepare their financial statements in their national currency, the euro (€), as the functional currency in which they do most of their business.

All intra-group business transactions, balances and interim results are eliminated in the course of consolidation insofar as they are of minor importance. Shareholdings in subsidiaries in which the Group does not hold a controlling influence are stated separately under shareholders' equity. The overall result of the subsidiaries is allocated to the shareholdings in companies in which a controlling influence is not held according to the percentage (of shares) held – even if that leads to a negative balance for the holdings in question.

4. 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 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. Positive differential amounts are capitalised as goodwill. Negative differential amounts arising from initial consolidation are reviewed and retransferred with effect on results.

Capitalised 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 a 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.

5. Debt Consolidation

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

6. Consolidation of Earnings

In the context of earnings consolidation, internal sales and intra-group income and expenses are offset against each other. Interim results are eliminated insofar as they are of minor significance.

7. Currency Translation

In their individual financial statements companies translate business transactions denominated in foreign currencies at the exchange rates on the transaction 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 stated at amortised cost of acquisition or manufacture. All intangible assets except goodwill have an ascertainable useful life and are therefore depreciated according to schedule. Industrial property rights and similar rights and values stated under **other intangible assets** are amortised over a useful life of between three and twelve and a half years. Customer relationships identified in the course of purchase price allocation are amortised over a period of 15 years.

Development costs are capitalised as intangible assets if a newly developed product or process can be demarcated clearly, is technically realisable and if the company plans to use it itself or to market it. Further preconditions for capitalisation are the likelihood of deriving future economic benefit and a reliable valuation of the assets. Capitalised 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 five and 15 years from the date on which they were first put to use. Research costs are recorded as expenses in the period in which they are incurred.

Irrespective of specific indications, **goodwill** or capitalised development costs undergo annual **impairment tests**. Assets are written up if the reason for a previous unscheduled depreciation no longer applies. The resulting increase in book value may not exceed the ongoing cost of acquisition or production. Goodwill is not written up. Write-downs and write-ups are in principle recorded with an effect on results unless they are the result of a revaluation. Write-downs and write-ups of this kind are stated directly under equity in the revaluation reserve. Residual values, useful lives and methods of depreciation used for non-current assets are reviewed at the end of each financial year and adjusted if an adjustment is felt to be required.

Tangible fixed assets are valued at cost of acquisition or manufacture and, where depreciable, taking scheduled depreciation into account. The manufacturing costs of tangible fixed assets are the full costs. Costs of borrowing are capitalised as part of acquisition or manufacturing costs insofar as they related to the

purchase, construction or manufacture of a qualified asset. Fixed assets that are leased by way of financial leasing are capitalised at the lesser of either their market value or the cash value of the leasing instalments and depreciated in a straight line over their likely useful life.

Useful lives are:	Years
Land and buildings	50
Technical plant and machinery	10–15
Other plant, office and factory equipment	5–10

Fixed assets are written off either on disposal or if no further benefit is expected from the further use or the disposal of the asset. The resulting profit or loss arising from writing an asset off is established as the difference between the net proceeds of the sale and the residual carrying amount, is recorded with an effect on results in the reporting period during which the asset is written off and is stated as other operating income or expenses.

Intangible assets and tangible fixed assets are depreciated off schedule if the amount recoverable from the asset is less than the carrying amount.

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 fulfilment. Unrealised profits or losses are shown under equity (revaluation reserve) with no effect on results. 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.

Income tax expenses in the reporting period consist of current and deferred taxes. Taxes are included in the overall result unless they related to items recorded directly under equity or other comprehensive income, in which cases the taxes are also recorded under equity or other comprehensive income.

Current tax expense is calculated on the basis of the tax regulations of the countries in which the subsidiaries do business and earn taxable income that is due on the balance sheet date or shortly thereafter. The management checks tax returns regularly, especially with regard to issues that are open to interpretation, and when appropriate creates provisions based on the amounts that are expected to be due to the tax authorities.

Deferred taxes are stated for all temporary differences between the tax base of assets and liabilities and their carrying amounts in the IFRS financial statements (the so-called liabilities method). But if, in connection with a transaction that is not a corporate merger, a deferred tax arises from the first-time statement of an asset or a liability that at the time of the transaction has an effect on neither the balance sheet nor the tax profit or loss, there is no tax deferral either at the time of the first statement or thereafter. Deferred taxes are assessed on the basis of the tax rates (and tax regulations) that are either in force on the balance sheet date or have largely been approved and are expected to apply when the deferred tax demand or tax liability is due. Deferred tax assets arising from deductible temporary differences, tax credits and loss carryovers are capitalised insofar as a taxable result is likely to be available for it the future and there is a sufficient likelihood that use can be made of the economic benefits involved. Deferred tax assets in the form of tax reduction entitlements arising from the expected use of existing loss carryovers were only taken into consideration, as in the previous year, in view of the history of losses in the recent past insofar as they were already covered as of the balance sheet date by deferred tax liabilities arising from temporary differences even if the tax carryovers seem likelier to be used.

The book value of deferred tax entitlements is reviewed as on every balance sheet date and is reduced by the extent to which a sufficient amount in taxable income is no longer likely to be available against which the deferred tax entitlement can at least be offset in part. Unrecognised deferred tax entitlements are reviewed on every balance sheet date and stated at the amount to which it has become likely that a future taxable result will enable the deferred tax asset to be realised.

Deferred tax liabilities arising from temporary differences in connection with shareholdings in subsidiaries are stated unless the Group can determine the time when the temporary differences will be reversed and it is likely that in view of this influence the temporary differences will not be reversed in the foreseeable future.

Deferred tax receivables and payables are netted out against each other if a legal entitlement to netting out is enforceable and the deferred tax receivables and payables relate to income taxes raised by the same tax authority from the same tax entity or from different tax entities that intended to net out the differences.

Deferred tax benefits acquired as part of a merger that fail to fulfil the criteria for separate statement at the time of acquisition are stated in subsequent periods insofar as this arises from new information about facts and circumstances obtaining at the time of acquisition. The adjustment is undertaken either as a reduction of goodwill if it occurs during the valuation period and does not exceed the goodwill, or in the result.

Inventories are stated at the lesser of either the cost of acquisition or production or net sale value. The costs of production are the production-related full costs as established on the basis of normal employment. In detail, the costs of production include, along with directly attributable costs, an appropriate proportion of the production overheads. These include material and production overheads, production-related administrative costs and straight-line depreciation of production facilities. Borrowing costs are not capitalised as part of the costs of acquisition or production. Valuation is based on the FIFO assumed sequence of consumption. Inventory risks resulting from reduced usability are taken into account by means of appropriate write-downs, with lower values being stated as of the balance sheet date due to a decline in net selling prices. The net selling price is the estimated achievable selling price in the normal course of business less estimated costs up to and until completion and less sales costs. If the net selling price of inventories that were written down in previous periods has risen again, the impairment loss is reversed and stated as an inventory change.

Borrowing costs that related to qualified assets are capitalised. For the *aap* Group this means capitalised development costs. All other borrowing costs are stated as expenses in the period in which they were incurred.

Financial instruments are all contracts leading at one and the same time to a financial asset at one company and to a financial liability or an equity instrument at another company. Reporting as per IFRS 7 is at I (33).

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 translated at the exchange rate on the reporting date. Translation differences are stated 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 if this is less than their book value. Liabilities are included as 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 from disposal groups are stated under results of continuing operations.

Transaction costs directly attributable to an issue of new shares or options are stated under equity net after taxes as a deduction from the issue proceeds.

If the Group acquires **own shares** or **Treasury stock**, the value of the consideration paid, including directly attributable additional costs after taxes, is deducted from equity until the shares are either called in or reissued. Buying, selling, issuing or calling in own shares is stated with no effect on results. If these shares are reissued, the consideration received is therefore also stated under equity less directly attributable transaction costs and income taxes. The Group may not exercise the voting rights that go with own shares and is not entitled to dividend payments.

The **revaluation reserve** consists of unrealised 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 at market value 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 by means of an option price model. See H (23) and H (24) for details.

Public sector grants are only stated if there is a reasonable certainty that the conditions will be fulfilled and the grants will actually be received.

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.

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. The original estimate of costs is reviewed annually. If the discounting effect is significant, provisions are created with an interest rate before taxes that reflects the specific risks that the debt involves. In the case of discounting the increase in the amount of the provision over time is recorded as a financial expense.

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. If 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 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. The leasing item is stated at its market value or the lesser cash value of the leasing rate. Leasing payments are divided into financing costs and repayment portion of the residual debt so that there is a constant interest rate for the term of the leasing agreement. The financing costs are state in the financial result with effect on expenses. Other leasing transactions are shown in the balance sheet as operating leases. In these cases the leasing item is capitalised 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.

Group sales revenues consist of product sales, license fees and services. **Sales revenue** is realised when due delivery or performance has been rendered or the terms of the contract have been fulfilled. In the case of deliveries this is in principle the case after physical handover of the goods and the transfer of ownership risk to the purchaser. Furthermore, the economic benefit must be sufficiently probable and the costs incurred must be reliably ascertainable. Contracts count as having been fulfilled when all performance undertakings have

essentially been fulfilled and the customer has accepted the goods or services as being in accordance with the contract. In the case of **long-term contract development**, sales are realised by percentage of completion insofar as the conditions for applying the percentage of completion method as per IAS 18 or IAS 11 are fulfilled. If the result of a development order can be reliably assessed, order income and expenditure are stated in accordance with performance progress as of the reporting date either by the ratio of costs incurred to estimated total order costs (the cost-to-cost method) or by milestones as contractually agreed. If the result of a development order cannot be reliably assessed, order income is only stated to the amount of order costs incurred that are probably covered. Order costs are then stated as expense in the period in which they occur. If the full order costs are likely to exceed the full order income, the anticipated loss is recognised immediately as an expense. Customer payments that exceed the corresponding value of the stage of performance or are made ahead of performance are stated as a liability owed to the customer (development order with balance due to customer). Payments based on partial invoices that do not exceed the progress of performance are deducted from the trade receivables owed by the customer. The balance of order costs that exceeds payments received , plus partially realised profits, is stated separately as an order development receivable. **License fees** are earned and accrued the reporting period in accordance with the economic content of the relevant agreement unless they are immediately realisable sales proceeds because rights are licensed with no time limits and with no further obligations on the part of the licensor. Insofar as earnings are subject to further uncertain future conditions such as exceeding certain delivery targets or the purchaser holding rights of rescission the likelihood of which being exercised the *aap* Group is unable to assess, these earnings are only realised when the condition is fulfilled. Customer discounts and returns are taken into account in accordance with the reporting period and the underlying sales revenues. **Interest income** is earned pro rata taking into account the capital outstanding the interest rate in force.

E. Material Discretionary Decisions, Estimates and Assumptions

In applying accounting and valuation methods, **discretionary decisions** must be made. They apply, for example, to non-current assets for disposal. A decision must be reached on whether the assets can be disposed of in their present state and whether their disposal is very likely. In this case the assets and, if applicable, attendant debts must be stated and valued as available-for-sale assets or debts. Financial assets must be classified under the headings financial investments held to maturity, loans and receivables, financial assets held for sale and financial assets measured at fair value through profit or loss (I (32)). Liabilities arising from original financial instruments can be stated either at amortised cost or at fair value through profit or loss. In principle, *aap* values all financial liabilities at amortised cost.

For some items, preparing consolidated financial statements requires **estimates and assumptions** that influence the stated assets, debts and contingent liabilities and the income and expenses as shown and in their amount. These estimates and assumptions entail complex and subjective assessments based on circumstances that are by nature uncertain and may over time be subject to material changes outside the Group's sphere of influence. The actual amounts can therefore also differ substantially from these estimates. The estimates and assumptions made by the management in preparing the consolidated financial statements run a considerable risk of requiring a material adjustment to the book values of assets and liabilities and are outlined as follows:

First-time capitalisation of **development costs** is based on he management's estimate that technical and economic feasibility is a proven fact. In determining the amounts to capitalised and for the annual impairment test, assumptions must be made about the future cash flow to be expected from the project, the discount rates to be applied and the period when future benefits are to be expected from it. As of December 31, 2011 the book value of capitalised development costs was €20,286,000 (2010: €18,451,000). Due to the Group's focus on the Trauma and Bone Cement & Cementing Techniques core areas that has led to concentration on essential development projects, projects are classified as successfully realisable. Project progress made in the reporting year along with customer response to date has confirmed the estimates of future earnings. However,

uncertainties as to future market shares and profit margins remain – partly against the background of increasingly exacting approval requirements – and could lead to a need for adjustment over the next financial years. For further details see the risk report in the Management Report (Section D).

Goodwill and capitalised development costs are subjected to annual impairment tests. To determine possible impairment of goodwill, the value in use of the cash-generating unit (CGU) to which the goodwill has been allocated must be determined. To calculate the value in use, future cash flows of the CGU and suitable discount factors for cash value determination must be established. This is bound to involve estimates and assumptions. They mainly include market developments, including changes in legislative framework conditions, future medical developments, growth rates, selling prices, weighted average capital costs and tax rates. Cash flow forecasts taking past experience into account are based on management assessments of future developments. These premises and the underlying methodology can exercise considerable influence on the values and amounts of possible impairments. As of December 31, 2011 the book value of the Group's goodwill was €12,490,000 (2010: €12,490,000) and was allocated to the cash-generating unit Biomaterials.

The impairment of doubtful **receivables** is established on the basis of maturity structure and by means of estimates and assessments of individual receivables in terms of their customer-specific loan and default risk.

In stating **income taxes** in the balance sheet, uncertainties exist on the interpretation of complex fiscal regulations, amendments to tax law and the opinions held by the tax authorities. Furthermore, the fiscal regulations can also be subject to different interpretations by taxpayers and the tax authorities that require judicial clarification at the highest level. It is therefore possible that differences between the actual results and the assumptions made or future changes to these assumptions may require adjustments to stated tax income and tax expenses.

Deferred tax assets are stated if the realisation of future tax benefits appears to be sufficiently assured. In the process and inter alia, the planned results of operative business and the effects on results of the reversal of taxable temporary differences are taken into account. The actual tax result in future reporting periods and with it the actual realisability of deferred tax assets may, however, differ significantly from the assessments at the time when the deferred taxes were capitalised.

All such assumptions and estimates are based on circumstances and assessments as of the balance sheet date and on future business development anticipated for the *aap* Group, taking into account realistic expectations of the future development of its economic environment. If 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 states assets and debts is to be expected for the 2011 financial year.

F. 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. First-time application of the following mandatory standards for the 2011 financial year had no material influence on the presentation of the *aap* Group's assets, financial and earnings situation or on consolidated earnings per share. No adjustment of previous year's figures was deemed necessary for reasons of materiality.

IFRS Annual Improvement (2010)	Omnibus standard on amendments to various financial reporting standards
IAS 24 (2009)	Related Party Disclosures
IFRIC 19 (2009)	Extinguishing Financial Liabilities with Equity Instruments
Amendment to IFRS 1 (2010)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
Amendment to IAS 32 (2009)	Designation of Subscription Rights
Amendment to IFRIC 14 (2009)	Treatment of Advance Payments in Connection with Minimum Funding Requirements

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.

Amendments to IFRS 7	Disclosures – Transfer of Financial Assets

The amendments extend the disclosure requirements to include the transfer of financial assets with a view to improving transparency in respect of transfers of this kind in which the transferor retains risks arising from the financial asset. Additional disclosure are also required if the transfers are not evenly distributed during financial years. The amendments apply to financial years beginning on or after July 1, 2011.

IFRS 9 (2011)	Financial Instruments

This standard replaces the provisions of IAS 39 on the classification and valuation of financial instruments and includes minor amendments with regard to the valuation of financial liabilities. The application of IFRS 9 (2011) is mandatory for the first time for financial years beginning on or after January 1, 2015. *aap* assumes that first-time application of IFRS 9 (2011) will influence the presentation of financial assets and liabilities, but the possible effects can only be sensibly assessed after a detailed analysis.

IFRS 10 (2011)	Consolidated Financial Statements
IFRS 11 (2011)	Joint Arrangements
IFRS 12 (2011)	Disclosure of Interests in Other Entities

In May 2011 the IASB published standards designed to improve accounting and disclosure regulations on consolidation, off-balance-sheet activities and joint arrangements. They were IFRS 10 (2011), Consolidated Financial Statements, IFRS 11 (2011), Joint Arrangements, IFRS 12 (2011), Disclosure of Interests in Other Entities, and subsequent amendments to IAS 27 (2011), Separate Financial Statements, and IAS 28 (2011),

Accounting for Investments in Associates. The five new standards are mandatory for financial years beginning on or after January 1, 2013.

IFRS 10 (2011) replaces the regulations on consolidated financial statements in IAS 27, Consolidated and Separate Financial Statements, and SIC 12, Consolidation – Special Purpose Entities. The new standard defines on the basis of a comprehensive control concept which companies must be included in the consolidation and provides extensive guidelines on interpreting the concept of concept in cases of doubt. One company is said to control another if on the basis of its shareholding it participates in variable results and is able to influence business activities of the company in question that are of fundamental importance for its commercial success.

Changes in the current legal position may result in the event that a controlling company is able to determine the other's business activities without holding a majority of its voting rights.

IFRS 11 (2011) governs the accounting of joint arrangements based on the parties' rights and duties as defined in the agreement(s) between them. The joint arrangement may apply to a common business activity or to a joint corporate venture. IFRS 11 states that the equity method must be applied to the consolidation of joint ventures; quota consolidation is no longer permissible.

IFRS 12 (2011) regulates the disclosure requirements for all kinds of interests in other companies, including joint arrangements, associated companies, structured companies and off-balance sheet entities. The disclosure requirements are much more extensive than hitherto and are intended to enable the addressee of the financial statements to assess the kind of interest, the risks it involves and the effects on the company's assets, financial and earnings position.

aap assumes that first-time application of these standards will lead to additional disclosures. Fundamental influences on valuations are not anticipated because *aap* does not currently hold an interest in associates and has not made joint arrangements. The actual effects can only be assessed after a specific appraisal, however.

IFRS 13 (2011)	Fair Value Measurement

This standard defines the concept of fair value and standardises the disclosure requirements for fair value measurement. It applies to both financial and non-financial items. Application of IFRS 13 (2011) is mandatory for financial years beginning on or after January 1, 2013. As *aap* sees it, first-time application of IFRS 13 (2011) may influence valuations in the consolidated financial statements and is likely to lead to more detailed disclosures in the Notes.

IAS 1 (2011)	Presentation of Comprehensive Income Statement Items

This standard as now amended provides for additional disclosures under the heading Other comprehensive income. Items that in certain circumstances must be reassigned to the income statement and items that may no longer be stated with an effect on results must in future be stated separately. Income tax on these items must be reassigned accordingly. Application is mandatory for financial years beginning on or after July 1, 2012.

Amendment to IAS 12 (2010)	Deferred Taxes – Reclaiming Underlying Assets

In principle the valuation of deferred tax assets and liabilities is intended to establish the tax implications subject to whether the book value of an asset is realised by use or by disposal. The amendment is intended to solve demarcation problems by introducing a disprovable assumption that the realisation of book value,

especially for property held as a financial investment, as a rule occurs on disposal. The amendment applies for financial years beginning on or after January 1, 2012. *aap* has yet to undertake a detailed analysis but does not anticipate any material repercussions.

Amendment to IAS 19 (2011)	Employee Benefits

The revised IAS 19 (2011) changes the treatment of performance-oriented pension plans and benefits arising from the end of an employment relationship. Changes in performance-oriented obligations and the fair value of plan assets must now be stated as of when they occur. The "corridor" approach in the old IAS 19 has been scrapped. Furthermore, calculation of past service costs must be accelerated. All actuarial profits and losses must be booked in the statement of comprehensive income for the year in which they occur. Net pension liabilities or net pension assets are thus stated in the balance sheet with their full negative or surplus coverage.

The amended IAS 19 (2011) applies to financial years beginning on or after January 1, 2013. The amendments will have no effect on *aap*'s consolidated financial statements because *aap* does not at present have any pension obligations to employees.

Amendment to IAS 32 (2011)	Financial Instruments: Netting Out Financial Assets and Liabilities
Amendment to IFRS 7 (2011)	Disclosures on Netting Out Financial Assets and Liabilities

The amendments to IAS 32 (2011) and to IFRS 7 (2011) deal with netting out financial assets and financial liabilities and the disclosures required in the Notes in this connection. While the fundamental provisions with regard to netting out are retained, inconsistencies on an addition to the application guidelines are eliminated. Furthermore, the scope of the disclosures required in the Notes is extended significantly. Application of the amendments to IFRS 7 (2011) is mandatory for financial years beginning on or after January 1, 2013 and of the amendments to IAS 32 (2011) for financial years beginning on or after January 1, 2014.

The following standards and interpretations or the amendments to them will have no material effect on *aap*'s consolidated financial statements:

Amendment to IFRS 1 (2010)	Hyperinflation and Fixed Date of Transition
IFRIC 20 (2011)	Stripping Costs in the Production Phase of a Surface Mine

G. Notes on the Statement of Comprehensive Income

(1) Sales

	2011 €K	2010 €K
By category		

Sales from:		
• The sale of products	28,339	27,665
• The provision of services	25	128
• Order development	189	0
• Usage fees	652	647
Total	29,205	28,440

By region[1]		
Germany	7,931	8,927
Other Europe	13,286	12,697
Asia	3,810	3,993
North America	3,354	1,900
South America	592	590
Africa	232	333
Total	29,205	28,440

By product group		
Biomaterials	23,905	23,192
Traumatology & Orthopaedics	6,842	7,863
Reconciliation/Consolidation	-1,542	-2,615
Total	29,205	28,440

[1] By geographical location of the external customer's business operation

Sales under the heading Order development includes €112K from long-term order developed as defined in IAS 18 or IAS 11 and therefore realised in accordance with the percentage of completion method (cf. H (27)).

In financial year 2011, three of the company's principal customers accounted for €10.446 million (previous year: €7.631 million) in sales.

(2) Capitalised own work

The capitalised own work totalling €3.045 million (previous year: €3.328 million) consists mainly of assets capitalised in connection with development projects.

(3) Other Operating Income

	2011 €K	2010 €K
Grants	961	1.355
Income from the release of provisions and obligations	308	311
Out-of-period income	306	282
Private use of company cars	135	133
Insurance compensation	63	47
Release of special item for investment grants and allowances	43	89
Receipts from written-off receivables	27	187
Currency differences	24	37
Proceeds of reversal of asset impairment	0	95

Other	46	110
Total	1,913	2,646

(4) Material Expenses

	2011 €K	2010 €K
Cost of raw materials, consumables, supplies and purchased goods	5,996	7,526
Cost of purchased services	2,082	2,009
Total	8,078	9,535

(5) Personnel Expenses

	2011 €K	2010 €K
Wages and salaries	9,990	10,142
Social security contributions	966	973
Contribution-oriented pension provisions	780	847
Stock options granted to employees	210	173
Total	11,946	12,135

The *aap* Group makes contribution-oriented pension provisions to government pension insurance schemes on the basis of statutory obligations. Over and above these payments the Group has no further commitments.

Average annual employee numbers	2011	2010
Production	138	137
Research & Development	31	34
Quality Management	30	29
Sales	28	27
Administration	25	24
Total	252	251

Salary earners	138	139
Wage earners	114	112
Total	252	251

(6) Depreciation

Scheduled depreciation of fixed assets amounted to €1.054 million (previous year: €1.042 million) and of intangible assets to €1.901 million (previous year: €1.687 million). Extraordinary project write-downs in 2011 totalled €6K (previous year: nil).

(7) Other Operating Expenses

	2011 €K	2010 €K
Consulting costs	1,902	1,724
Premises costs	1,539	1,545
Advertising and travel expenses	1,124	1,122
Costs of research, analysis, sampling and sterilisation	1,105	1,451
Out-of-period expenses	831	333
Outgoing packaging, freight and merchandise transfer costs	514	517
Repairs and maintenance	513	459
Insurance, contributions, duties	468	456
Patent and other fees	450	317
Vehicle costs	446	529
Office costs, phone, fax, postage	385	398
Leasing (excluding vehicle leasing)	200	201
Repayment of grants	148	8
Currency differences	135	36
Losses and impairment of receivables	106	348
Further training costs	87	77
Supervisory Board remuneration	85	26
Cost of personnel recruitment	73	38
Incidental monetary transaction costs	58	20
Sales commission	51	111
Other costs	546	372
Total	10,766	10,088

The out-of-period expenses consist of credit notes for goods returned and for returns from sales in previous financial years as a result of the current unstable political conditions in the Middle East and North Africa.

(8) Financial Result

	2011 €K	2010 €K
Other interest and similar income	58	34
Other interest and similar expenditure		
- Interest on long-term loans	-99	-165
- Interest on short-term loans	-286	-228
Other interest and similar expenses for other current liabilities	-220	-174
Total	-547	-533

Exchange rate differences offset with effect on results in the accounting period were as follows:

	2011 €K	2010 €K
Income from exchange rate differences	26	37
Cost of exchange rate differences	-137	-36
Total	-111	1

(9) Taxes on Income

Income tax expenses stated break down as follows:

Income tax expenses by origin	2011	2010
	€K	€K
Taxes on income paid or owed in		
- Germany	5	5
- Other countries	216	73
	221	78
Tax accruals and deferrals		
- from acquisitions	-133	-133
- from time differences	771	801
- from loss carryovers	-639	-611
- from equity transactions	3	0
	2	57
Total	223	135

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%. Trade tax was calculated on the basis of the previous year's IFRS result and trade tax additions and subtractions.

Tax deferrals and accruals result from the following balance sheet items:

Deferred tax assets and liabilities	31.12.2011		31.12.2010	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	€K	€K	€K	€K
Intangible assets	0	544	0	629
Development costs	0	5,520	0	4,936
Fixed assets	0	117	0	94
Inventories	0	73	-41	30
Receivables from development orders	0	38	0	0
Provisions	-15	0	-8	0
Loss carryovers	- 4,101	0	-3,462	0
	- 4,116	6,292	-3,511	5,689
Adjustments	4,116	-4,116	3,470	-3,470
Total	0	2,176	-41	2,219

Deferred tax liabilities totalling €1.329 million (previous year: €1.461 million) were due to the first-time consolidation of the Dutch sub-group. Scheduled depreciation of undisclosed reserves uncovered in the course of the purchase price allocation led to deferred tax assets of €133K (previous year: €133K). The tax ratio in the reporting period was therefore about 37% (previous year: 73%).

The income tax total after balancing tax accruals and deferrals breaks down as follows:

	31.12.2011		31.12.2010	
	Deferred tax assets €K	Deferred tax liabilities €K	Deferred tax assets €K	Deferred tax liabilities €K
From the use of existing tax carryovers	-4,101		-3,462	0
From consolidation		25	-41	0
From first-time consolidation of Dutch sub-group	0	1,329	0	1,461
From temporary differences	- 15	4,938	-8	4,228
	4,116	6,292	-3,511	5,689
Adjustments	4,116	-4,116	3,470	-3,470
Total	0	2,176	-41	2,219

As of the end of the reporting year the sum total of corporation tax or trade tax loss carryovers for which no deferred tax entitlements were capitalised was about €8.1 million and €10.9 million respectively (previous year: €8.0 million and €10.8 million).

These tax carryovers can be netted out indefinitely against future taxable results of the companies in which the losses were incurred. They exist, however, in Group companies with a history of losses. Loss carryovers do not expire and cannot be netted out against taxable income of other Group companies unless they exist within the tax group. In the reporting year the tax group consisted of *aap* Implantate AG and *aap* Biomaterials GmbH.

These Group companies do not have sufficient taxable temporary differences or scope for shaping taxes to lead at present to the statement of tax deferrals in full.

Deferred tax assets in connection with consolidation were calculated on the basis of an average tax rate for the Group of 30.2% (previous year: 30.2%).

Reconciliation of income tax expenses to IFRS with theoretical tax expenses is as follows.

	2011 €K	2010 €K
Earnings before taxes	609	186
Theoretical tax expense/(income) 30.2% (previous year: 30.2%)	-184	-56
Tax effects on		
- Non-usable loss carryovers or utilisation of off-balance sheet loss carryovers and depreciation of loss carryovers	-65	-45
- Tax rate differences within the Group	128	92
- Permanent differences	-77	-61
- Non-deductible expenses and applicable trade tax	-46	-87
- Tax-free income	21	22
Total adjustments	-39	-79
Income tax expenses according to IFRS	-223	-135
Effective tax rate in %	37%	73%

(10) Earnings per Share as per IAS 33

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

	2011	2010
Earnings after taxes (in €K)	392	47
Number of shares (in '000)	29,639	27,756
Earnings per share (in €)	0.013	0.00

Diluted earnings per share take into account stock options granted between 2006 and 2011.

	2011	2010
Earnings after taxes (in €K)	392	47
Number of diluted shares (in '000)	29,639	27,756
Earnings per share (in €)	0.013	0.00

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.

H. Notes on the Consolidated Balance Sheet

(11) Intangible Assets

The development of long-term fixed assets is shown in the attached consolidated schedule of assets. Of the additions in the reporting year, capitalised development costs accounted for €3.045 million (previous year: €3.320 million).

€16.914 million of the Group's long-term intangible assets is in Germany (previous year: €15.094 million) and €21.333 million (previous year: €21.906 million) is in the Netherlands.

(12) Goodwill

The *aap* Group's goodwill amounted to €12.5 million (2010: €12.5 million) as of December 31, 2011, having developed as follows:

Costs of Acquisition

	2011 €K	2010 €K
Status at the beginning of the year	16,508	16,508
Status at the end of the year	16,508	16,508

Accumulated Impairment Losses

	2011 €K	2010 €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

	2011 €K	2010 €K
Status at the beginning of the year	12,490	12,490
Status at the end of the year	12,490	12,490

Allocation of Goodwill to Cash-Generating Units

The cash-generating units identified below were determined on the basis of the smallest identifiable group of assets identifiable by the *aap* Group in accordance with IAS 36.6 that generates inflows of funds from ongoing use and that is largely independent of inflows of funds from other assets or groups of assets. The goodwill was allocated to the Biomaterials cash-generating unit for the purpose of an impairment test.

	31.12.2011 €K	31.12.2010 €K
Biomaterials	12,490	12,490

The goodwill results from the acquisition of the former *aap* bio implants Netherlands B.V., merged with its subsidiary European Medical Contract Manufacturing B.V. (EMCM) as of 01.01.2011, of Osartis GmbH & Co. KG and of the majority shareholding in the former ADC Advanced Dental Care GmbH & Co. KG (since 01.07.2008: ADC Advanced Dental Care GmbH).

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.

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 11.62% (previous year: 11.01%). The discount rate after taxes was 8.92% (previous year: 8.5%). In determining the perpetuity a growth discount of 1.5% (previous year: 1.5%) of weighted average capital costs (WACC) and a security discount of 10% (previous year: 10%) 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 assumptions 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.

(13) Development Costs

Development costs totalling €3.045 million (previous year: €3.320 million) were capitalised in the reporting period. They included €580K (previous year: €477K) in directly attributable borrowing costs based on the average group financing cost rate of 6.32% (previous year: 5.57%). Development costs related for the most part to the following projects:

- Magnesium alloys as resorbable implant materials
- Anti-adhesive for visceral surgery
- Synthetic osteochondral replacement material for treating intra-articular

arthrosis
- Mineralised collagen for treating bone defects
- Bone cement containing silver to fix endoprostheses in artificial joint replacements
- High-viscose bone cement to fix endoprostheses in artificial joint replacements
- Angle-stable magnesium alloy osteosynthesis plates for treating fractures
- Silver coating of osteosynthesis products for treating fractures
- Anatomic implant system for an artificial knee joint
- Trauma prosthesis for treating acute fractures of the humeral head
- Patent-protected locking procedure for plate-screw connections to treat fractures
- Inversive shoulder endoprosthesis as an artificial joint replacement for defect arthropathy
- Encapsulation process for delayed release of active substance

In addition, research and other development costs totalling €567K (previous year: €772K) were capitalised as expenses. Write-downs in the reporting period totalled €1.121 million (previous year: €996K).

Irrespective of specific indications, the *aap* Group carries out annual impairments tests of development projects by determining their useful value. The useful value of a development project is the cash value of the cash flows 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 11.3% and 14.1% p.a. (previous year: between 10.9% and 13.5%) before and between 8.9% and 10.7% p.a. (previous year: between 8.5% and 10.0%) after taxes. There was an extraordinary depreciation requirement of €6K (previous year: nil).

(14) Other Intangible Assets

The other intangible assets are customer relationships worth €2.644 million (previous year: €2.888 million) identified in the course of purchase price allocation and industrial property rights and similar rights to the value of €2.658 million (previous year: €3.001 million) along with €170K (previous year: €170K) in advance payments.

Write-downs amounting to €696K (previous year: €691K) were made in the reporting period.

(15) Tangible Assets

For the development of tangible assets please see the attached consolidated schedule of assets.

The book value of leased assets as of December 31, 2011 was €389K (previous year: €337K). The Group's €226K (previous year: €268K) in commitments arising from these finance leases is covered by the lessors' rights to the leasing items.

The book value of assets assigned as collateral for liabilities is €1.312 million (previous year: €1,306 million).

€3.532 million (previous year: €3.470 million) of the tangible assets are in Germany and €1.539 million (previous year: €1.730 million) in the Netherlands.

(16) Financial Assets

Participating interests	2011		2010	
	€K	Shareholding	€K	Shareholding
1. AEQUOS Endoprothetik GmbH, Munich	356	4.57%	356	4.57%
2. Cybernetic Vision AG Health Monitoring Technologies, Berlin	0	5.69%	0	5.69%
3. Rofil Medical International N.V., Breda, Netherlands	0	10%	0	10 %
Total	356		356	

The **portfolio value** corresponds to the fair value of the participating interests. The insolvency proceedings in respect of the assets of Rofil Medical International N.V., opened in 2007, have to be completed. Cybernetic Vision AG Health Monitoring Technologies (insolvency proceedings opened in 2000) has been deleted from the commercial register.

(17) Inventories

	2011	2010
	€K	€K
Raw materials, consumables and supplies	3,210	2,832
Work in progress	2,309	1,435
Finished products and merchandise	8,378	8,377
Advance payments	94	44
Total	13,991	12,688

The inventories include goods returned to the value of €515K (previous year: €50K). The returns can, for the most part, be resold to customers.

Value adjustments of inventories shown in the cost of materials (G (4)) developed as follows:

	2011	2010
	€K	€K
Accumulated value adjustments as of January 1	**2,847**	**2,402**
thereof		
- Marketability discounts	2,229	2,227
- Stated net realisable value	618	175
Expenditure in the reporting period – Marketability discounts	706	2
Expenditure in the reporting period – Net realisable value	80	443
Reversal of asset impairment/Utilisation	- 414	0
Accumulated value adjustments as of December 31	**3,219**	**2,847**
thereof		
- Marketability discounts	2,935	2,229
- Stated net realisable value	284	618

The book value of inventories stated at their net residual value was €669K (previous year: €890K). Inventories amounting to €471K (previous year: €687K) were assigned as collateral for liabilities. Reversals of asset impairment in the reporting year totalled €414K (previous year: nil) as the circumstances that led to their impairment in 2010 had changed.

(18) Trade Receivables

Trade receivables less write-downs totalled €5.508 million (previous year: €6.204 million) as of the balance sheet date. €5.467 million (previous year: €5.208 million) thereof was due within one year and €41K (previous year: €996K) within more than a year. The sum total is shown under current assets. Individual value adjustments are made if customers are likely to have payment difficulties. Furthermore, lump-sum value adjustments are made in respect of general interest, processing and credit risks.

Value adjustments for trade receivables stated under other operating expenses (G (7)) developed as follows:

	2011 €K	2010 €K
Accumulated value adjustments as of January 1	**412**	**356**
Expense in the reporting period	62	243
Recourse to value adjustment	-107	0
Payments received and impairment reversal of receivables originally written off	-27	-187
Accumulated value adjustments as of December 31	**340**	**412**

As of December 31, 2011 the maturity structure of Trade Receivables was as follows:

	Book value	Neither overdue nor value-adjusted	Of which not value adjusted as of the balance sheet date and overdue in subsequent periods				
	31.12.2011 €K	€K	Up to 3 months €K	Up to 6 months €K	Up to 9 months €K	Up to 12 months €K	More than 1 year €K
Trade receivables	5,508	3,647	1,100	233	219	14	295

	Book value	Neither overdue nor value-adjusted	Of which not value adjusted as of the balance sheet date and overdue in subsequent periods				
	31.12.2010 €K	€K	Up to 3 months €K	Up to 6 months €K	Up to 9 months €K	Up to 12 months €K	More than 1 year €K
Trade receivables	6,204	4,158	1,237	217	136	209	246

Trade receivables do not bear interest and as a rule have a term of 30 to 45 days for domestic customers. Trade receivables from customers abroad usually have a term of 45 to 120 days.

For receivables that were not value adjusted but were overdue as of the balance sheet date there are no indications that the debtors will not fulfil their payment obligations.

Trade receivables totalling €3.878 million (previous year: €4.059 million) were assigned as collateral for liabilities.

(19) Other Financial Assets

	31.12.2011	31.12.2010
	€K	€K
Public sector grants	116	421
Warranty receivables	17	27
Loan receivables	0	119
Other	198	107
	331	674

The claim for breach of warranty is against the contributing partners of holdings in CORIMED Kundenorientierte Medizinprodukte GmbH, CORIPHARM Medizinprodukte-Verwaltungs-GmbH and CORIPHARM Medizinprodukte GmbH & Co. KG.

The value adjustments to Other Financial Assets stated under Other Operating Expenses (G (7)) developed as follows:

	2011	2010
	€K	€K
Accumulated value adjustments as of January 1	**2**	**399**
Expense in the reporting period	10	2
Recourse to value adjustment	0	-399
Accumulated value adjustments as of December 31	**12**	**2**

As of December 31, 2011 the maturity structure of Other Financial Assets was as follows:

	Book value	Neither overdue nor value-adjusted	Of which not value adjusted as of the balance sheet date and overdue in subsequent periods				
	31.12.2011		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	€K
Other financial assets	331	302	0	0	0	0	29

	Book value	Neither overdue nor value-adjusted	Of which not value adjusted as of the balance sheet date and overdue in subsequent periods				
	31.12.2010		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	€K
Other financial assets	674	637	0	0	0	0	37

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

(20) Other Assets

	31.12.2011	31.12.2010
	€K	€K
Tax refund entitlements	287	339
Accruals	207	204
	494	543

The tax refund entitlements are mainly sales tax (VAT) credits.

The other assets are neither overdue nor value adjusted.

(21) Income Tax Receivables

Income tax receivables as of December 31, 2011 totalled €0K (previous year: €17K).

(22) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist solely of cash in hand and with banks totalling €2.152 million (previous year: €909K).

(23) Equity

The company's subscribed capital as of December 31, 2011 amounted to €30,670,056 (previous year: €27,881,870) and was divided into 30,670,056 (previous year: 27,881,870) fully paid-up bearer shares each with a nominal value of €1 (previous year: €1).

As resolved on April 28, 2011, the company's capital stock totalling €27,881,870 was increased by €2,788,186 to €30,670,056 by the issue of 2,788,186 individual bearer shares, each with a nominal value of €1.00 of the subscribed capital. The capital increase took the form of a private placement in cash, ruling out subscription rights, from Approved Capital 2009/I. The new shares are entitled to a share in the profits from January 1, 2010. The issue price was €1.09. The commercial register entry was made on May 16, 2011. The €250,936.74 of the issue price proceeds that exceeded the €1.00 face value was placed in the capital reserve.

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

Retained earnings contain the statutory reserve totalling €41,703.95 (previous year: €41,703.95) and together with the capital reserve exceeds one tenth of the capital stock.

The other reserve (revaluation reserve) contains unrealised profits and losses from changes in the market value of available-for-sale financial assets stated without effect on results.

Third-party holdings in Group companies are shown under the heading non-controlling shares. The changes in non-controlling shares in the reporting periods January 1 to December 31, 2010 and January 1 to December 31, 2011 result from developments in Group equity.

Conditional Capital

As of December 31, 2011, *aap* Implantate AG had at its disposal conditional capital up to a nominal €2,788,000 or up to 2,788,000 shares to fulfil stock options exercised. In detail:

The General Meeting held on July 16, 2010 waived by €570,500 the conditional increase in capital stock by up to 1,200,000 shares approved by the General Meeting held on June 30, 2006. The company's capital stock was thereby conditionally increased by up to €629,500 by the issue of up to 629,500 new bearer shares. The new shares are entitled to a share in profits from the beginning of the financial year in which they are issued (Conditional Capital 2006/I). The Conditional Capital 2006/I serves the purpose of fulfilling the exercise of option rights granted by December 31, 2008 on the basis of the authorisation approved by the General Meeting held on June 30, 2006. The authorisation of the Management Board and Supervisory Board approved by the General Meeting held on September 29, 2008 to issue stock options was waived insofar as it had yet to be exercised by issuing stock options, in other words in respect of 512,500 stock options. The company's capital stock was therefore increased conditionally (Conditional Capital 2008/I) by up to €672,500 by the issue of up to 672,500 new bearer shares. The Conditional Capital 2008/I serves the purpose of fulfilling the exercise of option rights granted by September 28, 2013 on the basis of the authorisation approved by the General Meeting held on September 29, 2008.

The General Meeting held on July 16, 2010 approved a conditional increase in the capital stock by up to €1,486,000 by the issue of up to 1,486,000 new bearer shares in the company. The new shares are entitled to a share in profits from the beginning of the financial year in which they are issued (Conditional Capital 2010/I). The Conditional Capital 2010/I serves the purpose of fulfilling the exercise of subscription rights granted by December 19, 2011 on the basis of the authorisation approved by the General Meeting held on July 16, 2010.

The General Meeting held on June 30, 2006 approved a €6,000,000 conditional increase in the company's capital stock by the issue of up to 6,000,000 bearer shares (Conditional Capital 2006/II). The conditional capital increase served the sole purpose of granting shares to the holders of option or convertible warrants issued by the company by June 29, 2011. As none were issued, the conditional capital lapsed.

Authorisations

2006 Stock Option Program

The General Meeting held on June 320, 2006 authorised the Management Board or, if Management Board members were among the beneficiaries, the Supervisory Board to launch by December 31, 2008 stock option Programs for *aap* Management Board members and members of the management of affiliated companies as defined in Section 15 ff. of the German Stock Corporation Act (AktG) and to grant options rights to up to 1,200,000 shares in the company with a residual term of up to four years from the date of issue. In any one calendar year, stock option Programs are only to establish option rights that entitle the holders to a maximum of 600,000 shares. Existing shareholders are not entitled to subscribe to the new shares. Fulfilment of option rights exercised may be by making use of either Conditional Capital 2006/I or by future share buyback authorisations at the company's discretion.

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

- 65% to members of the *aap* Management Board and of the managements of affiliated companies,
- 35% to employees of the company and of affiliated 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 *aap*'s quarterly or annual financial statements.

The exercise price to be paid per share on exercising the option is based on the average closing auction 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 for at least the lowest issue price as per Section 9 (1) AktG, or no less than each share's €1 share in the company's capital stock.

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

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

2008 Stock Option Program

The General Meeting held on September 29, 2008 authorised 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 residual term 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 entitled person. Fulfilment of option rights exercised may, at the company's discretion, be either by making use of the Conditional Capital 2008/I or by allocating Treasury stock. The granting of options to buy shares in the company and the issue of these shares are subject to the following provisions:

(1) Entitled persons

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

(i) Members of the company's Management Board,

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

(iii) Employees of the company and of affiliated 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 date of issue they are not at the same t5ime entitled in accordance with (i) above, and selected executives of affiliated companies,

Up to 200,000 stock options:	to employees of the company and of affiliated 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, to the exercise prices paid and to the number of stock options still held by Management Board members at the year's end.

(2) Right to Purchase Shares

Each stock option grants the holder the right to purchase one bearer share certificate in return for payment of the exercise price as defined at (4) below. New shares are entitled to a share in profits from the beginning of the financial years for which, at the time the option right was exercised, a 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 entitled persons 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 entitled person 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 auction prices of the *aap* Implantate AG share in XETRA trading (or a functionally comparable successor 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 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 shares, 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 entitled persons 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 a capital reduction, a share split or share consolidation, and premiums and/or extraordinary distributions in cash or kind in keeping with practice on German and international futures markets without prejudice to Section 9 (1) AktG.

(6) Performance Targets

Purchase rights to stock options may only be exercised if the average closing auction price of the *aap* Implantate AG share in XETRA trading (or a functionally comparable successor 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 entitled persons 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 Meeting until the third bank working day in Frankfurt am Main after the 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 entitled persons 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 entitled persons as instructed by the company. The right to dispose of 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 entitled person dies or retires or ends his or her employment with the company or affiliated company in any other way that does not involve termination of contract or the affiliated company leaving the *aap* Group.

(10) Expiry

(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 entitled person has applied to foreclose on his or her stock options, if insolvency proceedings are opened on the entitled person's assets, if insolvency proceedings are not opened due to insufficient assets or if the a entitled person is in breach of material obligations with regard to the law, the company's articles of association or his or her contract of employment with the company or an affiliated company or to the option rights agreement.

(c) Stock options that are not exercised also expire as soon as the entitled person'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, selected executive or employee of the company or as a managing director, selected executive or employee of an affiliated company. In the case of termination or cancellation being served, the time of receipt of the notice or the effective conclusion of the cancellation 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 affiliated company in such capacity also expire when the Management Board member or member of the management of an affiliated company retires or is dismissed.

(d) If the end of employment by the company or an affiliated company coincides with taking up a new appointment with the company or with an affiliated company, the stock options granted to an entitled person will 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 affiliated company.

(e) Stock options granted to an entitled person likewise do not expire if his or her employment ends by reaching retirement age or by invalidity or death. In cases such as these the entitled person or the heirs of the deceased entitled person is entitled to exercise the option rights on expiry of the waiting period as defined at (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 entitled person may also be granted a cash settlement. The Management Board decides on the exercise of this option, with the Supervisory Board taking its place if members of the Management Board are involved. The cash settlement corresponds to the difference between the exercise price and the average closing auction price of the *aap* Implantate AG share in XETRA trading (or a functionally comparable successor system) at the Frankfurt Stock Exchange 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 authorised 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 entitled persons and the exercise of option rights and other procedural arrangements.

2010 Stock Option Program

The Management Board and, if members of the company's Management Board are among the beneficiaries, the company's Supervisory Board are authorised to launch by December 19, 2011 for people who belong to a category of person specified at (1) below a stock option Program ("2010 Stock Option Program") and to issue up to 1,486,000 stock options, each with a right to subscribe ("subscription right") to one share in the company, with a residual term of up to eight years from the day after the issue date as defined at (6) 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 entitled person. Fulfilment of subscription rights that are exercised may, at the company's discretion, be either by making use of the conditional capital that is up for approval, by allocating Treasury stock or by means of a cash settlement. The granting of options to buy shares in the company and the issue of these shares is subject to the following provisions:

(1) Entitled Persons

As part of the 2010 Stock Option Program subscription rights are to be granted to employees and Management Board members of the company and to employees and members of the management of affiliated companies.

(2) Purchase of Stock Options

The granting of stock options will be by the conclusion of an option agreement between the company and the individual entitled person.

Each subscription right entitles the holder to purchase one bearer share in the company in return for payment of the exercise price. New shares are entitled to a share in profits from the beginning of the financial year in which they originate. The option terms and conditions may provide for the company to offer the entitled person in fulfilment of the subscription right Treasury stock or a cash settlement instead of new shares from conditional capital. Details are to be laid down by the Management Board or, if the Management Board is affected, by the Supervisory Board.

(3) Purchase Periods

Stock options are to be issued in two annual tranches subject to the proviso that no single tranche may account for more than 60% of the total volume. An option agreement must be signed during a purchase period in 2010 and 2011. The purchase periods are as follows:

- The fourth and the nine following bank working days after the company's General Meeting ("purchase period 1"),
- The fourth and the nine following banking working days after publication of the company's quarterly report on the third quarter of a financial year ("purchase period 2").

Granting of subscription rights on the basis of this resolution will be permitted for the last time in purchase period 2 of 2011.

Stock options issued during a purchase period make up a tranche, so that over a period of two years two annual tranches may be issued.

If stock options issued expire before the end of the last purchase period, they can be reoffered to other members of the group in question as defined at (5) below.

(4) Exercise Price

Stock options are issued to entitled persons free of charge. Each stock option issued entitles the holder to purchase one share in the company at the exercise price. The exercise price for stock options issued a tranche is the average (arithmetic mean) closing price of the *aap* share in electronic trading (XETRA or a successor system) at the Frankfurt Stock Exchange on the five trading days following the first day of the exercise period. A trading day here means a day on which Frankfurt Stock Exchange quotes prices for the company's share in electronic trading.

The pecuniary advantage that the entitled person gains by exercising the subscription right (the difference between the final auction price of the *aap* share in XETRA trading of a comparable successor system on the subscription right is exercised and the exercise price) must not exceed four times the exercise price (the "ceiling") specified on issue. If the ceiling is exceeded the exercise price is adjusted and corresponds to the difference between the final auction price of the *aap* share in XETRA trading (or a comparable successor system) at the Frankfurt Stock Exchange on the day the subscription right is exercised and four times the exercise price. The Management Board or, if members of the Management Board are affected, the Supervisory Board may in individual cases decide to reduce the ceiling appropriately.

If during the term of the stock options the granting of a subscription right to shareholders leads to the company's capital stock is increased by the issue of new shares or own shares or bonds with conversion or option rights to shares in the company, the option terms and conditions may provide for an adjustment of the exercise price in a ratio that corresponds to the average price for shareholders' subscription rights on all trading days at the Frankfurt Stock Exchange in relation to the closing auction price for shares in the company in XETRA trading (or a comparable successor system) at the Frankfurt Stock Exchange on the last trading day before the deduction of subscription rights. The adjustment will

not apply if no trading in subscription rights takes place or the holders of stock options are offered a subscription right that corresponds to the one offered to shareholders.

The option terms and conditions may also provide for an adjustment in the case of capital measures (a share consolidation or split, capital increase from company funds, capital reduction) during the term of the subscription rights.

The minimum exercise price is any case the lowest issue price as defined by Section 9 (1) AktG.

(5) Allocation

Of the total possible subscription rights to up to 1,486,000 shares, subscription rights may be granted

- for up to 40% of the shares to the group of Management Board members ("Group 1") and
- for up to 60% of the shares to the group of employees in the company and members of the management and employees of affiliated companies ("Group 2").

Precise details of the group of entitled persons and the number of stock options to be offered to them are specified by the Management Board or, if they are to be offered to members of the Management Board, by the Supervisory Board. A double allocation based on member of both groups is ruled out. Existing shareholders are not entitled to a subscription right.

(6) Waiting Period, Exercise Periods, Final Exercise

Subscription rights arising from stock options may first be exercised after the end of the waiting period and then until the end of the option period. The waiting period is four years and the option period eight years.

Subscription rights may only be exercised during four weeks (the exercise periods) beginning on the second trading day at the Frankfurt Stock Exchange

- after the company's Annual General Meeting,
- after the day on which the management makes the annual report, the half-yearly financial report or the interim report for the first or third quarter of the financial year available to the public.

The waiting period and the option period begin on the day after the issue of the stock options. That being so, subscription rights granted during the purchase period 1 of 2010 can be exercised for the last time in 2018. Subscription rights granted in subsequent purchase period can be exercised for the last time on the same basis, so that subscription rights grants in the final purchase period 2 of 2011 can be exercised for the last time in 2019. Subscription rights that are not exercised lapse.

(7) Performance Target

Subscription rights arising from stock options may only be exercised if the final auction price for shares in the company in XETRA trading (or a comparable successor system) at the Frankfurt Stock Exchange is at least 10% higher than the exercise price on the last trading day before the exercise date.

(8) Further Exercise Conditions

The option agreement must state that only people in an unterminated employment or service relationship with the company or with an affiliated company may exercise subscription rights. In deviation from this, the subscription right is only to be retained in the immediate instance and for the following exercise period if the employment relationship was terminated due to permanent ill health, to incapacity to work or to reaching retirement age. In further deviation, the subscription right is also to be retained if the Management Board or, if members of the Management Board are affected, the Supervisory Board decides in an individual instance that the exercise entitlement shall continue to exist. Transferability of subscription rights must be ruled out. In the event of the holder's death,

subscription rights must be inheritable. The option agreement must also make provisions for adjusting the exercise conditions in the event of capital measures by the company and for the beneficiaries to be responsible for all taxes and duties.

The Management Board is authorised to specify the further details of the issue of shares from the conditional capital increase and the further conditions of the 2010 stock option plan. The Management Board is authorised, subject to the Supervisory Board's consent, to determine the further details of the implementation of the capital increase. Insofar as the stock option plan and implementation of the capital increase affect the Management Board, these authorisations are entrusted to the Supervisory Board.

Option and/or Stock Warrants

The General Meeting held on June 30, 2006 authorised 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 residual term 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. As none were issued by June 29, 2011, the Management Board's authorisation lapsed.

Treasury Stock

The General Meeting held on August 7, 2009 authorised the company to buy Treasury stock up to a nominal €1.0 million of its capital stock. This authorisation, which was limited until February 4, 2011, was waived until the new authorisation by the General Meeting to be held on July 16, 2011 comes into force. The authorisation to use own shares acquired on the basis of the August 7, 2009 resolution remains in force. 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 authorisation may not be used for the purpose of trading in the company's shares.

The authorisation 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 authorisation runs until July 15, 2015.

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

Approved Capital

As of December 31, 2011, *aap* Implantate AG's approved capital totalled a nominal €11,152,749 that can be issued in part amounts and with varying terms in up to 11,152,749 individual bearer shares. In detail:

The General Meeting held on August 27, 2007 authorised the Management Board to increase the company's capital stock, subject to approval by the Supervisory Board, by August 26, 2012 on one 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 thenew shares is not substantially lower than the market price (Section 186 (3) 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),

g) To repay loans or other liabilities.

After partial utilisation the Approved Capital 2007 now stands at €1,721,578.

The General Meeting held on August 7, 2009 authorised 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 thenew shares is not substantially lower than the market price (Section 186 (3) 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 utilisation the Approved Capital 2009/I now stands at €5,238,385.

The General Meeting held on July 16, 2010 authorised the Management Board to increase the company's capital stock, subject to approval by the Supervisory Board, by July 15, 2015 on one more occasions by up to €4,192,786 in cash or kind (Approved Capital 2010/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 thenew shares is not substantially lower than the market price (Section 186 (3) 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.

(24) Share Price-Based Remuneration

In financial year 2006 a share price-based remuneration system with equity capital adjustment was introduced throughout the Group for employees of *aap* Implantate AG and affiliated companies. Further stock option Programs were launched In 2008 and 2010.

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:

	Stock Option Program		
	2006	2008	2010
Stock options	Each option gives the entitled person the right to purchase an *aap* bearer share with a notional face value of €1.00.		
Entitled persons	Management Board members, selected executives of the company and its employees along with members of the management and employees of affiliated companies as defined in Section 15 ff. AktG.		
Waiting period from the decision to allocate options to the entitled person	2 years	25% two years after issue and a further 25% three, four and five years after the issue date	4 years
Term	Up to four years from the issue date	Up to six years from the issue date	Up to eight years from the issue date
Exercise periods	Possible at any time after end of waiting period but not during the following: <u>2006 and 2008</u> - From the last day on which shareholders can register to attend the company's General Meeting until the three bank working day in Frankfurt am Main after the General Meeting; - From the day of publication in an official journal of the Frankfurt Stock Exchange of a subscription offer for new shares or bonds with conversion and/or option warrants for *aap* shares until the day on which the subscription period ends; - Within four weeks prior to publication of the relevant quarterly or annual report <u>2010</u> Within four weeks from the second trading day on the Frankfurt Stock Exchange		

	- After the company's Annual General Meeting - After the day on which the management of the Stock Exchange makes the company's annual financial statements, the half-yearly financial statements or the interim reports for the first or third quarter of the financial year available to the general public.		
Exercise price	The average value of the final auction price of the *aap* share in XETRA trading (or a functionally comparable successor system) at the Frankfurt Stock Exchange during the last		
	10 trading days	20 trading days	5 trading days
	and at least at the lowest issue price according to Section 9 (1) AktG, or not less than each share's €1 pro rata share of the capital stock.		
Performance target	The average value of the final auction price (2006 and 2008) or the final auction price (2010) of the *aap* share in XETRA trading (or a functionally comparable successor system) at the Frankfurt Stock Exchange during the last		
	10 trading days	20 trading days	Trading day
	before the day on which the subscription right arising from the stock options exceeds the exercise price by at least		
	10%	20%	10%
	since the issue date.		

The following share-based remuneration agreements existed during the current and earlier reporting periods.

Option Program	Date option tranche was confirmed	Number of options granted	Expiry date	Exercise price	Fair value at time of issue
2006	18.04.2007	152,500	17.04.2011	€2.37	€0.99
2006	30.11.2007	477,500	29.11.2011	€2.41	€0.69
2006	17.04.2008	131,500	16.04.2012	€2.27	€0.87
2006	10.09.2008	96,000	09.09.2012	€2.23	€0.74
2008	01.12.2008	200,000	30.11.2014	€1.61	€0.55
2008	26.05.2009	487,500	25.05.2015	€1.29	€0.48
2010	29.07.2010	360,000	28.07.2018	€1.29	€0.58
2010	17.11.2010	505,000	16.11.2018	€1.17	€0.50
2010	15.07.2011	481,600	14.07.2019	€1.01	€0.40
2010	15.11.2011	55,000	14.11.2019	€1.00	€0.39

The average fair value of options newly issued in the reporting year was:

Option tranches	Fair value at the time of issue
15.07.2011	0.40 €
15.11.2011	0.39 €

The fair values were established in the reporting year by means of a binomial model, taking the following parameters into consideration:

2010 Stock Option Program	07/2011 Tranche	11/2011 Tranche
Time of issue	15.07.2011	15.11.2011
Performance target	€1.11	€1.10
Risk-free interest rate	1.91%	0.92%
Expected volatility	46.34%	45.97%
Expected dividend payment	€0	€0
Share price at time of issue	€0.92	€0.90
Expected option term	5 years	5 years

The best Management Board estimate of the following influencing factors went into establishing the likely option term: non-transferability, exercise restrictions, including the likelihood that the market conditions attached to the option will be fulfilled, and assumptions on exercise behaviour. Volatility was based on weekly yields. The share's expected volatility is based on the assumption that inferences can be drawn from historic volatilities as to future trends, with the share's actual volatility possibly differing from the assumptions used. To take early exercise effects into consideration it was assumed that employees would exercise their exercisable options if the share price corresponded to the 1.4-fold of the exercise price.

The following changes were made to stock option Programs for the last financial year and the previous year:

	2006 Stock Option Program			2008 Stock Option Program		2010 Stock Option Program	
	2006 Tranche	2007 Tranche	2008 Tranche	2008 Tranche	2009 Tranche	2010 Tranche	2011 Tranche
Number outstanding as of January 1, 2011	0	470,000	117,000	200,000	422,500	850,0000	0
Number issued in the financial year	0	0	0	0	0	0	536,600
Lapsed/foregone in the financial year	0	470,000	10,500	0	20,000	40,000	0
Exercised in the financial year	0	0	0	0	0	0	0
Outstanding as of December 31, 2011	0	0	106,500	200,000	402,500	810,000	536,600
Exercisable as of December 31, 2011	0	0	106,500	100,000	100,625	0	0

The following stock options lapsed in financial year 2011:

Stock Option Program	Stock options
2006	480,500
2008	20,000
2010	40,000

	2006 Stock Option Program	2008 Stock Option Program	2010 Stock Option

	2006 Tranche	2007 Tranche	2008 Tranche	2008 Tranche	2009 Tranche	Program 2010 Tranche
Number outstanding as of January 1, 2010	340,000	515,000	147,000	200,000	487,500	0
Number issued in the financial year	0	0	0	0	0	865,000
Lapsed/foregone in the financial year	340,000	45,000	30,000	0	65,000	15,000
Exercised in the financial year	0	0	0	0	0	0
Outstanding as of December 31, 2010	0	470,000	117,000	200,000	422,500	850,000
Exercisable as of December 31, 2010	0	470,000	117,000	50,000	0	0

The following stock options lapsed in financial year 2010:

Stock Option Program	Stock options
2006	15,000
2008	35,000
2010	15,000

In financial year 2010 forewent a total of 400,000 stock options from the 2006 Stock Option Progreamme and a total of 30,000 stock options from the 2008 Stock Option Program.

The bandwidth of exercise prices for the stock options outstanding as of December 31, 2011 ranged from €1.00 to €2.27 (previous year: €1.17 to €2.41). Stock options outstanding at the end of the financial year had a weighted average residual term of 4.3 years (previous year: 4.4 years).

The cost of share-based remuneration recorded in the reporting period totalled €210K (previous year: €173K).

(25) Provisions

	Status as of 01.01.2011 €K	Consumed €K	Released €K	Allocated €K	Status as of 31.12.2011 €K	RT* > 1 year €K
Employee commitments	64	-26	-20	45	63	0
Storage costs	30	0	0	5	35	35
Other uncertain liabilities	22	0	0	6	28	0
Litigation costs and risks	90	0	-10	0	80	0
Other provisions	15	0	0	0	15	0
Total	221	-26	-30	56	221	35

*RT = Residual term

(26) Liabilities

The residual terms of liabilities are as follows:

		Residual term (RT)			
	31.12.2011 total	Up to 1 year	1-5 years	More than 5 years	Previous year
	€K	€K	€K	€K	€K
Financial liabilities	5,553	5,479	74	0	6,664
Advances received	337	337	0	0	220
Development orders with balance due to customers	32	32	0	0	0
Trade payables	3,120	3,120	0	0	2,967
Owed to shareholders	3,522	3,522	0	0	3,305
Other financial liabilities	1,776	1,626	150	0	2,279
Other liabilities	1,064	824	240	0	906
	15,404	14,940	464	0	16,341

Of the non-current liabilities (RT > 1 year) totalling €464K (previous year: €1.546 million), €224K (previous year: €1.338 million) attracted interest. Of the current liabilities (RT < 1 year) totalling €14.940 million (previous year: €14.795 million), €8.831 million (previous year: €8.799 million) attracted interest. The average interest burden was about 6.3% (previous year: 5.5%)

As of December 31, 2011 the *aap* Group had confirmed lines of credit totalling €4.8 million at its disposal (previous year: €5.0 million) of which €4.4 million (previous year: €4.8 million) had been taken up as of the balance sheet date. Cash and cash equivalents held as of December 31, 2011 amounted to €2.152 million (previous year: €909K. As of December 31, 2011, *aap*'s free and usable liquidity (the sum of cash at banks and freely available lines of credit) totalled €2.5 million.

€ million	31.12.2011	31.12.2010
Gross recourse to lines of credit	-4.4	-4.8
Balance under lines of credit	1.9	0.8
Net recourse to lines of credit	-2.5	-4.0

The *aap* Group's current and non-current financial liabilities are owed to banks and denominated in euros.

As of December 31, 2011, foreign currency liabilities were as follows:

		Currency	Currency
	31.12.2011 total		
	€K	€K	€K

Advances received	193	193	US$	0	
Trade liabilities	29	28	US$	1	CHF
Owed to shareholders	140	140	US$	0	
Other financial liabilities	91	91	US$	0	
Other liabilities	4	4	US$	0	
	457	456		1	

As of December 31, 2010, foreign currency liabilities were as follows:

	31.12.2010 total		Currency		Currency
	€K	€K		€K	
Trade liabilities	14	0		14	CHF
Other financial liabilities	58	58	US$	0	
	72	58		14	

(27) Development Orders with Balance Due to Customers

Order costs, including the corresponding earnings contributions that netted against advances lead to a debit balance, are stated under Development orders with balance due to customers. As of the balance sheet date, liabilities arising from development orders totalled €32K (previous year: nil).

	31.12.2011	31.12.2010
	€K	€K
Development order receivables	112	0
Netted against advances received	144	0
Development orders with balance due to customers	32	0

(28) Other Financial Liabilities

		Residual term (RT)			
	31.12.2011 total	Up to 1 year	1 to 5 years	More than 5 years	Previous year
	€K	€K	€K	€K	€K
Owed to companies with which the company is linked by virtue of participating interests	12	12	0	0	3
Financial leasing commitments	226	76	150	0	268
Other financial liabilities	1,538	1,538	0	0	2,008
	1,776	1,626	150	0	2,279

The other financial liabilities consist mainly of employee bonuses totalling €567K (previous year: €727K), liabilities for Supervisory Board meetings amounting to €162K (previous year: €97K) and holiday pay and Christmas bonuses totalling €141K (previous year: 86K).

The financial leasing liabilities consist of machinery and use the leased assets as collateral. The interest rate was agreed for the entire term of the leasing relationship and is on average about 6% (previous year: 7%).

(29) Other Liabilities

		Residual term (RT)			
	31.12.2011 total	Up to 1 year	1 to 5 years	More than 5 years	Previous year
	€K	€K	€K	€K	€K
Special item for investment grants	292	52	240	0	280
Personnel liabilities	366	366	0	0	273
Tax liabilities	330	330	0	0	295
Other liabilities	76	76	0	0	58
	1,064	824	240	0	906

The personnel liabilities consist mainly of holiday entitlements.

(30) Other Financial Obligations

Other financial liabilities break down as follows:

		Capital repayments		
	31.12.2011	2012	2013 to 2016	From 2017
	€K	€K	€K	€K
Future rent payments	5,952	1,181	3,713	1,058
Future operating lease payments	945	444	501	0
	6,897	1,625	4,214	1,058

		Capital repayments		
	31.12.2010	2011	2012 to 2015	From 2016
	€K	€K	€K	€K
Future rent payments	4,333	1,038	2,461	834
Future operating lease payments	878	426	452	0
	5,211	1,464	2,913	834

The operating lease contracts are short-term contracts for cars and provide in some instances for renewal and purchase options. Expenditure on operating lease contracts stated in the reporting period totalled €405K (previous year: €480K).

(31) Contingent Liabilities

Contingent liabilities totalling €317K relate to public sector investment grants and allowances received. They 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. In view of the operational circumstances the Management Board assumes that the assets will remain at the Berlin production facility and that the other preconditions will be observed, so that recourse is unlikely.

In connection with the termination of a sales agreement a former sales partner of the *aap* subsidiary *aap* Biomaterials GmbH claimed damages and filed a suit for €350K in damages on December 30, 2010. The management of *aap* Biomaterials GmbH considers the provision created in 2009 and amounting as of December 31, 2011 to €80K (previous year: €90K) to be appropriate. Provision for legal costs is included in this figure.

I. Reporting on Financial Instruments

(32) Basics

According to IAS 39 (Financial Instruments: Recognition and Measurement), financial instruments are divided into the following categories:

- Financial assets valued at fair value with effect on results
- Financial liabilities valued at fair value with effect on results
- Financial investments held to maturity
- Loans and receivables
- Available-for-sale financial assets.

Their categorisation depends on the nature of the financial assets and the use to which they are put and is undertaken on receipt. Financial assets are recognised and written off on the trading day if they are assets supplied within the usual time frame for the relevant market. The trading day is when all material risks and opportunities that accompany ownership of the asset are transferred or the power of disposal over the asset is relinquished. Financial liabilities are written off if the underlying obligation has been fulfilled or waived or has expired. Financial assets and financial liabilities must be stated at fair value on receipt.

For financial instruments that are not recognised at fair value with effect on results, directly attributable transaction costs that reduce or increase the fair value of the financial assets or liabilities are also taken into account. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities and that must be valued with effect on results at their fair value are recorded immediately with effect on results. The subsequent valuation of financial assets and financial liabilities depends on their categorisation.

Financial instruments that must be recognised at fair value with effect on results consist primarily of financial assets and liabilities held for trading purposes. Financial instruments are classified as held for trading purposes if they are acquired for the purpose of sale or repurchase in the near future. Changes in the fair value of financial instruments of this kind are always recorded with effect on results. On initial recognition the *aap* Group classified no financial assets or financial liabilities at fair value with effect on results. Loans and receivables are non-derivative financial assets with fixed or definable payments that are not listed in an active market. After initial recording, financial assets and liabilities of this kind are subsequently valued at amortised cost using the effective interest model less any depreciation in value. Exceptions to this rule are current receivables and payables with a residual term of less than one year because in their case the interest effect can

be considered to be immaterial. Income and expenses are shown in the statement of comprehensive income under financial income and financial expenses.

The *aap* Group holds only primary financial instruments. On the assets side they consist mainly of participating interests, trade and loan receivables, other receivables and cash assets. 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.

Fair values are either derived from stock market prices or calculated on the basis of recognised 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 residual term 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, 2011 and December 31, 2010 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 residual terms.

(33) Financial Instruments by Valuation Categories

The values of individual financial instruments by valuation category are shown in the following tables.

Valuation Categories:

1 - Financial assets valued with effect on results at fair value through profit or loss (FVTPL)

2 - Financial liabilities stated at fair value and measured at amortised cost (FLAC)

3 - Financial investments held to maturity (HtM)

4 - Loans and Receivables (LaR)

5 - Available-for-sale (AfS) financial assets

			IAS 39 balance sheet valuation		
	IAS valuation categories	Book value as of **31.12.2011** €K	Amortised cost of acquisition €K	Fair value No effect on profit or loss €K	Fair value 31.12.2011 €K
Assets					
Financial assets	AfS	356	-	356	356
Trade receivables	LaR	5,508	5,508	-	5,508
Other financial assets	LaR	331	331	-	331
Cash and cash equivalents	LaR	2,152	2,152	-	2,152
Liabilities					
Financial liabilities	FLAC	5,553	5,553	-	5,553
Trade liabilities	FLAC	3,120	3,120	-	3,120

Owed to shareholders	FLAC	3,522	30,522	-	3,522
Financial leasing liabilities	n.a.	226	226	-	226
Other financial liabilities	FLAC	1,550	1,550	-	1.550

Thereof aggregated by IAS valuation categories:

			IAS 39 balance sheet valuation		
	IAS valuation categories	Book value as of **31.12.2011** €K	Amortised cost of acquisition €K	Fair value No effect on profit or loss €K	Fair value 31.12.2011 €K
Available-for-sale financial assets	AfS	356	-	356	356
Loans and receivables, incl. cash and cash equivalents)	LaR	7,991	7,991	-	7,991
Total financial assets		**8,347**	**8,347**	**356**	**8,347**
Financial liabilities stated at amortised cost of acquisition	FLAC	13,745	13,745	-	13,745
Total financial liabilities		**13,745**	**13,745**	**-**	**13,745**

			IAS 39 balance sheet valuation		
	IAS valuation categories	Book value as of **31.12.2010** €K	Amortised cost of acquisition €K	Fair value No effect on profit or loss €K	Fair value 31.12.2010 €K
Assets					
Financial assets	AfS	356	-	356	356
Trade receivables	LaR	6,204	6,204	-	6,204
Other financial assets	LaR	674	674	-	674
Cash and cash equivalents	LaR	909	909	-	909
Liabilities					
Financial liabilities	FLAC	6,664	6,664	-	6,664
Trade liabilities	FLAC	2,967	2,967	-	2,967
Owed to shareholders	FLAC	3,305	3,305	-	3,305
Financial leasing liabilities	n.a.	268	268	-	268
Other financial liabilities	FLAC	2,011	2,011	-	2,011

Thereof aggregated by IAS valuation categories:

			IAS 39 balance sheet valuation		
	IAS valuation categories	Book value as of **31.12.2010** €K	Amortised cost of acquisition €K	Fair value No effect on profit or loss €K	Fair value 31.12.2010 €K
Available-for-sale financial assets	AfS	356	-	356	356

Loans and receivables, incl. cash and cash equivalents)	LaR	7.787	7.787	-	7.787
Total financial assets		**8.143**	**7.787**	**356**	**8.143**
Financial liabilities stated at amortised cost of acquisition	FLAC	14.947	14.947	-	14.947
Total financial liabilities		**14.947**	**14.947**	**-**	**14.947**

The available-for-sale financial assets are the shareholding in AEQUOS Endoprothetik GmbH, which is stated at fair value with effect on results and assigned in accordance with IFRS 7 to the valuation hierarchy Stage 3 (market value established on the basis of parameters for which no observable market data was available). The valuation was based on the premiums paid in the capital increases undertaken. There was no change in the fair value in the financial year 2011.

(34) Expenses, Income, Losses and Profits from Financial Instruments

2011	Income from interest	Interest costs	Expenses from loss in value	Income from appreciation	Net income
	€K	€K	€K	€K	€K
Loans and receivables (incl. cash and cash equivalents)	58	0	-243	53	-132
Financial liabilities stated at amortised cost of acquisition	0	-605	0	0	-605
Total	58	-605	-243	53	-737

2010	Income from interest	Interest costs	Expenses from loss in value	Income from appreciation	Net income
	€K	€K	€K	€K	€K
Loans and receivables (incl. cash and cash equivalents)	34	0	-348	282	-32
Financial liabilities stated at amortised cost of acquisition	0	-556	0	0	-556
Total	34	-556	-348	282	-588

(35) Depreciation of financial assets

Financial assets with the exception of those stated at fair value with an effect on profit or loss are checked on every balance sheet date for indicators of value impairment. Financial assets are depreciated if, as a result of one or more events that occurred after the initial asset statement, there is an objective indication that the anticipated future cash flows have changed for the negative.

Value adjustments are stated and explained under the respective balance sheet items.

(36) Management of financial risks

In view of its operating activities, the *aap* Group is liable to the following financial risks:

- Market risks
- Liquidity risks
- Credit risks

The Group's risk management is handled by the central finance department in accordance with the guidelines issued by the Management Board with a view to minimising potentially negative repercussions on the Group's financial situation. For this purpose financial risks are identified and assessed and safeguards are put in place in close coordination with the Group's operating units.

Internal guidelines provide the action framework, assign responsibilities and specify binding checks. The *aap* Group's risk and the aims and processes of risk management are outlined in detail in the management report under the heading Risk Report (cf. Section D).

Market risks

Market risk is understood to be the risk that of the fair value or future cash flows of a financial instrument fluctuating due to changes in market prices. Market risks include interest risks, foreign currency risks and other price risks such as commodity or share price risks.

Interest Rate Risks

Interest risks result from financial liabilities and investments. The *aap* Group seeks to optimise interest results and to minimise 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 considered from case to case, but none were used in the reporting year.

Group debts on which interest is paid are all fixed-interest apart from the current account credit lines. As of December 31, 2011 about 30% of the Group's borrowing (previous year: 30%) was at fixed interest rates. So changes in market interest rates only have an effect insofar as these financial instruments need to be stated at fair value in the balance sheet – which is not the case.

Sensitivity analyses have been undertaken for the floating-rate financial liabilities. A similar change in interest rates for all financial liabilities and all currencies was assumed. A uniform one percentage point change in interest rates for all currencies was found to lead to a €41K increase or decrease in the result before taxes on income (previous year: €38K).

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 was not generally suitable in nature or extent for hedging by means of exchange futures trading or similar hedging measures. The Group's most important foreign currencies are the US dollar and the Swiss franc. Sensitivity analyses have established that the repercussions for other foreign currencies used by the Group are of minor importance. As of December 31, 2011 foreign currency receivables amounted to about 0.5% (previous year: 3%) of the total and were denominated entirely in US dollars. Foreign currency liabilities amounted to about 2.56% of the Group's borrowing (previous year: 0.38%), of which US dollar liabilities totalled about 2.56% (previous year: 0.31%). If the euro exchange rates were to change by 10% against the US dollar, the result before taxes on income, all other variables being constant, would have been €98K (previous year: €51K) higher

or lower for the reporting period. That would have been mainly due to currency translation gains from US dollar and Swiss franc denominated trade receivables. Against this background and with cost-benefit considerations in mind, the Group accordingly decided to dispense with further hedging transactions. Hedging (an option and a foreign currency swap) was only taken out for project sales that were considered almost certain in the fourth quarter of 2011, leading due to failure of the underlying business deal to come about to a loss of €0.1 million.

Liquidity Risks

The *aap* Group'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 to 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 low. Furthermore, *aap* pursues a very open and transparent communication policy with the banks that finance it in order to identify possible danger potential at any early stage and to draw up jointly solutions that are appropriate to the risk.

In addition, the Group limits this risk by means of effective central cash management and by negotiating adequate credit lines. The *aap* Group has at its disposal until further notice credit lines for its German companies totalling €3.5 million (previous year: €3.7 million) and for its Dutch companies totalling €1.3 million (previous year: €1.3 million). Of the contractually assured credit lines totalling €4.8 million (previous year: €5.0 million), €4.4 million (previous year: €4.8 million) was taken up gross and €2.5 million (previous year: €4.0 million) net as of the balance sheet date. As of December 31, 2011, *aap* had €2.5 million (previous year: €1.0 million) in free and usable liquidity (the sum of bank balances and freely available lines of credit) at its disposal.

€ million	31.12.2011	31.12.2010
Gross take-up of credit lines	-4.4	-4.8
Balance under credit lines	1.9	0.8
Net take-up of credit lines	-2.5	-4.0

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

Capital/interest payments in respect of financial liabilities	Book value as of **31.12.2011**	Capital repayments 2012	2013 to 2016	From 2017	Interest payments 2012	2013 to 2016	From 2017
	€K	€K	€K	€K	€K	€K	€K
Financial liabilities	5,553	5,479	74	0	117	56	0
Owed to shareholders	3,522	3,522	0	0	270	0	0
Financial leasing liabilities	226	76	150	0	10	19	0
Other financial liabilities	1, 550	1,550	0	0	1	0	0
Total	10,851	10,627	224	0	398	75	0

Capital/interest payments in respect of financial liabilities	Book value as of **31.12.2010**	Capital repayments 2011	2012 to 2015	From 2016	Interest payments 2011	2012 to 2015	From 2016
	€K	€K	€K	€K	€K	€K	€K
Financial liabilities	6,664	5,501	1,163	0	127	56	0
Owed to shareholders	3,305	3,305	0	0	135	270	0
Financial leasing liabilities	268	93	175	0	14	32	0
Other financial liabilities	2,011	2,011	0	0	1	0	0
Total	12,248	10,910	1,338	0	277	358	0

Credit Risks

A credit risk is the risk of default by a customer or contracting partner that leads to a need for value adjustment 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 continuously. Credit risks still exist because customers may not honour 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. In addition, receivables are covered by retention of title so that in the case of non-payment their return can be demanded and, after checking and processing, they can be sold to other *aap* customers. Write-offs in the reporting year totalled €42K (previous year: €106K).

For trade receivables that were not value adjusted as of December 31, 2011, there were no indications of default.

(37) 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

	31.12.2011	31.12.2010
	€K	€K
Interest-bearing liabilities (gross)	9,055	10,220
Balance under credit lines	- 1,922	-757
Interest-bearing liabilities (net)	7,133	9,463
EBITDA	4,126	3,448
Debt coverage ratio	1.7	2.7

	31.12.2011 €K	31.12.2010 €K
Interest expenses	-605	-567
EBITDA	4,126	3,448
Interest coverage ratio	6.8	6.1

Net Indebtedness

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

	31.12.2011 €K	31.12.2010 €K
Interest-bearing liabilities	9,055	10,220
Cash and cash equivalents	- 2,152	- 909
Net debts	6,903	9,311
Equity	48,350	44,852
Net indebtedness to capital ratio	14%	21%

(38) Cash Flow Statement

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

Interest income	Nil (previous year: €1K)
Interest expenses	€307K (previous year: €422K)

Income tax paid totalled €100K (previous year: €150K). Income tax refunded was €4K (previous year: €2K).

J. Other Disclosures

(39) Related Enterprises and Parties

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

The following transactions with related enterprises and parties took place in the reporting period:

2011	Related enterprises €K	Other related parties €K
Sales of goods	36	0
Purchased services	0	-56
Financing		
- Loans taken out	0	0
- Loan repayments	0	0
- Interest expense	-278	0
- Interest rate	6%–9%	0%

2010	Related enterprises	Other related parties
	€K	€K
Sales of goods	98	0
Purchased services	-30	-58
Financing		
- Loans taken out	1,875	0
- Loan repayments	-975	-9
- Interest expense	-162	-1
- Interest rate	9%	6%

All transactions are undertaken on market terms and conditions and do not differ in principle from delivery and performance relationships with third parties.

Business with related enterprises and parties led to the following financial statement items:

2011	Related enterprises	Other related parties
	€K	€K
Liabilities to companies in which a participating interest is held	12	0
Loan liabilities	3,522	0
Provisions	0	14

2010	Related enterprises	Other related parties
	€K	€K
Liabilities to companies in which a participating interest is held	0	2
Loan liabilities	-3,246	0
Retained income	-57	0
Provisions	0	11

(40) **Management Board, Supervisory Board**

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

Mr. Biense Visser, **Chief Executive Officer**, Utrecht, Netherlands

Mr. Bruke Seyoum Alemu, **Chief Operating Officer**, Berlin

Mr. Marek Hahn, **Chief Financial Officer**, Berlin

Management Board remuneration totalled €809K (previous year: €764K). The basic features of the Management Board and Supervisory Board remuneration systems are outlined in the remuneration report, which is part of the combined management report.

	Remuneration components in €K				
	Fixed	Performance-related	Long-term incentive	Total	Total (2010)
Biense Visser	201	25	39	265	260
Bruke Seyoum Alemu	285	24	35	344	341

Marek Hahn	167	19	14	200	163[1]
	653	68	88	809	764

[1] 1.4.2010-31.12.2010

The company takes out D&O insurance cover for the management. Premiums paid in 2010 totalled €27K (previous year: €27K).

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

Biense Visser	Mediq N.V.
	HZPC Holland B.V.
	Kreatech Biotechnology B.V.
	Actavis Group hf.

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

Mr. Rubino Di Girolamo (Chairman),

Delegate of the Administrative Council, Oberägeri near Zug, Switzerland

Mr. Ronald Meersschaert (Deputy Chairman),

Private Equity Investor, Arnhem, Netherlands (Deputy Chairman)

Prof. Prof. h.c. Dr. Dr. Dr. h.c. Reinhard Schnettler, Clinic Director, Gießen

Members of the Supervisory Board were elected for the full term of office until the end of the General Meeting that decides on the discharge for the 2013 financial year.

Supervisory Board remuneration in the financial years totalled €85K (previous year: €26K) as follows:

	2011 €K	2010 €K
Mr. Rubino Di Girolamo	30	10
Mr. Ronald Meersschaert	25	7
Prof. Prof. h.c. Dr. Dr. Dr. h.c. Reinhard Schnettler	30	4
Mr. Uwe Ahrens (until 16.07.2010)	0	3
Mr. Marcel Boekhoorn (until 16.07.2010)	0	0
Dr. Winfried Weigel (until 30.04.2010)	0	2
Total	85	26

Payments made in the reporting year totalled €20K (previous year: €64K).

In addition to their work for *aap* Implantate AG, members of the Supervisory Board are active in the following supervisory bodies:

Mr. Rubino Di Girolamo	Deepblue Holding AG, Zug, Administrative Board President
	Metalor Dental Holding AG, Zug, Administrative Board
Mr. Ronald Meersschaert	Toeca International Company B.V., Arnhem, Netherlands, Administrative Board
	Voice Cash Holding B.V., Arnhem, Netherlands, Administrative Board
	Voice Trust AG, Munich, Administrative Board
Prof. Prof. h.c. Dr. Dr. Dr. h.c. Reinhard Schnettler	Kliniken des Main-Taunus-Kreises GmbH, Bad Soden/Frankfurt

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

	Shares		Options	
	2011	2010	2011	2010
Supervisory Board				
Rubino Di Girolamo	1,622,357	1,622,357	0	0
Ronald Meersschaert	0	0	0	0
Prof. Prof. h.c. Dr. Dr. Dr. h.c. Reinhard Schnettler	182,094	182,094	0	0
Uwe Ahrens (until 16.07.2010)	-	475,905	-	0
Marcel Boekhoorn (until 16.07.2010)	-	3,917,536	-	0
Dr. Winfried Weigel (until 30.04.2010)	-	0	-	0
Management Board				
Biense Visser	370,000	355,000	400,000	250,000
Bruke Seyoum Alemu	70,000	70,000	350,000	325,000
Marek Hahn	13,422	0	180,000	95,000

The fair values of the options at the time they were granted were between €0.87 and €0.39.

(41) Disclosures Pursuant ot Section 160 (1) 8 AktG

In accordance with Section (1) 8 of the German Stock Corporation Act (AktG) *aap* has received the following notifications pursuant to Section 21 (1) or (1a) of the German Securities Trading Act (WpHG) with the most recent reports on levels of investment. These reports are mandatory for people whose voting rights in *aap* Implantate AG reach or exceed or fall below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% directly or indirectly by means of acquisition, disposal or otherwise.

2011**:**

Elocin B.V**.**, Arnhem, Netherlands, informed us on May 18, 2011 in accordance with Section 21 (1) WpHG that its shareholding in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660, exceeded the 15% and 20% voting rights thresholds and amounted on that day to 20.89%, or 6,405,722 voting rights.

Boekhoorn M & A B.V., Arnhem, Netherlands, informed us on May 26, 2011 in accordance with Section 21 (1) WpHG that its shareholding in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660, exceeded the 15% and 20% voting rights thresholds on May 16, 2011 and amounted on that day to 20.89%, or 6,405.722 rights. In accordance with Section 22 (1) 1 (1) WpHG, 20.89% is attributable to Elocin B.V.

Ramphastos Investments N.V., Arnhem, Netherlands, informed us on May 26, 2011 in accordance with Section 21 (1) WpHG that its shareholding in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660, exceeded the 15% and 20% voting rights thresholds on May 16, 2011 and amounted on that day to 20.89%, or 6,405.722 rights. In accordance with Section 22 (1) 1 (1) WpHG, 20.89% is attributable to Elocin B.V. via Boekhoorn M & A B.V.

Mr. Marcel Martinus Jacobus Johannes Boekhoorn, Netherlands, informed us on May 26, 2011 in accordance with Section 21 (1) WpHG that its shareholding in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660, exceeded the 15% and 20% voting rights thresholds on May 16, 2011 and amounted on that day to 20.89%, or 6,405.722 rights. In accordance with Section 22 (1) 1 (1) WpHG, 20.89% is attributable to Elocin B.V. via Ramphastos Investments N.V. and Boekhoorn M & A B.V.

2010:

Mr. Jan Albert de Vries, Netherlands, informed us on October 19, 2010 in accordance with Section 21 (1) WpHG that his shareholding in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660, fell below the threshold of 20% of voting rights on October 15, 2010 when it amounted to 19.6%, or 5,465,924 voting rights. 19.6%, or 5,465,924 voting rights, must be attributed to Mr. de Vries by Noes Beeheer B.V. in accordance with Section 22 (1) 1 (1) WpHG.

Noes Beheer B.V., Nijmegen, Netherlands, informed us on October 19, 2010 in accordance with Section 21 (1) WpHG that its share of voting rights in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660, fell below the threshold of 20% of voting rights on October 15, 2010 when it amounted to 19.6%, or 5,465,924 voting rights.

2009:

Mr. Jürgen W. Krebs, Switzerland, fell below the 30, 25, 20 and 15% thresholds on January 13, 2009. Mr. Krebs held 3,287,200 shares (12.35%) on January 13, 2009, of which 346,000 shares (1.30%) are attributed to him via Merval AG in accordance with Section 22 (1) 1 (1) 1 WpHG.

Merval AG, Zug, Switzerland, fell below the 30, 25, 20, 15, 10, 5 and 3% thresholds on January 13, 2009. As of January 13, 2009, Merval AG held 346,000 shares (1.3%).

Mr. Rubino di Girolamo, Switzerland, informed us on January 13, 2009 his share in voting rights on January 13, 2009 fell below the 30, 25, 20, 15 and 10% thresholds. On January 13, 2009 Mr. di Girolamo held 1,530,000 shares (5.75%), of which 1,530,000 shares (5.75%) were attributable to him in accordance with Section 22 (1) 1 (1) WpHG via Deepblue Holding AG.

Deepblue Holding AG, Zug, Switzerland, on January 13, 2009 fell below the 30, 25, 20, 15 and 10% thresholds. On January 13, 2009 Deepblue Holding AG held 1,530,000 shares (5.75%).

2008:

DZ Bank AG, Frankfurt am Main, Germany, informed us on September 9, 2008 that its share of voting rights in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, ISN: 506660, on September 9, 2008 fell below the 5% threshold and amounted to 4.8%, or 1,267,357 voting rights.

(42) Auditor's fees

The auditor's fees recorded as an expense in the financial year were:

a) For auditing the annual financial statements (consolidated and separate): €115K (previous year: €115K)

b) Other services: €23K (previous year: €16K)

(43) Events Since the Balance Sheet Date

aap Biomaterials GmbH signed on March 23, 2012 an exclusive license agreement with world-leading medical technology company. *aap* granted it an exclusive license to an IP-protected biomaterials product, remaining at the same time the product's manufacturer. The exclusive license applies to all product application areas with the exception of dental, mouth and tooth care and its use as a food additive and is valid worldwide except in the United States. *aap* received with the signature a one-time license fee amounting to about €2.1 million. The anticipated effect on the company's result before taxes is likely to be €1.0 million.

On March 26, 2012 *aap* acquired a further 46% of the shares in ADC Advanced Dental Care GmbH, of which it is now the sole shareholder.

There have been no further significant events to report since the balance sheet date.

(44) Declaration Pursuant to the German Corporate Governance Code

aap Implantate AG has submitted the declaration of conformity to the German Corporate Governance Code as required by Section 161 of the German Stock Corporation Act (Aktiengesetz/AktG) and has made it available to shareholders on our website at www.aap.de/de/Investor/Corporate_Governance/index_html.

(45) Publication

These consolidated financial statements to December 31, 2011 were released for publication by the company's Management Board on March 30, 2012.

Berlin, March 30, 2012

The Management Board

Biense Visser Management Board Chairman/CEO	Bruke Seyoum Alemu Management Board member/COO	Marek Hahn Management Board member/CFO

Responsibility Statement by the Legal Representatives pursuant to Section 37y (1) of the German Securities Trading Act (WpHG)

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

Berlin, March 30, 2012

The Management Board

Biense Visser Management Board Chairman/CEO	Bruke Seyoum Alemu Management Board member/COO	Marek Hahn Management Board member/CFO

Audit Certificate

We have audited the annual financial statements, consisting of the balance sheet, the statement of comprehensive income, schedule of the movement in equity, cash flow statement, the notes as well as management report of *aap* Implantate AG for the business year from 1 January 2011 to 31 December2011. 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 annual financial statements in accordance with § 317 HGB (German Commercial Code) and the generally accepted principles for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the asset, financial and earnings position of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the books and records, annual financial statements and the 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 30, 2012

RBS RoeverBroennerSusat GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Helmut Schuhmann
Wirtschaftsprüfer

Ralf Bierent
Wirtschaftsprüfer

Glossary

A

Adhesion	The adherence, growing or sticking together of tissue and organs
Allograft	Bone replacement material or tissue of human origin for which donor and recipient are not one and the same person
Angle-stable	Angle-stable is the term generally used to describe a fixed and movement-free connection between the contact surfaces of two parts.
Associated company	A company in which the shareholder has a controlling interest but is neither a subsidiary nor a joint venture. Associated companies must be stated in the balance sheet on the basis of the equity method.
At-equity accounting	A procedure to take into account associated companies that are not included in the financial statements with all of their assets and liabilities on the basis of full consolidation. The book value of the associate is projected with regard to the development of the pro rata equity investment. This change is included in the holding company's profit and loss statement.

B

Biomaterials	Generally speaking, synthetic or natural non-living materials that are used in medicine for therapeutic or diagnostic purposes and that come into direct contact with biological body tissue in the process are known as biomaterials, or sometimes as implant materials. In a narrower sense the term describes materials that remain inside the body as implants for long-term periods.

C

Cash flow	Balance between inflow and outflow of funds with effect on payments; an indicator of self-financing capacity
Collagen	Collagen is a structural protein found in the connective tissue of human beings and animals. It is the organic component of bones and teeth and the essential component of cartilage, tendons, ligaments and skin. Collagen fibres have enormous tensile strength and are not stretchy.
Compliance	Abiding by laws and by external and internal guidelines or codes of behaviour
Corporate Governance Code	Compendium of statutory provisions governing the management and monitoring of listed German companies, contains nationally and internationally recognised standards of good and responsible business management

D

Debt factor	Leverage factor, the ratio of net debt to EBITDA
Deferred taxes	Asset or liability items to offset the difference between the actual tax liability and the tax burden stated in the balance sheet on the basis of company law
Defined benefit plan	A retirement benefit plan that does not come under the

	definition of a contribution-oriented plan
Derivative financial instruments	Financial instruments the value of which is based on an underlying asset or index and that are to be paid for in the future and require only a relatively small initial investment or none at all
Diluted earnings per share	Dilution is a reduction in earnings per share or an increase in loss per share based on the assumption that convertible instruments will be converted, options will be exercised, or that ordinary shares may under certain circumstances be issued.
Discontinued operations	Business operations that have been sold or classified as available for sale and represent a separate, material business segment or geographical area of business, part of an agreed plan to dispose of a certain business segment or unit, or a subsidiary acquired with the sole intention of selling it on

E

EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortisation
Equity ratio	The ratio of equity to total capital, serves as a basis for assessing a company's financial stability and independence
Endoprostheses	Endoprostheses are implants that remain in the body permanently. They are now available for all joints (knee, shoulder, ankle, elbow, and finger). Chronic, painful, increasingly debilitating joint changes (arthrosis) are a frequent indication.
Earnings per share	Earnings per share are calculated by divided the consolidated result by the weighted average number of shares in accordance with IAS 33

F

Fair Value	See market value
Freshness Index	A measure of the company's innovation: the share in overall sales of products for which approval has been granted in the past three years
Free cash flow	An indicator of operational cash generation. *aap* defines free cash flow as the payment inflow/outflow from current business activities less the outflow of payments for investment in tangible and intangible assets.
Full consolidation	Procedure to include subsidiaries in the consolidated accounts if the parent company has a controlling interest in them (by virtue of a majority shareholding or for another reason)

G

Goodwill	The positive difference between the cost of acquisition of a company and the value of its net assets

H

HGB	Short for Handelsgesetzbuch, the German Commercial Code

I

IFRS	Short for International Financial Reporting Standards, formerly

	International Accounting Standards (IAS)
Impairment tests	See value adjustment tests
Implant	An implant is a synthetic material implanted in the body an intended to remain there permanently, or at least for a long-term period.
IP	Short for intellectual property

J

Joint venture	A contractual arrangement whereby two or more partners join forces in a commercial activity that is managed jointly

L

Lavage system	A high-pressure system to prepare for implants in joint replacement surgery
Leasing	An arrangement by which the lessor transfers to the lessee in return for payment the right to use an asset for an agreed period
Leverage factor	The ratio of net debt to EBITDA

M

Market value	Amount for which business partners who are knowledgeable, willing to do business and independent of each other might be prepared to exchange an asset or pay a debt
Minimally invasive	Minimally invasive surgical interventions that are as gentle and stress-free as possible, causing very little trauma (i. e. minimum injury to skin and soft tissue)

N

Nanoparticles	Nanoparticles are a combination of a few up to several thousand atoms or molecules. The name comes from their size, typically a few nanometres (a nanometre is one billionth of a metre).
Net working capital	The balance of current assets and current liabilities

O

OEM	Short for Original Equipment Manufacturer, a maker of finished products who produces them in his own factories but does not market them himself
Operating working capital	Sum of inventories and trade receivables less trade payables
Orthopaedics	Orthopaedics (from the Greek for “upright” and “child-rearing”) is concerned with the origin, prevention, identification and treatment of congenital or acquired formal or functional defects in the support and mobility apparatus, that is bone, joints, muscles, and tendons, and with patient rehabitation.
Osteosynthesis	Osteosynthesis is the operative treatment of bone fractures and other bone injuries with implants, usually made of metal. The aim is to fix the fragments that belong together in as normal as possible a position with as mild a pressure as possible.

P

Payment inflow/outflow	Inflows and outflows of payments (cash and sight deposits) and

	cash equivalents (highly liquid short-term financial investments). Payment inflows are listed in the consolidated cash flow statement.
Polymers	Chemical compounds consisting of several molecules that likewise consist of several similar units (so-called monomers)
Purchase price allocation	The purchase price allocation allocates the cost of acquisition (purchase price) of a company to the tangible and intangible assets and liabilities thereby acquired.

R

Resorbable	The ability of a substance to be absorbed and totally broken down by biological systems
Retrograde	Reverting to an earlier condition, having an opposite or previous effect
Reversible	Capable of being returned to an original condition
Risk management	A systematic approach to identifying and evaluating potential opportunities and risks and to choosing and implementing strategies in response to these opportunities and risks
R&D	Short for Research & Development

S

Segment	Reporting unit
Sensitivity analysis	Analysis of the effect of possible changes in assumptions, such as an analysis of how net pension expenses in a given period might change due to falling or rising discount factors
Subscribed capital	The part of the balance sheet equity to which the shareholders' liability is limited (or capital stock in the case of a listed company)

T

Trauma or traumatology	Trauma in medicine is damage, an injury or wound incurred by external force. Hence traumatology (from the Greek for "wound" and "science") is the science of injuries and wounds and their origin and treatment. As accident surgery, it is a branch of surgery concerned with the treatment of patients who suffer accidental injury, and in some countries a branch of orthopaedics.
TÜV, DEKRA	TÜV (Technischer Überwachungs-Verein) and Dekra (Deutscher Kraftfahrzeug-Überwachungs-Verein) are organisations that undertake technical safety inspections, especially checks that are required by law or by official regulations.

V

Value adjustment test	Test of an asset's impairment. The book value is compared with the recoverable amount. If the book value is higher than the recoverable, the difference must be stated as a value adjustment with effect on results.

W

WACC	Weighted Average Cost of Capital, the minimum return a lender of capital expects to earn from a company to finance its assets