



**Consolidated  
Annual Financial  
Statement  
2010**

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## Foreword by the Management Board

Ladies and Gentlemen,

Dear shareholders, employees and business partners,

In the 2010 financial year we made considerable progress in the process aimed at transforming the Group from a strongly diversified healthcare company into a focused medical technology enterprise.

The main results achieved in the last financial year were as follows:

- 14% sales growth at product level (adjusted)<sup>1</sup>
- EBITDA at product level (adjusted)<sup>2</sup> more than doubled (2010: €2.8 million; 2009: €1.2 million)
- EBIT at product level (adjusted)<sup>3</sup> increased from -€1,662 million to €87K
- Financing costs reduced by 33%

At the product level our 14% sales growth enabled us to achieve our target of turning around the previous year's negative EBIT into a positive operating result. This sales growth was driven by higher sales both of *aap* products – in the German and world markets – and of products for our OEM customers.

The signing of a licensing agreement for a new product with an orthopaedics company that is active all over the world and the acquisition of a new OEM customer, also active in the world market, are an indicator of the *aap* Group's performance in development and in production. They encourage us to believe that we can become a leading medical technology company with our own brand-name products.

Along with the strategy of becoming a focused medical technology company with our own brand-name products we are continuing to concentrate on our customers and on optimising costs and liquidity.

We summarised our targets for the reporting year in our Management Agenda 2010. We here explain the results in detail as follows:

### Customers:

- By appointing two additional export managers we were able to position ourselves better, to provide customers in the international sales network better support and thereby to boost sales of *aap*'s own products.

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<sup>1</sup> For how the adjusted sales figures were calculated, please read what we have to say on p. 16 f.

<sup>2</sup> For how the adjusted EBITDA was calculated, please read what we have to say on p. 19

<sup>3</sup> For how the adjusted EBIT was calculated, please read what we have to say on pp. 19 f.

- In view of our bone cement competence we were particularly pleased to acquire an important international company as a new partner. The first products have been shipped and we see extensive opportunities of extending this partnership.
- After developing a market entry strategy for the US market at the beginning of the year, we appointed a US-based Business Development Director from August 1, 2010. A first contract to supply cannulated screws was signed at the end of the year, but the long-term success of the US market entry strategy will only be apparent in the years to come.
- By signing a sales agreement for our anti-adhesion product Adcon® with the marketing and sales specialist Bioscompass, Inc., we were able to intensify marketing and approval activities for the product. Bioscompass, Inc. was able to boost sales of the product in the first year and is currently evaluating possibilities for relaunching Adcon® in the US market.
- As previously communicated in Q3 2010, we postponed the market launch of our WSG product line because we are considering licensing it out as an alternative to direct sales. In the course of the year products were supplied to so-called key users, mainly in Germany, for clinical evaluation. Final design changes were undertaken as a result.
- Compared with our competitors, 14% sales growth at product level was a very good result. In the course of the year, adjusted sales growth was improved significantly from -2% in the first to 13% in the fourth quarter.

#### Innovation:

- With the appointment of Dr. Daniel Zukowski, *aap* has for the first time a group-wide Corporate Vice President in charge of research and development (R&D). This measure underscores the importance of centralised and focused research and development activities for the Group's future growth.
- In addition to the focus on our core areas, *aap* is concentrating increasingly on development and design and less on fundamental research work. We will be intensifying this alignment in the future because it leads to shorter development times and a swifter market launch for our products.
- The consolidation of our two R&D sites in Dieburg and Obernburg begun in 2010 will lead to additional efficiency gains, an intensification of knowledge sharing and further cost reductions. Along with the bone cement, cementing techniques and biomaterials production facility in Dieburg a Center of Excellence in research and development of bone cement and cementing techniques will thus take shape. We are confident that *aap* will thereby be able to further extend its leading position in this important market segment.
- In December 2010 we signed with an internationally active orthopaedics company a letter of intent to develop a product. That meant we fell short of our expectations, but we expect to be able to sign further cooperation agreements in 2011.
- In 2010, as part of our portfolio management, *aap*'s Intellectual Property Committee applied to the appropriate authorities for a considerable number of patents for different platform

technologies. Furthermore, existing patents and patent applications were reviewed and, where required, those that had declined in importance for *aap* were withdrawn.

#### Finance:

- With effect from April 1, 2010, Marek Hahn was appointed as Chief Financial Officer (CFO). Under his management the company has optimised controlling. Using additional information, managers were able to improve their decision-making basis and set their priorities more effectively.
- To achieve cost and time savings, the annual audit of financial statements was standardised across the Group. In this connection a so-called beauty contest was held to decide on the appointment of a new auditor for the entire Group.
- One of the targets set for individual managers in 2010 was to optimise the working capital management. As a result we were able to increase the turnover of our operating working capital and with an average of 61 days of sales outstanding to reach a level that is already well below the industry benchmark of 70 days. We, however, are of the opinion that a further reduction is not only possible but also necessary.
- With regard to financing costs we were able to exceed our own 25% reduction target. Financing costs were reduced by 33% compared with the previous year, thereby also achieving the targets for the strategic key financing figures debt coverage ratio (DCR)<sup>4</sup> and interest coverage ratio (ICR)<sup>5</sup>.
- We narrowly failed to achieve our target of 15% sales growth at product level in the 2010 financial year<sup>6</sup>. The reasons were the postponed launch of the WSG product line and the patent problems with a competing French company communicated in the third quarter that had a negative influence on sales of our allograft products. As sales of our cement and biomaterials products were higher than expected, we were, however, able to largely offset the resulting shortfalls.
- In the 2010 financial year we looked into alternatives to the present Prime Standard listing of the *aap* share. Along with the pros and cons of conversion from an Aktiengesellschaft, or listed company, into a private company, we also discussed alternatives such as downlisting. After many discussions with the Supervisory Board and with major shareholders and stakeholders we came to the conclusion that the advantages of the present listing outweigh the disadvantages, so that *aap* will continue to be listed in the Prime Standard segment.

#### Organisation/IT:

- In addition to the appointment of a CFO, a Corporate Vice President R&D and a Business Development Director, the Group's organisation was reinforced by that of an IT manager for

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<sup>4</sup> The sum total of interest-bearing liabilities divided by EBITDA (based on the last four quarters)

<sup>5</sup> EBITDA (based on the last four quarters) divided by interest expenses (based on the last four quarters)

<sup>6</sup> For how the adjusted sales figures were calculated, please read what we have to say on p. 16 f.

the entire Group and by the hiring of well trained young employees in Marketing & Sales, R&D and Human Resources.

- As we are an internationally aligned company based in Germany and the Netherlands, we take care to ensure that this international alignment is reflected in the diversity – of gender, nationality and age – of our employees.
- In the course of the year significant progress was made in developing and installing the first group-wide IT platform. This platform will make an important contribution to the further rollout of an application package to support R&D processes and to improve and support our supply chain management.
- The Legal Affairs department made a major contribution towards standardisation of in-house corporate processes, providing support in the form of contract templates and developed concepts to further simplify the company's corporate structure.
- In 2010, the production facility in Nijmegen again failed to make full use of its production capacity. Thanks to competences in our cement products segment, such as in sterile and aseptic treatment of solutions and gels, and to the pharmaceutical licence that enables us to manufacture products that contain antibiotics, we have established a Center of Excellence for contract manufacturing, EMCM (European Medical Contract Manufacturing). Initial synergy effects in production, development and sales validate this move.

For 2011 we have prepared a new Management Agenda that outlines our targets for the year ahead. In the course of the year we will be reporting continuously on its implementation. All interest groups are to be enabled to follow in detail the ongoing realisation of our profitable growth strategy in the Trauma, Cement and Cementing Techniques and Infection Care segments.

We would like to take this opportunity of thanking our employees most sincerely for their commitment, their creativity and their cooperation and our business partners and shareholders for their further support and their continuing trust and confidence in the company.

We are looking forward to intensifying this cooperation in the future in order to be able to implement the process of transformation to growth and to accelerate this growth successfully.



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Biense Visser  
Management Board  
Chairman/CEO



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Bruke Seyoum Alemu  
Management Board  
member/COO



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Marek Hahn  
Management Board  
member/CFO

## Group Management Report for 2010

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, 2010: *aap* Implantate AG, *aap* Biomaterials GmbH, ADC Advanced Dental Care GmbH (ADC GmbH) and the *aap* bio implants Netherlands B.V. subsidiary European Medical Contract Manufacturing (EMCM) B.V.

aap Implantate AG, Berlin		
aap Biomaterials GmbH, Dieburg	100 %	
aap bio implants Netherlands B.V., Nijmegen, Netherlands	100 %	
ADC Advanced Dental Care GmbH, Dieburg	54 %	
AEQUOS Endoprothetik GmbH, Munich	4.57 %	

#### *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, with a further site in Obernburg, near Aschaffenburg. The merger of the two sites in Dieburg commenced in the 2010 financial year is scheduled for completion in the first quarter of 2011.

##### *aap* bio implants Netherlands B.V.

This company is the holding company of the Dutch *aap* Group with its head office in Nijmegen.



European Medical Contract Manufacturing (EMCM) B.V.

EMCM, based in Nijmegen, bundles the Dutch development and manufacturing functions in the field of medical biomaterials.

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

After the increase in share capital based on shareholders' resolutions dated March 9, 2010 and May 17, 2010 as entered in the commercial register on June 2, 2010 and November 9, 2010 respectively, *aap* Implantate AG's shareholding in AEQUOS Endoprothetik GmbH was reduced from 5.32% to 4.57%.

#### *Executive Bodies*

##### Management Board

The Management Board of *aap* Implantate AG consists of three members. Mr. Biense Visser, 58, is the Management Board Chairman (CEO) and is in charge of Corporate Development, Legal Affairs and Investor & Public Relations.

Mr. Bruke Seyoum Alemu, 45, is the Chief Operating Officer (COO) and is in charge of Research & Development, Production and Sales & Marketing across the Group.

Mr. Marek Hahn, 36, was appointed to the Management Board as Chief Financial Officer (CFO) with effect from April 1, 2010. In addition to Finance, he is in charge of Human Resources, IT and Administration.

##### Supervisory Board

At the General Meeting held on July 16, 2010 it was decided to reduce the membership of the Supervisory Board from six to three members. Dr. Winfried Weigel, Mr. Marcel Boekhoorn and the company's founder Uwe Ahrens left the Supervisory Board. Mr. Boekhoorn and Mr. Ahrens were elected as substitute members and thereby retain close ties with the company. At its constitutive meeting held after the General Meeting, the Supervisory Board re-elected Mr. Rubino Di Girolamo as its chairman and elected Mr. Ronald Meersschaert as its deputy chairman.

## 2. Segments

As agreed by the Management Board in January 2009, one of the decisions that were reached as part of the *aap* Group's strategic refocusing was to discontinue its Traumatology/Orthopaedics and Biomaterials segmentation and in its place to manage the *aap* Group both internally and externally



as a company without separate segments. This approach is also reflected consistently in the Group's management and reporting structure.

### 3. Important Products and Business Processes

In Germany, *aap* has three manufacturing sites in Berlin, Dieburg and Obernburg. 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 manufactured in Obernburg and Dieburg. The proposed merger of the two sites in Dieburg, Hesse, will bundle development and manufacturing capacity in the field of medical biomaterials and cement and cementing techniques at this location. 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 centre and a distribution warehouse for international distributors.

In the course of the 2009 strategic realignment the merger of business units under one roof led to a restructuring of business processes. Cross-functional teams ensure that business processes are optimised continuously. Along with the Center of Excellence in Marketing & Sales at *aap*'s head office in Berlin, the merger of the Dieburg and Obernburg sites in 2011 will lead to the establishment of a further Center of Excellence in Research & Development of cement and cementing techniques in Dieburg. A cross-site research and development body and a quality management body will promote synergy effects between metal implants and biomaterials technologies. Initial progress was made in the standardisation of the IT infrastructure. Development of the first group-wide IT platform has been almost completed and migration of all employees to the new infrastructure will be completed in the first half of 2011.

Highlights of 2010 were the approval of Jason® G collagen fleece, which as a new *aap* product developed in-house will be placed in the Infection Care segment, and the market launch of the GeniUs® anatomic knee joint system with a totally revised instrument set. In addition, approval was gained in 2010 for a bone cement for the fixation of endoprostheses.

### 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 14% of sales (previous year: 12%). 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 significant percentage of *aap*'s sales is accomplished by 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 2011 in the bone cement and cementing techniques areas in particular.

The aim of analysing the existing intellectual property portfolio was to identify products and technologies that by virtue of their unique selling proposition can contribute towards strengthening the Group's competitive position and thereby towards boosting its enterprise value. That is why continuous development of the strategic IP portfolio is a cornerstone of the development of *aap* from what today is mainly a generics manufacturer into an innovation and product leader.

*aap* continued in 2010 to present its range of products at leading international trade fairs such as the Arab Health in Dubai and the A.A.O.S. (American Academy of Orthopaedic Surgeons) in New Orleans. In Vienna, *aap* presented its products at Eurospine 2010. In Germany, *aap* was present at events that included Medica 2010 in Düsseldorf, the German Congress for Orthopaedic and Accident Surgery (DKOU) in Berlin, the 29th Annual Meeting of the European Bone Joint Society (EBJIS) in Heidelberg 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. CE approval was secured for the WSG system in the European Union. Jason® G collagen fleece (market launch planned for Q2 2011) and the GeniUs® anatomic knee system were approved and taken to market launch. In the fourth quarter, *aap* received market approval for various trauma products in Italy and Brazil. In addition, the entire product portfolio was recertified by DEKRA, thereby confirming that the requirements of *aap*'s quality management system comply with all relevant standards, directives and legislation. In addition, *aap* continuously assists various large customers with securing approval of their products manufactured by *aap*.

In the field of biomaterials the approval of Jason® G in 2010 significantly strengthened the Infection Care business unit, which is scheduled to be further enhanced by further products that are under development.

## 5. Fundament 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 distributed. Furthermore, production is undertaken at *aap*'s Dutch subsidiary 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. 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 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 over 16,700 patents (as of 2008), followed by electronic telecommunications and data processing.

### a) Trends in Medical Technology

The development of medical technology was far from being over with the end of the twentieth century. On the contrary, progress can now be expected to be even more rapid. A number of other highly innovative technologies is already at the clinical trial stage or about to reach it.

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 towards 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 heavily in research and development in the 2010 financial year. Unchanged on the previous year, 25% of the Group's employees work in R&D, Clinical Affairs, Regulatory and Quality Management. *aap* invested about 14% of its sales in developing new products (previous year: 13%). In addition to its own R&D activities, *aap* cooperates with a large number of academic institutions (research institutes, university hospitals) in new developments and further development of existing technologies and in clinical trials. In addition, during 2010 *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. By using this model *aap* intends to create an additional future-proof mainstay of sales and earnings.

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

Platform Technology	Derivative Products	
Cement and Cement Mixing Technology	PMMA-Cements HA-PMMA-Cements Vertebroplasty Cements Vacuum Mixing Systems	Prepack Mixing Systems Mixing System Disposable Mixing and Transfer Systems Accessories for Articles for Modern Cementing Technique
Silver-Technology	Ag-Coating	Ag-Cement
Hydroxyapatite(HA) and Calcium Phosphate(CaP)-Technology	Ostim® PerOssal® Synthetic HA/CaP Ceramics Nano-HA-Coating	OsteoCem® (CaP-Cement) Ostim® Granules Natural HA-Ceramics (Cerabone®) Synthetic non-resorbable HA-ceramic
Magnesium Technology	Small Plates, Screws and Pins Products for Cartilage Repair	Interference Screws
Locking Compression Fixation Technology	Anatomical Plates WSG, Radius & Humerus	WSG, Tibia & Femur
Shoulder System Technology	Trauma Shoulder System	Inverse Shoulder System
Collagen Technology	Jason® Jason® G Jason® Membrane	Collagen with prolonged release of Antibiotics Rotator Cuff Repair

In 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 for vertebroplasty applications and prepacked cement mixing and application systems for cemented joint replacements. Further focal points were in silver and magnesium technology. For the collagen platform technology and the Infection Care line of business, the approval of Jason® G was an important milestone.

Developments in traumatology were concentrated on the further development of cannulated screw systems and the development of the angle-stable plate system.

In orthopaedics the focus of our work was on extension of the shoulder and further development of the knee portfolio.

## 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

In 2010 the global economy staged a better recovery from the previous deep recession than was anticipated a year ago. The global gross domestic product showed especially strong growth in the first half of 2010. It was stimulated by in some cases highly expansionary monetary and fiscal policies pursued by a number of countries and by the upsurge in world trade from which the German economy in particular benefited. In the further course of the year the pace of economic recovery slowed down in many countries, however. In all, the world economy will have grown by over 4% in 2010, compared with a 1% decline in the previous year.

The strongest growth dynamics in 2010 came from the threshold countries. In most industrialised countries the pace of economic recovery was perceptibly more moderate. After a good start to the year the US economy expanded on a subdued note. After the previous year's decline, exports and capital investment showed a positive trend once more. Due to continuing high unemployment, low income growth and low real estate prices, private consumption – the mainstay of the US economy – provided only a moderate growth stimulus. The Japanese economy owed its growth mainly to the upsurge in exports, but appreciation of the yen weakened the economy's dynamism perceptibly in the course of the year.

In the euro area, economic recovery was for the most part subdued. Along with higher exports, private and public sector consumption contributed towards growth, whereas capital investment had a slightly negative effect. Overall, economic development in the euro area was divided. Countries that suffered from a downturn in property prices and very high government deficits had only very low or even negative growth. The German economy's positive development was, in contrast, above average. The second quarter in particular saw the highest quarterly growth since reunification due to higher exports and an increase in investment. On account of this dynamic growth in mid-year the German economy is likely to have grown by more than 3% overall in spite of a slowdown in the second half of the year.

The up-and-coming threshold countries for the most part grew strongly. The Chinese economy expanded strongly, especially in the first half, due to heavy government investment and rising private consumption. In the further course of the year this dynamic growth seems likely to have tailed off due to the overall cooling down of the economy that the government wanted to see come about. The other large threshold countries, especially India and Brazil, also achieved high growth in overall economic output in 2010.

The financial crisis experienced in 2008 and 2009 had not only direct effects such as lower consumer spending and savings constraints for companies but also another, delayed effect that is only now becoming apparent. After initial economic booster programs, governments are now reducing their expenditure once more, including healthcare spending. These austerity measures will have a long-term effect and weigh heavily on the healthcare sector in general and on orthopaedics in particular. Although there is only a conditional link between the medical technology sector and general economic development, *aap* also faces this problematic environment.

Political changes in a number of countries and markets also influenced market players, while the deterioration in payment behaviour that often accompanied them imposed a further burden on *aap's* liquidity. The shorter payment targets agreed with the company's biggest OEM customers in 2009 also went on to support the *aap* Group's liquidity in 2010.

## b) Industry Framework Conditions



The medical technology industry is a worldwide growth market. Progress in medical technology, the demographic trend towards more and more older people and the extended health concept will ensure that this remains the case. Demand for healthcare service will continue to increase. Patients are increasingly prepared to invest in their health. The world market for medical technologies amounts to around €220 billion. The European market at €65 billion is the world's second-largest market after the United States at €90 billion. Germany at €23 billion is the world's third-largest individual market after the US and Japan (€25 billion); it is also by far the largest in Europe, twice the size of France's and around three times that of Italy or the UK. Yet due to cost pressure on the healthcare market in all Western countries the prices of all providers have come under significant pressure. One result of this trend is an overall increase in market consolidation. The market's big players may be increasing their product sales in unit numbers, but their sales growth is disproportionately lower in cash terms.

*aap* continues to combat these trends by maintaining a good price-performance ratio, especially as demand for European products remains healthy. The company is also putting this reputation to good use as a contract developer for leading orthopaedics industry enterprises. These long-term purchase agreements for our customers' global markets mean that international economic fluctuations have a less serious effect on *aap*. Furthermore, *aap* ran no major US dollar risks because its US dollar-denominated income and expenses are largely identical.

## B) Earnings, Financial and Assets Position

### Signing or Ending of Cooperation Agreements and Other Important Contracts

In the pursuit of our corporate strategy of focusing on the Ortho/Trauma/Spine core areas, *aap* Biomaterials GmbH sold off another non-core dental sector product in the third quarter of 2010.

Also in the third quarter, *aap* Biomaterials GmbH concluded a supply contract for another OEM product with a globally active orthopaedics company.

In the third quarter, EMCM B.V. signed an exclusive distribution agreement with an American company for our spinal product Adcon®.

In December, *aap* Biomaterials GmbH signed a letter of intent to develop a new cement product with a globally active orthopaedics company.

### Earnings Position

#### (1) Description of Development by Results/Results Structure

Total sales fell by 14% on the previous year from €33.1 million to €28.4 million in 2010. This total sales consisted of products and services (€27.5 million) and project sales (€0.9 million from sales of know-how). Adjusted for project sales, sales by the Analytics division, which was sold in December 2009, OEM sales in the traumatology sector that were no longer made in 2010 and the transfer of inventories that accompanied the exclusive transfer of distribution in the non-core dental sector totalling €9.0 million, like-for-like product-level sales in 2009 totalled €24.1 million, so the 2010 sales

total of €27.5 million amounted to a 14% increase and the Group fell only slightly short of its 15% product-level sales growth forecast for the year.

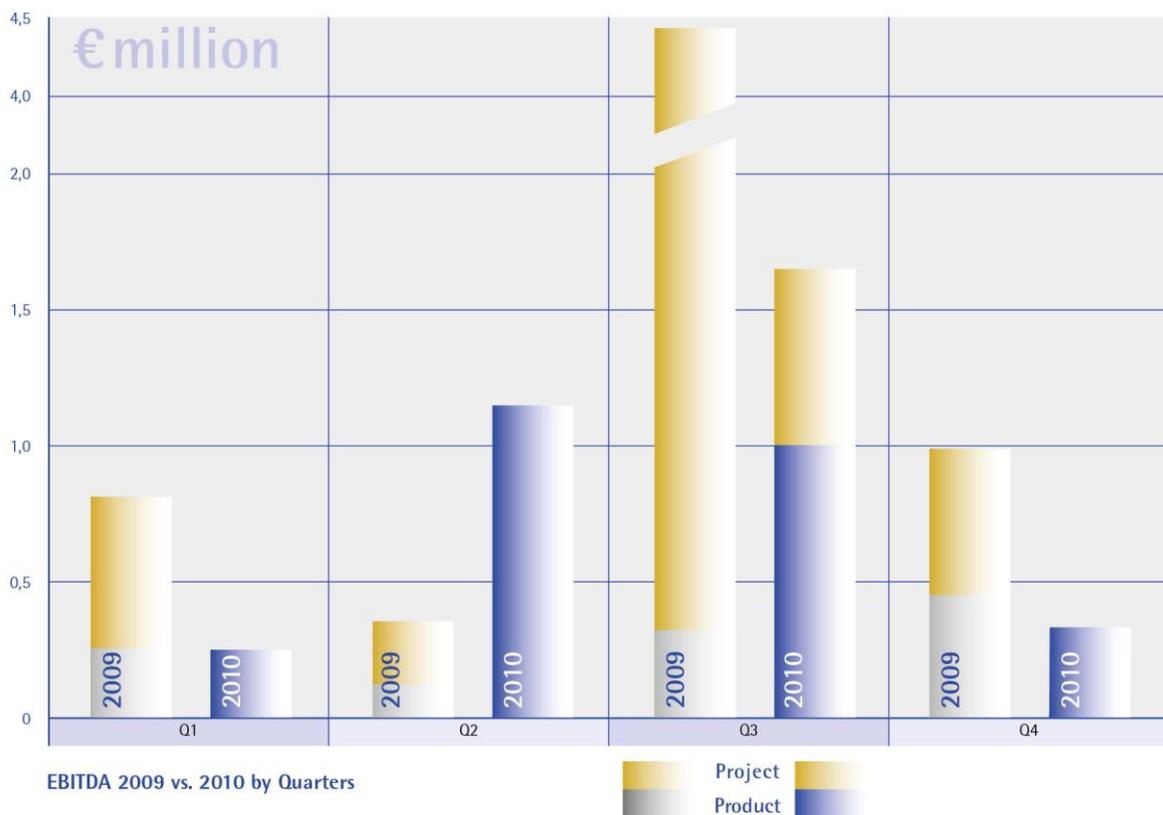
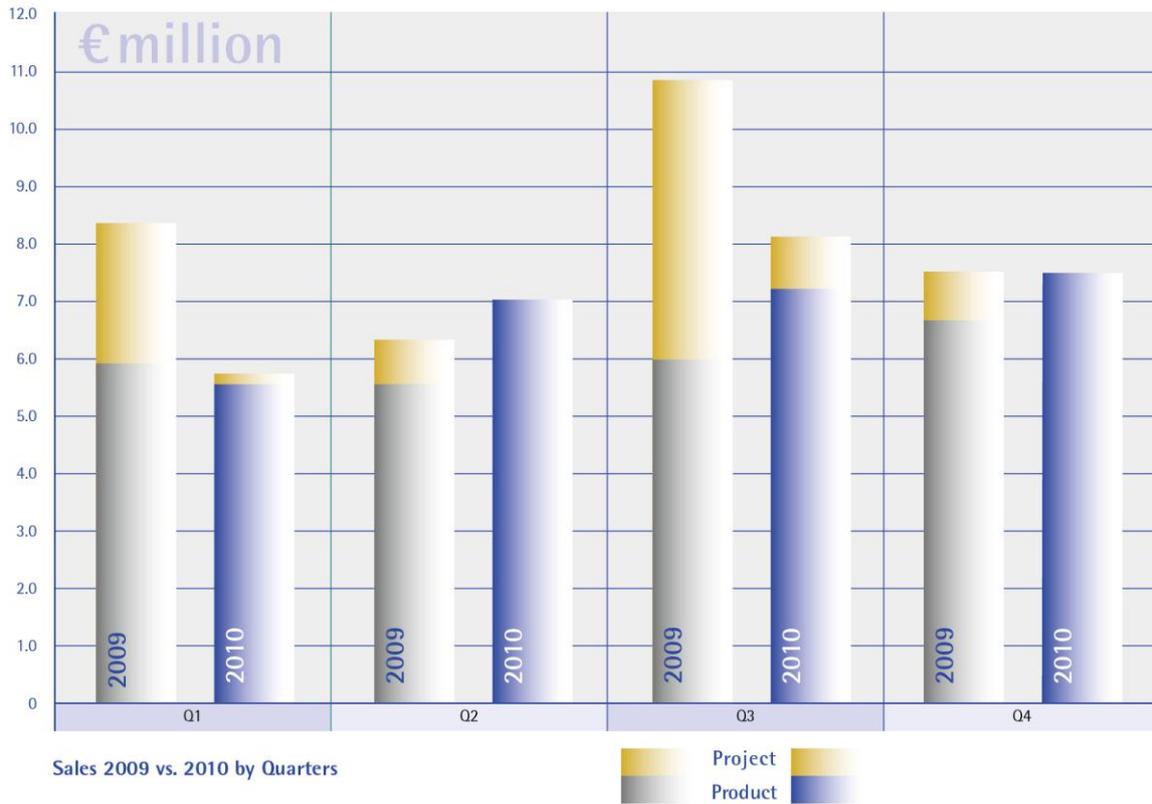
The different effects mentioned above can be summarised as follows:

	2010 in € million	2009 in € million	Change in € million	Change in %
Total sales	28.4	33.1	-4.7	-14%
Project business	0.9	4.5	-3.6	-80%
Analytics division	0.0	2.7	-2.7	-100%
OEM Trauma customer	0.0	1.6	-1.6	-100%
Dental business (transfer)	0.0	0.2	-0.2	-100%
Sum total of effects	0.9	9.0	-8.1	-90%
Product sales (adjusted)	27.5	24.1	3.4	14%

Our sales target ambitions were higher, but there were two main reasons why we did not quite manage to achieve them. First, as previously communicated, we decided to postpone the product launch of the WSG system in order to evaluate possible marketing strategies. In addition, final modifications were made to the design. Second, sales of our allograft (human bone) material fell short of expectations because a competing French company has accused us of a breach of patent and is calling for sales of our products to be brought to a halt in a number of countries.

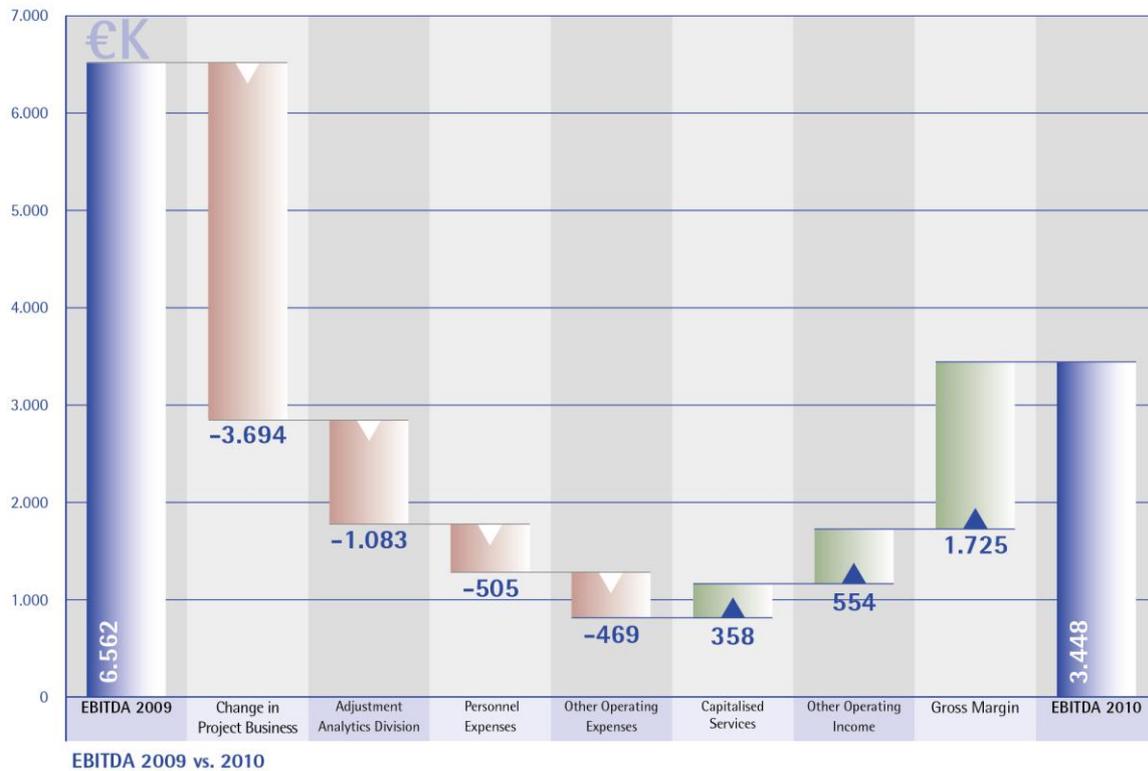
As in the previous year, project sales do not constitute a one-time effect. Transactions of this kind in fact lay the groundwork for strong sales growth in future financial years and intensify business relations with our respective partners due to *aap*'s position as an exclusive manufacturer for these partner companies.

The year-on-year increase in adjusted sales at product level to €27.5 million (2009 adjusted: €24.1 million) was due primarily to higher sales in the bone cement and cementing techniques, dental and medical aesthetics fields.



In accordance with IFRS, *aap* as a development-intensive company capitalises not only internally produced goods but also spending on development projects that are highly likely to secure approval and achieve commercial marketing success (2010: €3.3 million; 2009: €3.1 million). After market

launch these capitalised development costs are depreciated over the products' useful life. The increase in capitalised development costs in 2010 was due to a higher year-on-year average number of R&D employees and was also a clear result of the strategy to develop *aap* into an innovation driver for medical implants and biomaterials.



EBITDA was down 48% from €6.6 million to €3.4 million, while EBIT or the Group's operating result fell from €3.6 million to €0.7 million. Adjusted for the effect on results of project sales and of the December 2009 sale of the Analytics division for €5.4 million, like-for-like 2009 EBITDA would amount to €1.2 million and like-for-like EBIT to -€1.6 million. It must be noted at this point that *aap* achieved its first positive operating result from product sales – €0.1 million – in 2010. This shows that *aap* has consistently continued the strategy of profitable growth on which it successfully embarked in 2009. The different effects mentioned above can be summarised as follows:

	2010 in € million	2009 in € million	Change in € million	Change in %
EBITDA	3.4	6.6	-3.2	-48%
Project business	0.6	4.3	-3.7	-86%
Analytics division	0.0	1.1	-1.1	-100%
EBITDA (adjusted)	2.8	1.2	1.6	>100%

	2010 in € million	2009 in € million	Change in € million	Change in %
EBIT	0.7	3.6	-2.9	-81%
Project business	0.6	4.3	-3.7	-86%
Analytics division	0.0	0.9	-0.9	-100%
EBIT (adjusted)	0.1	-1.6	1.7	>100%

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

The financial result improved significantly from -€0.8 million to -€0.5 million. This gratifying trend was the result of a strong year-on-year decline in the average inventory of interest-bearing financial liabilities and of improved interest rates for short- and long-term loans.

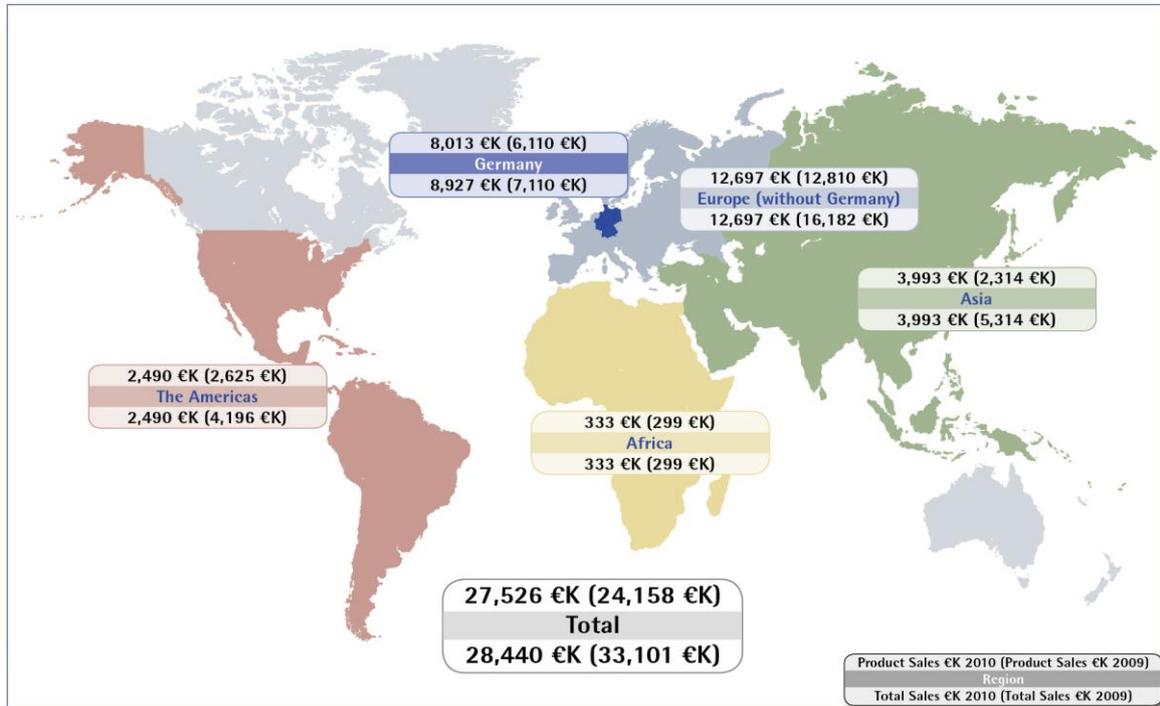
*aap* thus achieved a €0.2 million result of ordinary business activities after €2.8 million in the previous year. Adjusted for the effect on results of project sales and of the December 2009 sale of the Analytics division, the like-for-like result of ordinary business activities in 2009 was -€2.4 million (2010 excluding project sales: -€0.4 million).

Income tax stated at €135K was the result of actual tax expenditure of €78K and the €57K balance of changes in deferred tax income and expenses. For the development of deferred taxes see the information in the Notes. The result after taxes was €0.1 million (previous year: €1.9 million).

## (2) Analysis of the Most Significant Financial and Non-Financial Performance Indicators

*aap* as an innovative growth company considers sustainable profitable growth, the development of long-term partnerships with leading global orthopaedics companies and the development of innovative products to be its primary performance indicators. In addition, as part of the ongoing focus on the Ortho/Trauma/Spine divisions and of the restructuring of the *aap* Group, the focus is on customers, costs and liquidity.

### (3) Development of Sales and Orders



Sales 2009 vs. 2010 by Region



Total Sales 2009 vs. 2010 by Region



Product Sales 2009 vs. 2010 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 were down 14% on the previous year's €33.1 million to €28.4 million. The €28.4 million in total sales consisted of sales of products and services (€27.5 million) and project sales (€0.9 million, sales of know-how). Adjusted for project sales, sales by the Analytics division, which was sold in December 2009, OEM sales in the traumatology sector that were no longer made in 2010 and the transfer of inventories that accompanied the exclusive transfer of distribution in the non-core dental sector totalling €9.0 million, like-for-like 2009 product sales were €24.1 million, so that the 2010 figure of €27.5 million represented a 14% increase. Sales in Germany rose, due mainly to sales shifts from other European countries. Sales in other European countries fell, largely on account of the December 2009 sale of the Analytics division and relocation of customers' head offices to Germany. Sales in North and South America fell, due mainly to the year-on-year reduction in the volume of business with an OEM partner in the United States in the field of traumatology. The sales decline in Asia was primarily a consequence of the €3.0 million license deal in 2009 with a distribution partner in the field of medical aesthetics. Adjusting the 2009 sales figures for this effect, sales rose in 2010, due principally to higher product business with new and existing distributors in these markets.

The Traumatology & Orthopaedics product sector consists of fracture healing products for all major skeletal areas and of shoulder, hip and knee joint replacements. In 2010, sales in this area fell by 17% to €7.9 million (previous year: €9.5 million). The decline in this product area was influenced mainly by a fall in the volume of business with an OEM customer in the field of traumatology. Compared with the previous year, *aap* did no business worth mentioning with this customer in 2010 (2009: €1.6 million). In the course of 2010, *aap* acquired a new US customer, supplying it with the first sets of cannulated screws in the fourth quarter. *aap* has reached an advanced stage of negotiations with other large US companies and therefore anticipates dynamic traumatology sales developments in 2011. The main pillars of sales in traumatology continue to be cannulated screw and in orthopaedics the hip product group.

In the Biomaterials sector, with its core product areas bone cements and cementing techniques, infection care and bone and tissue regeneration and the non-core areas dental and medical aesthetics, sales were down to €20.5 million (previous year: €23.6 million). The figures for both years included special effects. In 2010, *aap* earned €0.9 million from the sale of product know-how in the non-core dental sector, while in 2009 the three intellectual property agreements concluded had a combined value of €4.5 million. The Analytics division, sold in December 2009, earned €2.7 million in sales in 2009. Adjusted for these effects, product sales totalled €19.6 million in 2010 and €16.4 million in 2009. Sales growth in 2010 was mainly in the bone cement and cementing techniques, dental and medical aesthetics areas.

Due to development of international business – with OEM customers and local distribution partners in both areas – *aap* now earns 86% of its sales outside of German direct distribution (2009: 88%) and thereby continues to limit 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 (sum of sales, changes in inventories of finished goods and work in progress, and capitalised internally produced assets and development work) was down, with a higher change in inventories and higher capitalisation of internally produced assets and development work, from €34.8 million to €32.6 million, due primarily to the decline in overall sales. Adjusted for the December 2009 sale of the Analytics division, like-for-like total output in 2009 was €32.0 million.

Other operating income was unchanged on the previous year at €2.7 million and consisted largely of income from government or European grants, out-of-period income, income from written-off receivables and income from asset write-ups. Adjusted for effects of the December 2009 sale of the Analytics division, the like-for-like 2009 figure is €2.1 million.

The adjusted cost of materials ratio, excluding €0.9 million (previous year: €4.5 million) in sales revenue for which there is no corresponding expenditure in terms of material and excluding the effects of the sale of the Analytics division, was 30% (previous year: 26%). The main reason for this increase was a change in product mix and sales structure with lower margins. 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. For 2011 we have accordingly set ourselves the target of reducing the relative share of operating working capital in product sales by 10%.

Despite the fall in total output, the cost of personnel ratio was unchanged at 37%. That was a result of implementing in the course of restructuring the reduction in employee numbers from 315 (as of December 31, 2008) to 242 (as of December 31, 2009) and of the resulting annual average number of employees in 2010: 251. When the adjusted ratios (adjusted for the Analytics division and project sales) are compared, the cost of personnel ratio fell from 42% to 38%. Another pleasing trend is that even after adjustment for the personnel expenses of the Analytics division, which was sold in December 2009, and in spite of an increase in personnel as of December 31, 2010 to 256 employees personnel expenses showed only a slight €0.5 million increase to €12.1 million (previous year adjusted: €11.6 million).

As of December 31, 2010, the *aap* Group had 256 employees, including 207 full-time and 49 part-time staff (previous year: 242, including 193 full-time and 49 part-time staff). To ensure long-term production capabilities, *aap* Implantate AG continues to train its own skilled employees.

Other operating expenses fell slightly from €10.3 million to €10.1 million. Due to the lower total output the other operating expenses ratio rose slightly from 30% to 31%. Adjusted for the effects of project sales and the Analytics division, which was sold in December 2009, the like-for-like figures were as follows: €10.1 million in 2010 and an adjusted ratio of 32% and €9.6 million in 2009 and an adjusted ratio of 35%. This too was a clear sign of further progress made in the cost reduction measures initiated in 2009 and of our stringent cost management.

Scheduled depreciation of intangible and tangible fixed assets was down from €3.0 million (2009 adjusted for the Analytics division: €2.8 million) to €2.7 million. The depreciation ratio was 8% (previous year: 9%, adjusted: 10%).

## Financial Position

The *aap* Group's operating cash-flow (before investment and financing activities) was down by €2.1 million to €2.7 million (previous year: €4.8 million), due mainly to project sales totalling €4.5 million in the previous year. Prefinancing of higher current assets as a result of higher product sales (sum of inventories, receivables and other assets), up from €19.2 million to €20.1 million, also had the effect of reducing the operating cash-flow.

Cash-flow from investment activities totalling -€4.5 million (previous year: -€1.9 million) consisted mainly of disbursements for development projects and investments in technical plant and machinery, office furniture and equipment. In 2009, the sale of the Analytics division contributed €2.2 million in assets, debts and goodwill towards the reduction in cash-flow from investment activities.

The €0.8 million increase in cash-flow from financing activities amounting to €295K resulted primarily from the higher €2.0 million net change in financing debts (the balance of taking out and repaying loans: 2010: €250K, previous year: -€1.8 million) and the previous year's 1.2 million capital increase. Borrowing in the 2010 financial year served to secure corporate financing and to finance the following business activities amongst others:

- R&D projects
- Repaying shareholders' loans and scheduled repayment of the principal of bank loans
- Maintenance investment in production facilities in Berlin, Nijmegen and Dieburg
- Financing business assets.

*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 €0.9 million as of December 31, 2010 (previous year: €2.4 million). This decline in cash and cash equivalents held compared with December 31, 2009 was partly due to a much reduced inflow of funds from project sales, from contractually agreed loan capital repayments and from financing the scheduled increase in current assets as part of *aap*'s growth strategy. To secure corporate financing and continue to ensure growth, *aap* was granted in the third quarter of 2010 subordinated loans totalling €1.9 million with staggered terms to maturity of up to one year at an interest rate of 9% p. a. In January 2011 the shareholders notified *aap* that they would be leaving the loans in the company until at least December 31, 2011. In addition, a €0.4 million shareholder loan that was due for repayment was repaid on schedule using own shares.

As of December 31, 2010, the *aap* Group had at its disposal contractually guaranteed credit lines totalling €5.0 million of which, as of the balance sheet date, €4.8 million gross and €4.0 million net had been taken up. As of December 31, 2010, *aap* had at its disposal €1.0 million in freely available liquidity (sum of deposits with banks and freely available lines of credit).

In € million	31.12.2010	31.12.2009
Gross take-up of credit lines	-4.8	-4.5
Credit available on credit lines	0.8	2.3
Net take-up of credit lines	-4.0	-2.2

On the basis of its positive 2009 results, *aap* was able to reduce its financing costs significantly in 2010. The *aap* Group began 2011 with credit lines totalling €5.0 million at its disposal. From February 1, 2011 the lines of credit for the Group's German companies were reduced by €200K. On the basis of the budget for 2011 and the working capital management measures already initiated, *aap*'s liquidity position should improve perceptibly in 2011. We have therefore agreed with the banks that the credit lines may be reduced by €250K at the end of the third and the fourth quarter.

Another pleasing development continues to be that of what, for *aap*, are the strategically important key financial indicators debt coverage ratio and interest coverage ratio. As of the reporting date, the rolling debt coverage ratio, based on the past four quarters, was 2.7 (31.12.2009: 1.2) and the rolling interest coverage ratio, based on the past four quarters, stood at 6.1 (31.12.2009: 7.7). In spite of these lower figures, *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.

Interest risks result from financing debts and financial investments. The *aap* Group seeks to optimise the interest result and to minimise the interest risks. To do so it operates a group-wide system of cash management and concludes original financial transactions. Risks relating to interest and price changes are managed by means of a mixture of terms and of fixed and variable rate items.

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 its current long-term loan agreements, for example, *aap* must not fall below a certain minimum Moody's rating or must comply with specific maximum/minimum limits as regards to its equity ratio, level of indebtedness or debt burden. *aap* regards the risk of failure to comply with the financial covenants that might result from downgrading by the financing bank to be very minor. In addition, *aap* pursues a very transparent and open communication policy with its financing banks to enable it to identify potential risks at an early stage and to find a suitable solution jointly with the financial institutions in the case.

Based on the planned budget for 2011, *aap* considers the liquidity situation to be sufficient in view of its existing credit lines. *aap* expects to end 2011 with a positive cash-flow. The standards adopted in 2010 for target values for debt coverage of less than 3 and interest coverage of more than 6, based in each case on rolling EBITDA, also apply for 2011. For further information on liquidity management please refer to the explanation outlined in the Notes under capital management.

#### Assets Position

The *aap* Group's assets position changed only slightly on the previous year. Its balance sheet total rose from €62.7 million to €63.6 million, due mainly to higher inventories of capitalised internally produced assets and development work, high current assets and an increase in short-term borrowing.

The €1.5 million increase in non-current intangible assets from €35.5 million to €37.0 million was due primarily to €3.3 million in additions to the Group's capitalised internally produced assets and development work.

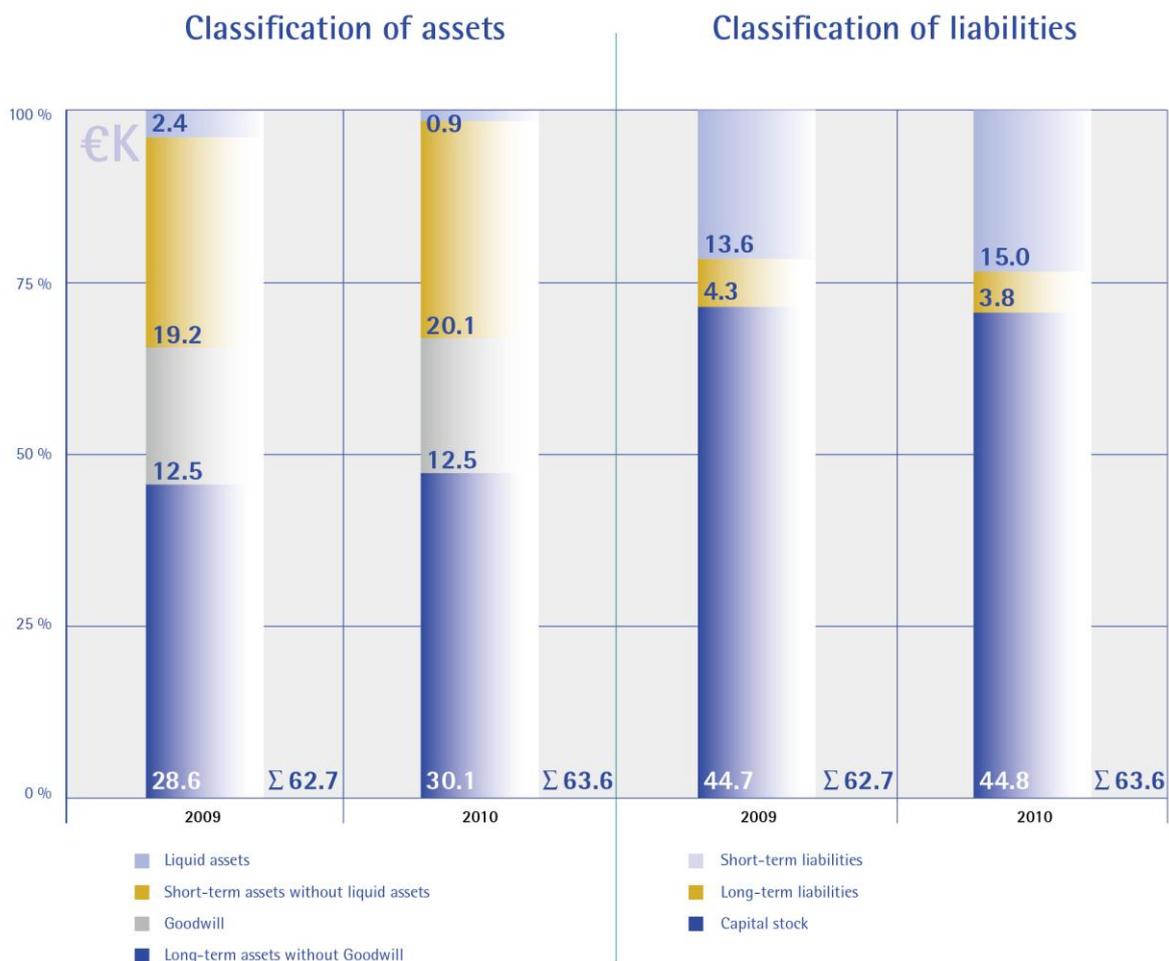
The €0.9 million increase in short-term assets (excluding cash and cash equivalents) to €20.1 million (previous year: €19.2 million) resulted in particular from the scheduled increase in inventories and trade receivables in connection with sales growth.

The guarantee claim against the contributing shareholders in CORIMED Kundenorientierte Medizinprodukte GmbH, Coripharm Medizin-Verwaltung-GmbH and Coripharm Medizinprodukte GmbH & Co. KG stated under other financial assets was reduced during the financial year by recourse to *aap* shares worth €378K held as securities. The shares were sold in the stock market and used during the financial year to settle liabilities (see Note 23).

The Group's capital stock rose only slightly, from €44.7 million to €44.9 million, as a result of the net profit for the year. Its equity ratio fell, also only slightly, from 71% to 70% due to the disproportionate increase in equity compared with the increase in net assets.

The level of capitalised deferred taxes fell from €127K to €41K. 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, 2010 compared with the previous year is summarised in the following chart:



## C) Supplementary Report

There were no major 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) No. 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 KEMA (*aap* bio implants Netherlands Group).
- 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 earnings, 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 addition, clinical effects of medical devices are generally dependent on the skills, knowledge and experience of the user.

These are the reasons 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 2010, *aap* achieved 27% (previous year: 31%) 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 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 circumstances, 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 sustainable effect on the Group's assets, financial and earnings position.

To actively protect the Group's own intellectual property, *aap* set up in 2009 a group-wide 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. The initial oral proceedings heard during the reporting period led to no new findings. As *aap* is merely the contracting partner or contract manufacturer for another indicted company, it still expects the case against it to be dismissed with no obligation on *aap* to pay compensation.

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 continues to consider the €70K provision made for this case in 2010 to be sufficient. An additional provision has been made for associated legal fees.

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.

#### 4) Further Information Required by Section 315 (2) No. 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 (2010: €412K, previous year: €357K). 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 revenue.

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, 2010, the *aap* Group had at its disposal contractually assured credit lines totalling €5.0 million, of which €4.8 million gross and €4.0 million net had been taken up as of the reporting date. As of December 31, 2010, *aap* had at its disposal free and open liquidity (sum of bank deposits and open lines of credit) totalling €1.0 million.

In € million	31.12.2010	31.12.2009
Gross take-up of credit lines	-4.8	-4.5
Credit available on credit lines	0.8	2.3
Net take-up of credit lines	-4.0	-2.2

On the basis of its positive 2009 results, *aap* was able to reduce its financing costs significantly in 2010. The *aap* Group began 2011 with credit lines totalling €5.0 million at its disposal. From February 1, 2011 the lines of credit for the Group's German companies were reduced by €200K. On the basis of the budget for 2011 and the working capital management measures already initiated, *aap*'s liquidity position should improve perceptibly in 2011. We have therefore agreed with the banks that the credit lines may be reduced by €250K at the end of the third and the fourth quarter.

Another pleasing development continues to be that of what, for *aap*, are the strategically important key financial indicators debt coverage ratio and interest coverage ratio. As of the reporting date, the rolling debt coverage ratio, based on the past four quarters, was 2.7 (31.12.2009: 1.2) and the rolling interest coverage ratio, based on the past four quarters, stood at 6.1 (31.12.2009: 7.7). With these lower figures, *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.

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 its current long-term loan agreements, for example, *aap* must not fall below a certain minimum Moody's rating or must comply with specific maximum/minimum limits as regards to its equity ratio, level of indebtedness or debt burden. *aap* regards the risk of failure to comply with the financial covenants that might result from downgrading by the financing bank to be very minor. In addition, *aap* pursues a very transparent and

open communication policy with its financing banks to enable it to identify potential risks at an early stage and to find a suitable solution jointly with the financial institutions in the case.

Furthermore, shorter payment targets agreed with various global customers in 2009 were maintained in 2010, and *aap* is not subject to any major fluctuation in its payment flows.

In the 2010 financial year, *aap* concluded only internal currency hedging transactions because it ran only a slight currency risk and US dollar receivables and payables largely cancelled each other out. In future, however, *aap* plans to hedge these receivables externally for larger deals 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***

The financial crisis experienced in 2008 and 2009 had not only direct effects such as lower consumer spending and savings constraints for companies but also another, delayed effect that is only now becoming apparent. After initial economic booster programs, governments are now reducing their expenditure once more, including healthcare spending. These austerity measures will have a long-term effect and weigh heavily on the healthcare sector in general and on orthopaedics in particular. Their repercussions, combined with the greater needs of an aging population, will in this combination pose a serious challenge to the healthcare system. In orthopaedics a trend can be expected that is similar to the trend in the drugs market where generics are gaining market shares along the lines of generics wherever possible and innovative drugs [only] where they are essential. For the orthopaedics market this trend may lead to an increased demand for standard solutions and thereby to low-cost solutions in general. Limits may also be imposed on reimbursement of cost-intensive solutions that will then only be used when absolutely necessary.

An initial reaction that we are noticing is, on the one hand, consolidation by many industry players in order, for example, to form purchasing groups. On the other hand we are observing increased activity on the part of various global players who are keen to round off their product portfolio with low-cost products.

*aap* can benefit from this trend because we own a wide range of low-cost trauma products and biomaterials that are of interest for both the customers and the cost bearers. Our products that prevent and/or heal infection and that are either in the market or in the pipeline can contribute towards meeting the growing customer needs. In the USA, for example, the healthcare industry will soon be available to 30 million people who were previously not insured. The FDA-tested, high-quality standard *aap* osteosynthesis product line could satisfy this demand. This year we are again observing a growing trend towards group tenders by insurance companies, hospital groups and the like. As a result, other interested parties such as purchasing managers are involved in the decision-making

process and sales promotion is no longer primarily via doctors. This is another trend from which companies like *aap* that have only a limited sales force stand to benefit.

### 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 websites.

### Results Management Agenda 2010

<b>Customers</b>	Appointment of two additional export managers
	Important international company signed up as new partner
	Development of a market entry strategy for the US market and appointment of a new business development director
	New distribution agreement with marketing and sales specialist Bioscompass, Inc.
<b>Innovation</b>	Appointment of a corporate vice president for R&D
	Concentration on development and design and less on R&D
	Merger of Dieburg and Obernburg sites commenced
	Letter of intent signed on the development of a product
<b>Financials</b>	Marek Hahn appointed as new CFO
	Auditor appointed to handle group-wide auditing
	14% sales growth at product level
	Reduction of working capital to 61 days (in relation to sales)
	25% reduction of financing costs
	Prime Standard listing reaffirmed
<b>Organisation/IT</b>	Scheduled headcount increase to 256, mainly in marketing and sales, by hiring well-trained employees
	Major progress in developing and installing the first group-wide IT platform
	Standardisation of internal corporate processes
	Establishment of a Center of Excellence for contract manufacturing in Nijmegen

## Goals Management Agenda 2011

<b>Customers</b>	Develop business in US market, €1 million sales target for 2011
	Up to 15% in-house sales growth of products with <i>aap</i> label
	Launch innovative WSG trauma product line with first-year sales target of up to €2 million
	Develop plan to launch <i>aap</i> sales organisation in a large EU market and in one of the BRICS states
<b>Innovation</b>	Improve Freshness Index <sup>7</sup> from 13% (2010) to 15%
	Establish a Center of Excellence for research and development of cement and cementing techniques in Dieburg
	Sign at least two license agreements
<b>Financials</b>	Improvements in reporting and controlling
	Profitable growth: 10% sales growth
	DCR $\leq$ 2.5 and ICR $\geq$ 6
	Positive cash-EBIT <sup>8</sup> excluding internally produced and capitalised assets: €2 million in cost savings within the company, including €750K in R&D
	Achieve cost savings
<b>Organisation/IT</b>	Further reduction in number of sites and companies
	Corporate governance: adoption of a code of conduct
	Set up a new group-wide IT infrastructure
	Expand contract manufacturing under the EMCM label
<b>Framework Conditions</b>	Apply the principles of profitable growth
	Implementation strategy of launching and selling IP-protected products
	Product focus on cement, infection care and trauma
	Focus on German, EU and US markets
	Intensify and accelerate OEM with market penetration by <i>aap</i> products
	Alignment to the market and not to technologies

### 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 can be seen from the Management Agenda, further optimisation in customers, innovation, financials and organisation is the stated aim for 2011.

<sup>7</sup> The Freshness Index is the percentage of overall sales achieved by products newly approved in the USA and Europe over the past three years.

<sup>8</sup> EBIT excluding internally produced and capitalised assets and depreciation of them



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**

In order to secure the international growth of *aap*'s own products in the long term, from 2011 *aap* will support its sales and marketing activities by building a corresponding capacity outside of the German-speaking countries. To expand our sales structure we are engaged in an intensive analysis of sales organisations in attractive European markets and in the BRICS states. *aap*'s first and foremost aim is to achieve autonomous growth, but it will also consider buy and build strategies.

For 2011 the Management Board assumes that sales growth at product level will be 10%. This growth will be based primarily on rising sales of IP-protected products and projects sold under the *aap* label. Furthermore, sales from additional marketing of our IP portfolio will contribute towards the further stimulation of profitable growth. A sales mix of this kind will also lay the foundation for continued profitable growth in the years ahead.

As part of the company's further focus on Trauma, Cement and Cementing Techniques and Infection Care, we are looking into the possibility of further divestment of products from non-core areas.

In the interest of shareholders and of its employees, *aap* would like in 2011 to adopt a code of conduct that makes the principles on which our economic activity is based clear and transparent.

### **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. In addition to product sales growth this is also to be achieved by implementing the proposed cost savings. In case the anticipated inflow of liquidity from project business should fail to materialise, *aap* has identified alternative sources of funding to ensure corporate financing and further growth. Long-term entrepreneurial success can only be achieved by consistently implementing the profitable growth strategy so that earnings rise faster than the underlying costs.

*aap* has set itself the goal of improving its Freshness Index from 13% (2010) to 15%. The Freshness Index for 2011 is to be improved by the launch of new products such as the WSG system and the antibiotics-impregnated Jason® G collagen fleece and by launching 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, 2010, the company's share capital amounted to €27,881,870 divided into 27,881,870 fully paid-up individual share certificates. Each share carries one vote at the general meeting. Only the statutory restrictions on voting rights apply. There are no differences in voting rights.

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

#### Management Board Remuneration

Remuneration of Management Board members is in accordance with the statutory provisions of the German Stock Corporation Act (Aktengesetz/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 distributed. In addition, the Management Board member was entitled to a total of 400,000 options from *aap* Implantate AG's 2008 stock options program, to be issued at the time of the publication of quarterly results.

At the end of May 2010 the members of the Management Board chose not to take up the allocation of a further 400,000 stock options from the 2008 program to which they were entitled.

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 €625K (previous year: €427K). 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*.

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 meeting 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-time 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 the 2010 financial year was as follows:

	Remuneration components in €'000				
	Performance -unrelated	Performance -related	With long-term incentive effect	Total (2010)	Total (2009)
Biense Visser	201	25	34	260	306
Bruke Seyoum Alemu	285	18	38	341	467
Marek Hahn (since 1.4.2010)	139	19	5	163	-
				764	773

#### Supervisory Board Remuneration

In addition to reimbursement of their expenses, members of the Supervisory Board each receive an attendance fee of €1,250 per meeting. The chairman receives twice this amount, the deputy chairman one and a half times this amount. By resolution of the General Meeting held on July 16, 2010, Supervisory Board remuneration is to be revised from the beginning of the 2011 financial year. From the beginning of the 2011 financial year, 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 contingent 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.

#### 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 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.

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

Subscription 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, 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 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 subsequent 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 €27,881,870 were held as of December 31, 2010:

Name	Voting rights in %
1. Noes Beheer B.V.	19.60
2. Elocin B.V.	14.05
3. Jürgen W. Krebs	11.79

#### *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 was authorised to increase the share capital with the consent of the Supervisory Board until June 10, 2010 (approved capital 2005/I). To enable the company to respond to market circumstances so as to ease pressure on the share price, a new approved capital 2010/I was created. 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 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.

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 authorisation 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 it 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) S. 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 under II. to XI. also apply to the use of shares in the company acquired on the basis of Section 71d S. 5 of the German Stock Corporation Act (AktG).

Authorisations specified can be used on one or several occasions, in full or in part, individually or jointly, while the authorisations under 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 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 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 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 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 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 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 secured 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 an *aap* subsidiary 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.

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-time 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 preferential 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 2010

	Notes	2010 €K	2009 €K
1. Sales	(1)	28,440	33,101
2. Changes in inventories of finished and unfinished goods and services		792	-1,409
3. Capitalized own work	(2)	3,328	3,096
4. Other operating income	(3)	2,646	2,666
5. Material expenses	(4)	-9,535	-7,411
6. Personnel expenses	(5)	-12,135	-13,141
7. Depreciation	(6)	-2,729	-2,969
8. Other operating expenses	(7)	-10,088	-10,339
9. Operating income (EBIT)		<u>719</u>	<u>3,594</u>
10. Financial income		34	10
11. Financial expenses		-567	-850
12. Financial result	(8)	<u>-533</u>	<u>-840</u>
13. <i>Result before taxes</i>		<u>186</u>	<u>2,754</u>
14. Taxes	(9)	-135	-816
15. Result after taxes/Total comprehensive income		<u>51</u>	<u>1,938</u>
<i>thereof: Non-controlling interests</i>		4	1
<i>thereof: Net result/Result of shareholder of aap AG</i>		47	1,937
16. Earnings per share in Euro undiluted / diluted	(10)	0.00	0.07

## Consolidated Balance Sheet according to IFRS at December 31, 2010

Assets					Liabilities and Shareholders' Equity					
	Notes	2010		2009	01.01.2009	Notes	2010		2009	01.01.2009
		€K	€K	€K	€K		€K	€K	€K	€K
<b>A. Long-term Assets</b>						<b>A. Capital Stock</b>	(23)			
Intangible Assets	(11)					Subscribed capital		27,882	27,882	26,614
Goodwill	(12)	12,490		12,490	13,057	Capital reserve		39,968	39,795	39,588
Development costs	(13)	18,451		16,408	14,283	Revenue reserve		228	315	315
Other intangible assets	(14)	6,059		6,630	7,166	Other reserve		608	608	608
Tangible Assets	(15)	5,200		5,055	7,309	Consolidated Balance Sheet result		-23,967	-24,014	-25,950
Financial Assets	(16)	356		356	358	Non-controlling interests		133	129	128
Deferred Taxes	(9)	41		127	2,320			<u>44,852</u>	<u>(44,715)</u>	<u>(41,303)</u>
				<u>42,597</u>	<u>(41,066)</u>					
<b>B. Short-term Assets</b>						<b>B. Long-term Liabilities (above 1 year)</b>	(26)			
Inventories	(17)	12,688		11,538	13,714	Financial liabilities	(26)	1,163	1,836	3,008
Accounts receivable	(18)	6,204		6,007	6,795	Other financial liabilities	(27)	175	89	1,067
Other financial assets	(19)	674		1,053	1,145	Shareholder liabilities		0	0	1,153
Other assets	(20)	543		585	787	Deferred taxes	(9)	2,218	2,249	3,702
Accounts receivable due from taxes on income	(21)	17		0	0	Provisions	(25)	30	0	256
Cash and cash equivalents	(22)	909		2,406	96	Other liabilities	(28)	208	170	207
				<u>21,035</u>	<u>(21,589)</u>			<u>3,794</u>	<u>(4,344)</u>	<u>(9,393)</u>
						<b>C. Short-term Liabilities (up to 1 year)</b>	(26)			
						Financial liabilities	(26)	5,501	5,684	7,434
						Advances from customers	(26)	220	78	289
						Accounts payable	(26)	2,967	2,447	4,033
						Shareholder liabilities	(26)	3,305	2,265	0
						Other financial liabilities	(27)	2,104	2,171	3,587
						Provisions	(25)	191	193	361
						Other liabilities	(28)	698	758	630
								<u>14,986</u>	<u>(13,596)</u>	<u>(16,334)</u>
								<u>63,632</u>	<u>62,655</u>	<u>67,030</u>
<b>Total</b>		<u>63,632</u>		<u>62,655</u>	<u>67,030</u>	<b>Total</b>		<u>63,632</u>	<u>62,655</u>	<u>67,030</u>



## Consolidated Cash Flow Statement according to IFRS

	<b>2010</b>	<b>2009</b>
	<b>€K</b>	<b>€K</b>
1. Result after taxes/Total Comprehensive income	51	1,938
2. Stock options with effect on payments	173	222
	<u>224</u>	<u>2,160</u>
3. Other income from non effective payments	0	-427
4. Depreciation	2,729	2,969
5. Change in deferred taxes	55	683
6. Increase/Decrease in provisions	27	-423
7. Income from disposed disposal group	0	-312
8. Loss from disposed long-term assets	5	0
9. Increase/Decrease in inventories, accounts receivables and other assets	-599	2,302
10. Increase/Decrease trade accounts payable and other liabilities	302	-2,135
11. Income from retransfer of special item for investment	-89	-56
12. Inflow of funds from current business activity	<u>2,654</u>	<u>4,761</u>
13. Payments for intangible and tangible assets	-4,446	-4,054
14. Inpayments from disposal of disposal group	0	2,150
15. Outflow of funds from investment activity	<u>-4,446</u>	<u>-1,904</u>
16. Inpayments from capital increase and shareholder grants	0	1,267
17. Equity procurement transaction costs	0	-21
18. Inpayments from the take-up of loans	1,596	2,601
19. Inpayments from new shareholder grants	1,875	2,000
20. Payments to redeem shareholder grants	-693	-500
21. Payments to redeem loans and dormant equity holdings	-2,454	-5,426
22. Payments to financial leasing-agreements	-74	-468
23. Inpayments from selling Treasury stocks	45	0
24. Inflow of funds from investment activity	<u>295</u>	<u>-547</u>
25. Cash and cash equivalents at start of period	<u>2,406</u>	<u>96</u>
26. Cash and cash equivalents at end of period	<u>909</u>	<u>2,406</u>



## Consolidated Schedule of Assets at December 31, 2010 according to IFRS

	Historical Cost of Acquisition				Cumulative Depreciation				Book Values		
	Status as at 1/1/10	Addi- tions	Retire- ments	Status as at 12/31/10	Status as at 1/1/10	Depreciation in financial year	Ordinary Depreciation	Retire- ments	Status as at 12/31/10	Status as at 12/31/10	Status as at 12/31/09
	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K
<b>A. Assets</b>											
<b>Intangible Assets</b>											
Goodwill	16,508	0	0	16,508	4,018	0	0	0	4,018	12,490	12,490
Capitalized development activities	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 and 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 relations	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
	<u>61,996</u>	<u>3,440</u>	<u>-309</u>	<u>65,127</u>	<u>26,468</u>	<u>1,687</u>	<u>0</u>	<u>-28</u>	<u>28,127</u>	<u>37,000</u>	<u>35,528</u>
<b>Tangible Assets</b>											
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
	<u>19,999</u>	<u>1,191</u>	<u>-961</u>	<u>20,229</u>	<u>14,944</u>	<u>1,042</u>	<u>0</u>	<u>-957</u>	<u>15,029</u>	<u>5,200</u>	<u>5,055</u>
<b>Financial Assets</b>											
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
	<u>394</u>	<u>0</u>	<u>0</u>	<u>394</u>	<u>38</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>38</u>	<u>356</u>	<u>356</u>
<b>Total</b>	<u>82,389</u>	<u>4,631</u>	<u>-1,270</u>	<u>85,750</u>	<u>41,450</u>	<u>2,729</u>	<u>0</u>	<u>-985</u>	<u>43,194</u>	<u>42,556</u>	<u>40,939</u>



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

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

## Consolidated Schedule of the Movement in Equity

	Revenue Reserves				Other Reserves (Change in Equity which is not affecting net income)				Consolidated Balance Sheet result	Total	Non- controlling interests	Share- holders Equity
	Subscribed Capital	Capital Reserve	Legal Revenue Reserve	Other Revenue Reserves	Re- valuation Reserve	Disposable Financial Assets	Derivative Financial Instruments	Total				
	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K	€K
Status as at 1.1.2009	26,615	39,588	42	273	608	0	0	608	-25,950	41,174	128	41,302
Capital Increase	1,267	0	0	0	0	0	0	0	0	1,267	0	1,267
Stock Options	0	222	0	0	0	0	0	0	0	222	0	222
Transaction costs	0	-15	0	0	0	0	0	0	0	-14	0	-14
Result after taxes	0	0	0	0	0	0	0	0	1,936	1,936	1	1,938
Status as at 31.12.2009/1.1.2010	27,882	39,795	42	273	608	0	0	608	-24,014	44,585	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 stocks	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 at 31.12.2010	27,882	39,968	42	186	608	0	0	608	-23,967	44,718	133	44,852

## Notes to the Consolidated Annual Financial Statements to December 31, 2010 in accordance with IFRS

### A. Company Data

Company Name, Domicile

*aap* Implantate AG, Berlin, Germany

Head Office

Lorenzweg 5, 12099 Berlin

Commercial Register

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

Stock Market Listing

*aap* Implantate AG was listed on the regulated market from May 10, 1999 and traded in the Frankfurt Stock Exchange's Neuer Markt segment under Security ID 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, 2010 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, 2010 consist of the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated schedule of the movement 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 (Aktengesetz/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. To make the consolidated financial statements clearer, starting with the present reporting year both the consolidated balance sheet items and the statement of income and consolidated earnings are outlined in a more compressed manner and then explained in greater detail in the Notes. To improve transparency, a distinction was drawn in the balance sheet between financial and non-financial other assets and other liabilities. For this purpose, balance sheet items were merged or broken down compared with the previous year. In this connection, to improve the presentation in the reporting year, liabilities for outstanding invoices totalling €652K (previous year: €815K) were shown under accounts receivables and not under other liabilities. The previous year's figures were reclassified accordingly. To improve comparability with the previous year, the opening balance sheet values as of January 1, 2009 are shown in accordance with IAS 1.39.

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.

These financial statements for the 2010 financial year cover the reporting period January 1 to December 31, 2010.

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 at C.2. below.

## **3. Segment Reporting**

At the beginning of the 2009 financial year the Group was restructured as part of the performance improvement program. With a view to achieving sustainable profitable growth there was a clear focus on the Ortho/Trauma/Spine core areas. As a result of this strategic alignment the previous Traumatology &

Orthopaedics and Biomaterials segments were merged and are managed as a single unit. *aap*'s internal organisational and reporting structure was adjusted accordingly. Reportable business segments as defined in IFRS 8 no longer exist and reporting has been discontinued.

## 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:

	<u>2010</u>	<u>2009</u>
	Shareholding	Shareholding
<i>aap</i> Biomaterials GmbH, Dieburg	100%	100%
OSARTIS Verwaltungs-GmbH, Elsenfeld	100%	100%
<i>aap</i> bio implants Netherlands B.V., Nijmegen, Netherlands	100%	100%
ADC Advanced Dental Care GmbH, Dieburg	54%	54%

There were no changes in the Group's holdings in existing subsidiaries or mergers or any other company law changes during 2010.

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

### 2. Disposal Group

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

	<u>2009</u>
	€ K
<u>Proceeds of disposal</u>	2,300
Assets and liabilities of the disposal group	
<u>Current assets</u>	
Receivables and other assets	820
Inventories	240
<u>Non-current assets</u>	
Goodwill	567
Shareholding	2
Machinery, office and plant equipment	1,649
Deferred tax assets	<u>56</u>
<u>Total assets</u>	<u>3,334</u>
<u>Current liabilities</u>	
Owed to banks	96
Accounts payables	450
<u>Non-current assets</u>	
Other financial liabilities	<u>950</u>
<u>Total liabilities</u>	<u>1,496</u>
<u>Net assets</u>	<u>1,838</u>
<u>Profit from the disposal group</u>	
Proceeds of disposal	2,300
Net assets	-1,838
Disposal costs	-150
<u>Net cash flow from the disposal group</u>	<u>312</u>
Proceeds of disposal	2,300
Disposal costs	-150
<u>Net cash flow</u>	<u>2,150</u>

### 3. Reporting Date of the Consolidated Financial Statements

These consolidated financial statements cover the 2010 financial year 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.

### 4. Accounting and Valuation Methods

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

The consolidated companies 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.

## 5. Capital Consolidation

Financial statements for mergers are prepared in accordance with IFRS 3 Business Combinations on the basis of the purchase method. Capital consolidation is thereby undertaken at the time of purchase by netting out the purchase price against the revalued pro rata net assets of the subsidiaries acquired.

Subsidiaries' allowable assets, debts and contingent liabilities are stated at their full market value irrespective of 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.

## 6. 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.

## 7. 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.

## 8. 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 assets** are valued at cost of acquisition or manufacture and, where depreciable, taking scheduled depreciation into account. The manufacturing costs of tangible 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. Tangible 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

**Tangible 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 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 in 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. (32).

**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** contains 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 stated 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 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 the percentage of completion insofar as the conditions for applying the percentage of completion method as per IAS 11 are fulfilled. None applied during the reporting year. **License fees** are earned and accrued in 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 and 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. (31)).

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 the management's estimate that technical and economic feasibility is a proven fact. In determining the amounts to be 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, 2010 the book value of capitalised development costs was €18,451K (2009: €16,408K). Due to the Group's strategic realignment and focus on the Ortho/Trauma/Spine core areas that has also led to concentration on essential development projects, the remaining 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, 2010 the book value of the Group's goodwill was €12,490K (2009: €12,490K) and was allocated to the cash-generating unit Biomaterials.

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 stated assets and debts is to be expected for the 2010 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 2010 financial years 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.

IAS 36 (annual improvement)	Impairment of Assets
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The amendment clarifies that a cash-generating unit (CGU or groups of CGUs) to which goodwill is allocated for the purpose of reviewing an impairment must not be larger than the business segment as defined in IFRS 8 prior to aggregation on the basis of the criteria stated therein. The amendment has no effects on the group because the impairment test is undertaken prior to aggregation.

IAS 7 (annual improvement)	Cash Flow Statement
IAS 27 (2008)	Consolidated and Separate Financial Statements
IAS 28 (2008)	Investments in Associates
IAS 39 (2009)	Financial Instruments: Recognition and Measurement – Suitable Underlying Transactions for a Group
IFRS 1 (2008)	First-Time Adoption of IFRS
IFRS 1 (2009)	Additional Exemptions for First-Time Adopters
IFRS 2 (2009)	Share-Based Payment Between Companies
IFRS 5 (annual improvement)	Non-Current Assets Held for Sale and Discontinued Operations
IFRIC 12	Service Concession Arrangements
IFRIC 15	Agreements for the Construction of Real Estate
Amendment to IFRS 8 (annual improvement)	Business Segments
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-Cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers

### 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.

Annual IFRS improvement IFRS (2010)	Omnibus standard on amendments to various financial reporting standards
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The omnibus standard contains a large number of minor IFRS amendments with a view to making regulations more specific and eliminating inconsistencies. Most changes apply to financial years beginning on or after July 1, 2010 or January 1, 2011.

Amendments to IFRS 7	Disclosures – Transfers of Financial Assets
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The amendments extend the disclosure requirements for transfers of financial assets with a view to increasing transparency for transfers in which the transferor retains risks arising from the financial asset. Additional disclosures are also required if the transfers are not made at regular intervals during financial years. The amendments must be applied for financial years beginning on or after July 1, 2011.

IFRS 9 (2009)

| Financial Instruments

The standard will replace the previous provisions of IAS 39 on the classification and valuation of financial instruments. IFRS 9 (2009) must be applied for the first time for financial years beginning on or after January 1, 2013. *aap* assumes that the first-time application of IFRS 9 will influence the presentation of financial assets and liabilities. Possible consequences can only be sensibly assessed after a more detailed analysis, however.

IAS 24 (2009)

| Related Party Disclosures

The standard mainly provides for easements in disclosures where the related party is controlled or largely influenced by the state. Application of IAS 24 (2009) is mandatory for the first time for financial years beginning on or after January 1, 2011. The disclosure easements of IAS 24 (2009) have no influence on the Group because it is not controlled, jointly managed or materially influenced by a government. Disclosures in the consolidated financial statements on business transactions with related parties may, however, be affected by the amended definition.

IFRIC 19

| Extinguishing Financial Liabilities with Equity Instruments

The interpretation makes it clear the equity instruments used to extinguish a financial liability to a creditor are part of "paid remuneration" as defined in IAS 39. They must therefore in principle be stated at fair value. The difference between the carrying amount of the financial liability extinguished and the first-time statement of the equity instruments issued must be recorded with effect on the result. Application is mandatory for financial years beginning after June 30, 2010.

The following standards and interpretations that did not yet apply to the reporting year will probably have no material effect on *aap*'s consolidated financial statements:

Amendment to IFRS 1 (2010)	Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters
Amendment to IAS 32 (2009)	Classification of Rights Issues
Amendment to IAS 12 (2010)	Income Taxes
Amendment to IFRIC 14 (2009)	Prepayments of a Minimum Funding Requirement

## G. Notes on the Consolidated Statement of Comprehensive Income

### (1) Sales

	2010	2009
	€ K	€ K
<u>By categories</u>		
Sales from		
• the sale of products	27,665	29,842
• the provision of services	128	2,643
• usage fees	647	616
<b>Total</b>	<b>28,440</b>	<b>33,101</b>
<u>By regions<sup>1</sup></u>		
Germany	8,927	7,110
Other Europe	12,697	16,182
Asia	3,993	5,314
North and South America	2,490	4,196
Africa	333	299
<b>Total</b>	<b>28,440</b>	<b>33,101</b>
<u>By product groups</u>		
Traumatology & Orthopaedics	7,863	8,898
Biomaterials	23,192	26,542
Reconciliation/Consolidation	-2,615	-2,339
<b>Total</b>	<b>28,440</b>	<b>33,101</b>

<sup>1</sup>By geographical location of the external customer's business operation

In the 2010 financial year, three of the company's principal customers accounted for €7.631 million (previous year: €10.295 million) in sales.

### (2) Capitalised own work

The capitalised cost of own work totalling €3.328 million (previous year: €3.096 million) consists mainly of assets capitalised in connection with development projects.

### (3) Other Operating Income

	2010	2009
	€ K	€ K
Grants	1,355	1,489
Out-of-period income	282	65
Receipts from written-off receivables	187	103
Private use of company cars	133	131
Proceeds of reversal of asset impairment	95	0
Release of special item for investment grants and allowances	89	57
Proceeds of the reversal of provisions and obligations	311	283
Insurance compensation	47	92
Currency differences	37	12
Proceeds of disposal group sale (C.2)	0	312
Other	110	122
<b>Total</b>	<b>2,646</b>	<b>2,666</b>

**(4) Materials Expenses**

	2010	2009
	€ K	€ K
Cost of raw materials, consumables, supplies and purchased goods	7,526	6,186
Cost of purchased services	2,009	1.225
<b>Total</b>	<b>9,535</b>	<b>7.411</b>

**(5) Personnel Expenses**

	2010	2009
	€ K	€ K
Wages and salaries	10,142	11.015
Social security contributions	973	1,062
Stock options granted to employees	173	222
Contribution-oriented pension provisions	847	842
<b>Total</b>	<b>12,135</b>	<b>13,141</b>

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. Current contributions are included as expenses in the reporting year under pension provisions from the 2010 financial year. The figures for previous years were adjusted accordingly.

<u>Average annual employee numbers</u>	2010	2009
Production	137	160
Sales	27	28
Research & Development	34	33
Quality Management	29	25
Administration	24	24
<b>Total</b>	<b>251</b>	<b>270</b>
Wage earners	112	139
Salary earners	139	131
<b>Total</b>	<b>251</b>	<b>270</b>

**(6) Depreciation**

Scheduled depreciation of fixed assets amounted to €1.042 million (previous year: €1.250 million) and of intangible assets to €1.687 million (previous year: €1.719 million). There were no extraordinary project write-downs in 2010 (previous year: nil).

**(7) Other Operating Expenses**

	2010	2009
	€ K	€ K
Consulting costs	1,724	1,430
Premises costs	1,545	1,782
Costs of research, analysis, sampling and sterilisation	1,451	1,161
Advertising and travel expenses	1,122	1,094
Vehicle costs	529	613
Outgoing packaging, freight and merchandise transfer costs	517	347
Repairs and maintenance	459	490
Insurance, contributions, duties	456	460
Office costs, phone, fax, postage	398	400
Expenses unrelated to the reporting period	333	362
Patent and other fees	317	294
Retirement of non-current assets	5	0
Losses and depreciation of receivables	348	325
Leasing	201	218
Sales commission	111	153
Currency differences	36	191
Further training costs	77	79
Other expenses	459	940
<b>Total</b>	<b>10,088</b>	<b>10,339</b>

**(8) Financial Result**

	2010	2009
	€ K	€ K
Other interest and similar income	34	10
Other interest and similar expenditure		
- Interest on long-term loans	-165	-357
- Interest on short-term loans	-228	-187
Other interest and similar expenses for current liabilities	-174	-306
<b>Total</b>	<b>-533</b>	<b>-840</b>

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

	2010	2009
	€ K	€ K
Income from exchange rate differences	37	12
Cost of exchange rate differences	-36	-191
<b>Total</b>	<b>1</b>	<b>-179</b>

## (9) Taxes

Income tax expenses stated break down as follows:

Income tax expenses by origin	2010 € K	2009 € K
Taxes on income paid or owed in		
- Germany	5	3
- Other countries	73	78
	78	81
Tax accruals and deferrals		
- from acquisitions	-133	-133
- from time differences	801	665
- from loss carryovers	-611	203
	57	735
<b>Total</b>	<b>135</b>	<b>816</b>

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	31.12.2010		31.12.2009	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	€ K	€ K	€ K	€ K
Intangible assets	0	629	0	690
Development costs	0	4,936	0	4,318
Fixed assets	0	94	0	78
Inventories	-41	30	-127	14
Provisions	-8	0	0	0
Loss carryovers	-3,462	0	-2,851	0
	-3,511	5,689	-2,978	5,100
Adjustments	3,470	-3,470	2,851	-2,851
<b>Total</b>	<b>-41</b>	<b>2,219</b>	<b>-127</b>	<b>2,249</b>

Deferred tax liabilities totalling €1.461 million (previous year: €1.594 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). No tax expenses (previous year: €6K) were stated in respect of equity capital transaction costs. The tax ratio in the reporting period was therefore about 73% (previous year: 30%).

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

	31.12.2010		31.12.2009	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	€ K	€ K	€ K	€ K
From the use of existing tax carryovers	-3,462	0	-2,851	0
From consolidation	-41	0	-127	0
From first-time consolidation of Dutch sub-group	0	1,461	0	1,594
From temporary differences	-8	4,228	0	3,506
	-3,511	5,689	-2,978	5,100
Adjustments	3,470	-3,470	2,851	-2,851
Total	-41	2,219	-127	2,249

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 €8.0 million and €10.8 million respectively (previous year: €8.5 million and €10.5 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:

	2010	2009
	€ K	€ K
Earnings before taxes	186	2,754
Theoretical tax expense/(income) 30.2% (previous year: 30.2%)	-56	-831
Tax effects on		
- Non-usable loss carryovers or utilization of off-balance sheet loss carryovers and depreciation of loss carryovers	-45	-342
- Disposal of uncapitalised goodwill (disposal group – C.2)	0	-171
- Tax-free proceeds of sale of a group of assets (disposal group – C.2)	0	221
- Tax rate differences within the Group	92	216
- Permanent differences	-61	113
- Non-deductible expenses and applicable trade tax	-87	-36
- Tax-free income	22	9
- Other	0	5
Total adjustments	-79	15
Income tax expenses to IFRS	-135	-816
Effective tax rate in %	73%	30%

#### (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.

	<u>2010</u>	<u>2009</u>
Earnings after taxes (in € K)	51	1,938
Number of shares (in '000)	27,756	27,601
Earnings per share (in €)	0.00	0.07

**Diluted earnings per share** take into account stock options granted between 2006 and 2010.

	<u>2010</u>	<u>2009</u>
Earnings after taxes (in € K)	51	1,938
Number of shares (in '000)	27,756	27,601
Earnings per share (in €)	0.00	0.07

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 €3.320 million (previous year: €3.096 million).

€15.094 million of the Group's long-term intangible assets are in Germany (previous year: €13.076 million) and €21.906 million (previous year: €22.452 million) in the Netherlands.

#### (12) Goodwill

The *aap* Group's goodwill amounted to €12.5 million (2009: €12.5 million) as of December 31, 2010, having developed as follows:

<u>Costs of Acquisition</u>	2010	2009
	€ K	€ K
Status at the beginning of the year	16,508	17,075
Disposal of a group of assets (disposal group – C.2)	0	./ 567
Status at the end of the year	16,508	16,508

<u>Accumulated Impairment Losses</u>	2010	2009
	€ K	€ K
Status at the beginning of the year	4,018	4,018
Impairment losses stated in the course of the year	0	0
Status at the end of the year	4,018	4,018

<u>Book Value</u>	2010	2009
	€ K	€ K
Status at the beginning of the year	12,490	13,057
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.

	31.12.2010	31.12.2009
	€ K	€ K
Biomaterials	12,490	12,490

The goodwill results from the acquisition of *aap* bio implants Netherlands B.V. and Osartis GmbH & Co. KG and the majority shareholding in the former ADC Advanced Dental Care GmbH & Co. KG. (The (partial) disposal results from the sale in the previous year of Bactimm B.V., Nijmegen, and der Farmalyse B.V., Zaandam, which were owned by *aap* bio implants Netherlands B.V. (C.2).

#### 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 11.01% (previous year: 12.7%). The discount rate after taxes was 8.5% (previous year: 9.5%). In determining the perpetuity a growth discount of 1.5% (previous year: 1.5%) of weighted average capital costs (WACC) and a safety 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 €3.320 million (previous year: €3.096 million) were capitalised in the reporting period. They included €477K (previous year: €418K) in directly attributable borrowing costs based on the average group financing cost rate of 5.57% (previous year: 7.19%). 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 knee
  - Antibiotic-impregnated collagen fleece for local haemostasis
  - Demineralised bone matrix

In addition, research and other development costs totalling €772K (previous year: €1.196 million) were capitalised as expenses. Write-downs in the reporting period totalled €996K (previous year: €971K).

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 10.9% and 13.5% p. a. (previous year: between 9.5% and 14.6%) before and between 8.5% and 10.0% p. a. (previous year: between 9.5% and 11.3%) after taxes. There was no extraordinary depreciation requirement in the reporting year.

#### (14) Other Intangible Assets

The other intangible assets are customer relationships worth €2.888 million (previous year: €3.132 million) identified in the course of purchase price allocation and industrial property rights and similar rights to the value of €3.001 million (previous year: €3.328 million) along with €170K (previous year: €170K) in advance payments.

Write-downs amounting to €691K (previous year: €748K) were made in the reporting period.

#### (15) Intangible Assets

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

The book value of leased intangible assets as of December 31, 2010 was €337K (previous year: €350K). The Group's €268K (previous year: €145K) in commitments arising from these finance leases are covered by the lessors' rights to the leasing items.

The book value of intangible assets assigned as collateral for liabilities is €1.306 million (previous year: €1,308 million).

€3.470 million (previous year: €3.253 million) of the tangible assets are in Germany and €1.730 million (previous year: €1.802 million) in the Netherlands.

#### (16) Financial Assets

Participating Interests	2010		2009	
	€ K	Holding	€ K	Holding
1. AEQUOS Endoprothetik GmbH, Munich	356	4.57%	356	5.32%
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%
<b>Total</b>	<b>356</b>		<b>356</b>	

The **portfolio value** corresponds to the fair value of the participating interests. After the increase in share capital of AEQUOS Endoprothetik GmbH in accordance with the resolution adopted by the general meeting of shareholders on March 9, 2010 and May 17, 2010 (entered in the commercial register on June 2, 2010 and November 9, 2010) *aap* Implantate AG's stake in AEQUOS Endoprothetik GmbH was reduced to 4.57%. Insolvency proceedings in respect of the assets of Cybernetic Vision AG Health Monitoring Technologies (initiated in 2000) and the assets of Rofil Medical International N.V. (initiated in 2007) have yet to be completed.

#### (17) Inventories

	2010	2009
	€ K	€ K
Raw materials, consumables and supplies	2,832	2,811
Work in progress	1,435	1,376
Finished products and merchandise	8,377	7,301
Advance payments	44	50
<b>Total</b>	<b>12,688</b>	<b>11,538</b>

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

	2010	2009
	€ K	€ K
<b>Accumulated value adjustments as of January 1</b>	<b>2,402</b>	<b>3,125</b>
thereof		
- Marketability discounts	2,227	2,342
- Stated net realisable value	175	783
Expenditure in the reporting period – Marketability discounts	2	0
Expenditure in the reporting period – Net realisable value	443	0
Reversal of asset impairment/Utilisation	0	- 723
<b>Accumulated value adjustments as of December 31</b>	<b>2,847</b>	<b>2,402</b>
thereof		
- Marketability discounts	2,229	2,227
- Stated net realisable value	618	175

The book value of inventories stated at their net residual value was €890K (previous year: €859K).

Inventories amounting to €687K (previous year: €530K) were assigned as collateral for liabilities.

#### (18) Accounts receivables

Accounts receivables less write-downs totalled €6.204 million (previous year: €6.007 million) as of the balance sheet date. €5.208 million (previous year: €5.987 million) thereof was due within one year and €996K (previous year: €20K) 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.

The value adjustments for accounts receivables stated under other operating expenses (G.(7)) developed as follows:

	2010 € K	2009 € K
<b>Accumulated value adjustments as of January 1</b>	<b>356</b>	<b>283</b>
Expense in the reporting period	243	189
Payments received and impairment reversal of receivables originally written off	-187	-116
<b>Accumulated value adjustments as of December 31</b>	<b>412</b>	<b>356</b>

As of December 31, 2010 the maturity structure of accounts receivables was as follows:

	Book value 31.12.2010 € K	Neither value adjusted nor impaired € K	Of which not value adjusted as of the balance sheet date and overdue in subsequent periods				
			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
Accounts receivables	6,204	4,158	1,237	217	136	209	246

	Book value 31.12.2009 € K	Neither value adjusted nor impaired € K	Of which not value adjusted as of the balance sheet date and overdue in subsequent periods				
			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
Accounts receivables	6,007	3,075	1,233	1,292	56	211	140

Accounts receivables do not bear interest and as a rule have a term of 30 to 45 days for domestic customers. Accounts 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.

Accounts receivables totalling €4.059 million (previous year: €3.983 million) were assigned as collateral for liabilities.

#### (19) Other Financial Assets

	31.12.2010 € K	31.12.2009 € K	01.01.2009 € K
Public sector grants	421	297	196
Loan receivables	119	117	90
Warranty receivables	27	406	482
Other	107	233	377
	<b>674</b>	<b>1,053</b>	<b>1,145</b>

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:

	2010	2009
	€ K	€ K
<b>Accumulated value adjustments as of January 1</b>	<b>399</b>	<b>354</b>
Expense in the reporting period	2	76
Payments received and impairment reversal of receivables originally written off	-399	-31
<b>Accumulated value adjustments as of December 31</b>	<b>2</b>	<b>399</b>

As of December 31, 2010 the maturity structure of other financial assets was as follows:

	Book value	Neither value adjusted nor impaired	Of which not value adjusted as of the balance sheet date and overdue in subsequent periods				
			Up to 3 months	Up to 6 months	Up to 9 months	Up to 12 months	More than 1 year
<b>31.12.2010</b>	€ K	€ K	€ K	€ K	€ K	€ K	€ K
Other financial assets	674	637	0	0	0	0	37

	Book value	Neither value adjusted nor impaired	Of which not value adjusted as of the balance sheet date and overdue in subsequent periods				
			Up to 3 months	Up to 6 months	Up to 9 months	Up to 12 months	More than 1 year
<b>31.12.2009</b>	€ K	€ K	€ K	€ K	€ K	€ K	€ K
Other financial assets	1,053	547	0	0	0	0	506

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

	31.12.2010	31.12.2009	01.01.2009
	€ K	€ K	€ K
Tax refund entitlements	339	448	696
Accruals	204	120	61
Other	0	17	30
	<b>543</b>	<b>585</b>	<b>787</b>

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, 2010 totalled €17K (previous year: nil) and were due within one year.

### **(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 €909K (previous year: €2.406 million).

### **(23) Capital Stock**

The company's capital stock as of December 31, 2010 amounted to €27,881,870 (previous year: €27,881,870) and was divided into 27,881,870 (previous year: 27,881,870) fully paid-up bearer shares each with a nominal value of €1 (previous year: €1).

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. Retained earnings were reduced by €86,747.33 in the financial year due to the Treasury stock transaction.

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, 2009 and January 1 to December 31, 2010 result from developments in Group equity.

#### Treasury Stock

In the reporting year the company purchased 322,277 own shares, each with a notional €1 share of the capital stock, for a total price of €473,934.53. The acquisition was undertaken in accordance with Section 71 (1) No. 1 of the German Stock Corporation Act (AktG) by shareholders to fulfil liabilities to the company. These own shares' €322,277 share of the company's capital stock was deducted from the subscribed capital and the acquisition costs that exceeded this amount were netted out against freely disposable reserves. The company sold 284,723 shares, each with a notional €1 share of the capital stock, for a total of €341,668 to settle a subsidiary's debts. In addition, the company sold 37,554 shares, each with a notional €1 share of the capital stock, for a total of €45,529.20 on the stock market. The average selling price per share was €1.21, which was the share price at the time of the sale. These own shares' €322,277 share of the company's capital stock was attributed to the subscribed capital and the €86,747.33 loss incurred in the transaction was deducted from retained earnings.

As of December 31, 2010 the own share proportion of the company's capital stock had developed as follows:

Date of acquisition/ disposal	Number of shares	Notional share of the capital stock in €	Acquisition cost/ disposal price in €	Share of the capital stock	Purpose of acquisition
15.04.2010	322,277	322,277.00	473,934.53	1.1559%	Section 71 (1) No. 1 AktG
31.08.2010	-284,723	-284,723.00	-341,668.00	-1.0212%	-
13.10.2010	-37,554	-37,554.00	-45,519.20	-0.1347%	-
<b>Inventory/loss as of 31.12.2010</b>	<b>0</b>	<b>0.00</b>	<b>86,747.33</b>	<b>0.00</b>	

#### Conditional Capital

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 serves the sole purpose of granting shares to the holders of option or convertible warrants issued by the company by June 29, 2011. By the terms and conditions of convertible bonds the conditional capital increase serves the purpose of issuing shares to the holders of convertible bonds with conversion duties. The new shares are entitled to a share in profits from the beginning of the financial year in which they originate by the exercise of option or conversion rights or the fulfilment of conversion duties. The Management Board is authorised, with the Supervisory Board's approval, to specify the further details of the conditional capital increase's implementation.

#### Authorisations

##### 2006 Stock Option Program

The General Meeting held on June 30, 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 time 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 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, 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 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 in 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. 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 granted in the final purchase period 2 of 2011 can be exercised for the last time in 2019. Subscription rights that are not exercised expire.

#### (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.

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

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

#### Treasury Stock

The General Meeting held on August 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

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 the new 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 the new 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.

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 the new 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.

For further details see the equity statements.

#### (24) Share Price-Based Remuneration

In the 2006 financial year 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 <i>aap</i> 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 five 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> <ul style="list-style-type: none"> <li>– 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;</li> <li>– 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 <i>aap</i> shares until the day on which the subscription period ends;</li> <li>– Within four weeks prior to publication of the relevant quarterly or annual report</li> </ul> <u>2010</u> Within four weeks from the second trading day on the Frankfurt Stock Exchange <ul style="list-style-type: none"> <li>– After the company's Annual General Meeting</li> <li>– After the day on which the management of the Stock Exchange makes the</li> </ul>		

	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 <i>aap</i> 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 <i>aap</i> 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:

<u>Option Program</u>	<u>Date Option Tranche Was Confirmed</u>	<u>Number of Options Granted</u>	<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Fair Value at the Time of Issue</u>
2006	22.11.2006	385,000	21.11.2010	€2.28	€0.92
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	09.09.2010	€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

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

<u>Option Tranches</u>	<u>Fair Value at the Time of Issue</u>
29.07.2010	€0.58
17.11.2010	€0.50

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

<u>2010 Stock Option Program</u>	<u>07/2010 Tranche</u>	<u>11/2010 Tranche</u>
Time of issue	29.07.2010	17.11.2010
Performance target	€1.42	€1.29
Risk-free interest rate	1.83%	1.79%
Expected volatility	49.22%	49.12%
Expected dividend payment	€0	€0
Share price at time of issue	€1.25	€1.11
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 in stock option programs for the last financial year and the previous year:

	<u>2006 Stock Option Program</u>			<u>2008 Stock Option Program</u>		<u>2010 Stock Option Program</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>Tranche</u>	<u>Tranche</u>	<u>Tranche</u>	<u>Tranche</u>	<u>Tranche</u>	<u>Tranche</u>
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

During the reporting period, employees forewent a total of 400,000 stock options from the 2006 Stock Option Program. A further 15,000 stock options lapsed in the 2010 financial year.

Employees dispensed with a total of 30,000 stock options from the 2008 Stock Option Program during the reporting period. A further 35,000 stock options lapsed in the 2010 financial year.

In the 2010 financial year 15,000 stock options lapsed from the 2010 Stock Option Program.

	<u>2006 Stock Option Program</u>			<u>2008 Stock Option Program</u>	
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>	<u>2009</u>
	<u>Tranche</u>	<u>Tranche</u>	<u>Tranche</u>	<u>Tranche</u>	<u>Tranche</u>
Number outstanding as of January 1, 2009	355,000	617,500	220,000	200,000	0
Number issued in the financial year	0	0	0	0	487,500
Lapsed/foregone in the financial year	15,000	102,500	73,000	0	0
Exercised in the financial year	0	0	0	0	0
Outstanding as of December 31, 2009	340,000	515,000	147,000	200,000	487,500
Exercisable as of December 31, 2009	340,000	515,000	0	0	0

A total of 190,500 stock options from the 2006 Stock Option Program lapsed in the 2009 financial year.

The bandwidth of exercise prices for the stock options outstanding as of December 31, 2010 ranged from €1.17 to €2.41 (previous year: €1.29 to €2.41). The stock outstanding at the end of the financial year had a weighted average residual term of 2.8 years (previous year: 2.65 years).

The cost of share-based remuneration recorded in the reporting period totalled €173K (previous year: €222K).

## (25) Provisions

	Status as of				Status as of		RT*
	01.01.2010	Consumed	Released	Allocated	31.12.2010	> 1 year	
	€ K	€ K	€ K	€ K	€ K	€ K	€ K
Employee commitments	52	-9	0	21	64	0	0
Storage costs	28	0	0	2	30	30	30
Other uncertain liabilities	16	0	0	6	22	0	0
Litigation costs and risks	82	0	-12	20	90	0	0
Other provisions	15	0	0	0	15	0	0
<b>Total</b>	<b>193</b>	<b>-9</b>	<b>-12</b>	<b>49</b>	<b>221</b>	<b>30</b>	<b>30</b>

\*RT = Residual term

## (26) Liabilities

The residential terms of liabilities are as follows:

	Residual Term (RT)				Previous year	01.01.2009
	31.12.2010 total	Up to 1 year	1 to 5 years	More than 5 years		
	€ K	€ K	€ K	€ K	€ K	€ K
Financial liabilities	6,664	5,501	1,163	0	7,520	10,442
Advance payments	220	220	0	0	78	289
Accounts payables	2,967	2,967	0	0	2,447	4,033
Owed to shareholders	3,305	3,305	0	0	2,265	1,153
Other financial liabilities	2,279	2,104	175	0	2,260	4,654
Other liabilities	906	698	208	0	928	837
	<u>16,341</u>	<u>14,795</u>	<u>1,546</u>	<u>0</u>	<u>15,498</u>	<u>21,408</u>

Of the non-current liabilities (RT > 1 year) totalling €1.546 million (previous year: €2.094 million), €1.338 million (previous year: €1.961 million) attracted interest. Of the current liabilities (RT < 1 year) totalling €14.795 million (previous year: €13.404 million), €8.799 million (previous year: €8.050 million) attracted interest. The average interest burden was about 5.5% (previous year: 7%).

As of December 31, 2010 the *aap* Group had confirmed lines of credit totalling €5.0 million at its disposal of which €4.8 million gross and €4.0 million net had been used as of the balance sheet date. Cash and cash equivalents held as of December 31, 2010 amounted to €909K (previous year: €2.406 million). As of December 31, 2010, *aap*'s free and usable liquidity (the sum of cash at banks and freely available lines of credit) totalled €1.0 million.

€ million	31.12.2010	31.12.2009
Gross recourse to lines of credit	-4.8	-4.5
Balance under lines of credit	0.8	2.3
Net recourse to lines of credit	<u>4.0</u>	<u>-2.2</u>

The *aap* Group's current and non-current financial liabilities are owed to banks and denominated in euros. Foreign currency liabilities as of December 31, 2010 existed for €14K of accounts payables in Swiss francs and for US\$58K of other liabilities.

## (27) Other Financial Liabilities

	Residual Term (RT)				Previous year	01.01.2009
	31.12.2010 total	Up to 1 year	1 to 5 years	More than 5 years		
	€ K	€ K	€ K	€ K	€ K	€ K
Owed to undertakings with which the company is linked by virtue of participating interests	3	3	0	0	4	22
Financial leasing commitments	268	93	175	0	145	1,530
Other financial liabilities	2,008	2,008	0	0	2,111	3,102
	<u>2,279</u>	<u>2,104</u>	<u>175</u>	<u>0</u>	<u>2,260</u>	<u>4,654</u>

The other financial liabilities consist mainly of employee bonuses totalling €727K (previous year: €662K), license fees amounting to €260K (previous year: nil) and €97K (previous year: €178K) of liabilities for Supervisory Board meetings.

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

## (28) Other Liabilities

	Residual Term (RT)				Previous year	01.01.2009
	31.12.2010 total	Up to 1 year	1 to 5 years	More than 5 years		
	€ K	€ K	€ K	€ K	€ K	€ K
Special item for investment grants	280	72	208	0	175	231
Personnel liabilities	273	273	0	0	257	300
Tax liabilities	295	295	0	0	429	176
Other liabilities	58	58	0	0	67	130
	<u>906</u>	<u>698</u>	<u>208</u>	<u>0</u>	<u>928</u>	<u>837</u>

The personnel liabilities consist mainly of holiday entitlements.

## (29) Other Financial Liabilities

Other financial liabilities break down as follows:

	31.12.2010	31.12.2009
	€ K	€ K
Future rent payments	4,333	2,199
Future operating lease payments	878	1,008
Other financial obligations	0	0
	<u>5,211</u>	<u>3,207</u>

	31.12.2010	Capital Repayments		
		2011	2012 bis 2015	ab 2016
	€ K	€ K	€ K	€ K
Future rent payments	4,333	1,038	2,461	834
Future operating lease payments	878	426	452	0
Other financial obligations	0	0	0	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 €201K (previous year: €218K).

### (30) Contingent Liabilities

Contingent liabilities totalling €281K 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.

On February 13, 2009 the *aap* subsidiary *aap* Biomaterials GmbH was served a damages claim for allegedly passing on trade secrets and using them without permission. The proposed value of the claim was €30 million. The first oral proceedings held during the reporting period led to no new findings. As *aap* is merely a contractual partner or contract manufacturer for another company against which the claim was lodged, *aap* continues to assume that the suit against it will be rejected and that it will not be required to pay damages.

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 continues to consider the €70K provision created last year to be appropriate. An additional provision was made for the legal costs of the case.

A former *aap* Implantate AG consultant had previously filed a €100K default summons for fees outstanding in connection with consulting services he claimed to have provided. The dispute was settled out of court in January 2011 and the consultant dropped all alleged fee claims against the *aap* Group.

## I. Reporting on Financial Instruments

### (31) 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 accounts receivables are shown in separate value adjustment accounts.

Fair values are either stock market prices or are calculated on the basis of recognised valuation methods.

The market values of cash and cash equivalents, of current receivables, of accounts 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, 2010 and December 31, 2009 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.

### **(32) Financial Instruments by Valuation Categories**

The values of individual financial instruments by valuation category are shown in the following tables. The book values shown in the tables corresponded for the most part with the fair market values except for the book values of money owed to banks as of the balance sheet date.

#### Valuation Categories

According to IAS 39 (Financial Instruments: Recognition and Measurement), financial instruments are divided into the following 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 valuation categories	Book value as of <b>31.12.2010</b> € K	Balance Sheet Valuation to IAS 39		
			Amortised cost of acquisition € K	Fair value No effect on profit or loss € K	Fair value 31.12.2010 € K
<b>Assets</b>					
Financial assets	AfS	356	-	356	356
Accounts receivables	LaR	6,204	6,204	-	6,204
Other financial assets	LaR	674	674	-	674
Cash and cash equivalents	LaR	909	909	-	909
<b>Liabilities</b>					
Financial liabilities	FLAC	6,664	6,664	-	6,664
Trade liabilities	FLAC	2,967	2,967	-	2,967
Liabilities 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 39 valuation categories:

IAS 39 valuation categories	Book value as of <b>31.12.2010</b> € K	Balance Sheet Valuation to IAS 39			
		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 (including cash and cash equivalents)	LaR	7,787	7,787	-	7,787
<b>Total financial assets</b>		<b>8,143</b>	<b>7,787</b>	<b>356</b>	<b>8,143</b>
Financial liabilities at fair value with effect on profit or loss	FLAC	14,947	14,947	-	14,947
<b>Total financial liabilities</b>		<b>14,947</b>	<b>14,947</b>	<b>-</b>	<b>14,947</b>

IAS 39 valuation categories	Book value as of <b>31.12.2009</b> € K	Balance Sheet Valuation to IAS 39			
		Amortised cost of acquisition € K	Fair value No effect on profit or loss € K	Fair value 31.12.2009 € K	
<b>Assets</b>					
Financial assets	AfS	356	-	356	356
Accounts receivables	LaR	6,007	6,007	-	6,007
Other financial assets	LaR	1,053	1,053	-	1,053
Cash and cash equivalents	LaR	2,406	2,406	-	2,406
<b>Liabilities</b>					
Financial liabilities	FLAC	7,520	7,520	-	7,520
Trade liabilities	FLAC	2,447	2,447	-	2,447
Liabilities to shareholders	FLAC	2,265	2,265	-	2,265
Financial leasing liabilities	n.a.	145	145	-	145
Other financial liabilities	FLAC	2,115	2,115	-	2,115

thereof aggregated by IAS 39 valuation categories:

	IAS 39 valuation categories	Book value as of <b>31.12.2009</b> € K	Balance Sheet Valuation to IAS 39		
			Amortised cost of acquisition € K	Fair value No effect on profit or loss € K	Fair value 31.12.2009 € K
Available-for-sale financial assets	AfS	356	-	356	356
Loans and receivables (including cash and cash equivalents)	LaR	9,466	9,466	-	9,466
<b>Total financial assets</b>		<b>9,822</b>	<b>9,466</b>	<b>356</b>	<b>9,822</b>
Financial liabilities at fair value with effect on profit or loss	FLAC	14,347	14,347	-	14,347
<b>Total financial liabilities</b>		<b>14,347</b>	<b>14,347</b>	<b>-</b>	<b>14,347</b>

### (33) Expenses, Income, Losses and Profits from Financial Instruments

<b>2010</b>	Income from interest € K	Interest costs € K	Expenses from loss in value € K	Income from appreciation € K	Net income € K
Loans and receivables (including cash and cash equivalents)	34	0	-348	282	-32
Financial liabilities at fair value with effect on profit or loss	0	-556	0	0	-556
<b>Total</b>	<b>34</b>	<b>-556</b>	<b>-348</b>	<b>282</b>	<b>-588</b>

<b>2009</b>	Income from interest € K	Interest costs € K	Expenses from loss in value € K	Income from appreciation € K	Net income € K
Loans and receivables (including cash and cash equivalents)	10	-30	-325	103	-242
Financial liabilities at fair value with effect on profit or loss	0	-820	0	0	-820
<b>Total</b>	<b>10</b>	<b>-850</b>	<b>-325</b>	<b>103</b>	<b>-1,062</b>

### **(34) 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.

### **(35) 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 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 current under consideration.

Group debts on which interest is paid are all fixed-interest apart from the current account credit lines. As of December 31, 2010 about 30% of the Group's borrowing 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 one percentage point change in interest rates was found to lead to a €38K increase or decrease in the result before taxes on income.

#### Foreign Currency Risks

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

The major part of the Group's business activity is conducted in the euro zone. Business conducted outside of Europe has not been generally suitable in nature or extent for hedging by means of exchange futures trading or similar hedging measures. The Group's most important foreign currency is the US dollar. For individual contracts that involve large amounts in foreign currencies, currency risks are at present limited by intra-group

foreign exchange business, with dollar-denominated receivables and payables largely balancing each other out. Sensitivity analyses have established that the repercussions for other foreign currencies used by the Group are of minor importance. As of December 31, 2010 foreign currency receivables amount to about 3% of the total and consisted entirely of US dollar-denominated receivables. Foreign currency liabilities amounted to about 0.38% of the Group's borrowing, with US dollar liabilities amounting to about 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 €51K higher or lower for the reporting period. That would have been mainly due to currency translation gains from dollar-denominated accounts receivables. Against this background and with cost-benefit considerations in mind, the Group has accordingly decided to dispense with further hedging transactions.

#### 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 €3.7 million and for its Dutch companies totalling €1.3 million. Of the contractually assured credit lines totalling €5.0 million, €4.8 million was taken up gross and €4.0 million net as of the balance sheet date. The Group had an initial total of €5.0 million in credit lines at its disposal for 2010. As of December 31, 2010 *aap* had €1.0 million in free and usable liquidity (the sum of bank balances and freely available lines of credit) at its disposal.

€ million	31.12.2010	31.12.2009
Gross take-up of credit lines	-4.8	-4.5
Balance under credit lines	0.8	2.3
Net take-up of credit lines	4.0	-2.2

From February 1, 2011 the lines of credit for the Group's German companies were reduced by €200K. On the basis of the budget for 2011 and the working capital management measures already initiated, *aap*'s liquidity situation should improve markedly in 2011. We have therefore agreed with the banks that the credit lines may be reduced by a €250K each at the end of the third and fourth quarter.

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	Capital repayments			Interest payments		
	31.12.2010	2011	2012 to 2015	From 2016	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
Financial liabilities 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
<b>Total</b>	<b>12,248</b>	<b>10,910</b>	<b>1,338</b>	<b>0</b>	<b>277</b>	<b>358</b>	<b>0</b>

Capital/interest payments in respect of financial liabilities	Book value	Capital repayments			Interest payments		
	31.12.2009	2010	2011 to 2014	From 2015	2010	2011 to 2014	From 2015
	€ K	€ K	€ K	€ K	€ K	€ K	€ K
Financial liabilities	7,520	5,684	1,836	0	411	134	0
Financial liabilities to shareholders	2,265	2,265	0	0	60	5	0
Financial leasing liabilities	145	56	89	0	8	17	0
Other financial liabilities	2,115	2,115	0	0	3	2	0
<b>Total</b>	<b>12,045</b>	<b>10,120</b>	<b>1,925</b>	<b>0</b>	<b>482</b>	<b>158</b>	<b>0</b>

### 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 accounts 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. Write-off in the reporting years amounted to €106K (previous year: €135K).

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

### **(36) 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

	31.12.2010	31.12.2009
	€ K	€ K
Interest-bearing liabilities (gross)	10,220	10,010
Balance under credit lines	757	2,252
Interest-bearing liabilities (net)	9,463	7,758
EBITDA	3,448	6,562
Debt coverage ratio	2.7	1.2

	31.12.2010	31.12.2009
	€ K	€ K
Interest expenses	-567	-850
EBITDA	3,448	6,562
Interest coverage ratio	6.1	7.7

Net Indebtedness

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

	<u>31.12.2010</u>	<u>31.12.2009</u>
	€ K	€ K
Interest-bearing liabilities	10,220	10,010
Cash and cash equivalents	<u>-909</u>	<u>-2,406</u>
Net debts	9,311	7,604
Equity	44,852	44,715
Net indebtedness to capital ratio	21%	17%

**(37) Cash Flow Statement**

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

<u>Interest income</u>	€1K (previous year: €8K)
<u>Interest expenses</u>	€422K (previous year: €836K)

Income tax paid totalled €150K (previous year: €128K). Income tax refunded was €2K (previous year: €8K).

**J. Other Disclosures**

**(38) Related Enterprises and Parties**

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

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

2010	<u>Related enterprises</u>	<u>Other related parties</u>
	€ 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%

2009	<u>Related enterprises</u>	<u>Other related parties</u>
	€ K	€ K
Sales of goods	202	0
Sales of intangible assets	475	0
Purchased services	-126	-130
Financing		
- Loans taken out	2,000	0
- Loan repayments	-500	0
- Interest expense	-172	0
- Interest rate	8%	-

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

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

2010	<u>Related enterprises</u>	<u>Other related parties</u>
	€ 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

2009	<u>Related enterprises</u>	<u>Other related parties</u>
	€ K	€ K
Loan liabilities	-2,265	0
Liabilities to companies in which a participating interest is held	4	0
Accounts payables	0	2
Provisions	0	13

### (39) 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 (since April 1, 2010)

Management Board remuneration totalled €764K (previous year: €773K). 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.

	<u>Remuneration Components in € K</u>				
	Fixed	Performance-related	Long-term incentive	Total	Total (2009)
Biense Visser	201	25		260	306
Bruke Seyoum Alemu	285	18	38	341	467
Marek Hahn (since April 1, 2010)	<u>139</u>	<u>19</u>	<u>5</u>	<u>163</u>	<u>-</u>
	<u>625</u>	<u>62</u>	<u>77</u>	<u>764</u>	<u>773</u>

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

The shareholdings of members of the Supervisory Board and the Management Board were as follows:

	<u>Shares</u>		<u>Options</u>	
	2010	2009	2010	2009
<u>Supervisory Board</u>				
Jürgen W. Krebs (until August 7, 2009)	-	3,287,200	0	0
Rubino Di Girolamo	1,622,357	1,622,357	0	0
Prof. Dr. Dr. Dr. h.c. Reinhard Schnettler	182,094	182,094	0	0
Uwe Ahrens (until July 16, 2010)	475,905	858,536	0	0
Marcel Boekhoorn (until July 16, 2010)	3,917,536	3,589,036	0	0
Dr. Winfried Weigel (until April 30, 2010)	0	0	0	-
Ronald Meersschaert	0	0	0	0
<u>Management Board</u>				
Biense Visser	355,000	355,000	250,000	200,000
Bruke Seyoum Alemu	70,000	70,000	325,000	400,000
Marek Hahn (since April 1, 2010)	0	0	95,000	45,000

The fair value of the options at the time of issue was between €1.14 and €0.47.

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

Biense Visser	Mediq N.V. (formerly OPG)
	HZPC Holland B.V.
	Kreatech Biotechnology B.V.
	Actavis Group hf. (since December 1, 2010)

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

Mr. Rubino Di Girolamo, Delegate of the Administrative Council, Oberägeri near Zug, Switzerland (Chairman)

Mr. Ronald Meersschaert, Private Equity Investor, Arnhem, Netherlands (Deputy Chairman)

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

Mr. Uwe Ahrens, Managing Director, Berlin (until July 16, 2010)

Mr. Marcel Boekhoorn, Equity Investor, Arnhem, Netherlands (until July 16, 2010)

Dr. Winfried Weigel, Managing Director, Zurich, Switzerland (until April 30, 2010)

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 2010 financial year.

Supervisory Board remuneration in the financial years totalled €26K (previous year: €36K) as follows:

	2010 € K	2009 € K
Mr. Rubino Di Girolamo	10	13
Mr. Jürgen W. Krebs (until August 7, 2009)	0	4
Prof. Dr. Dr. Dr. h.c. Reinhard Schnettler	4	4
Mr. Uwe Ahrens (until July 16, 2010)	3	5
Mr. Ronald Meersschaert	7	7
Mr. Marcel Boekhoorn (July 16, 2010)	0	1
Dr. Winfried Weigel (until April 30, 2010)	2	2
<b>Total</b>	<b>26</b>	<b>36</b>

Payments made in the reporting year totalled €64K (previous year: €17K). Payment of a sum totalling €44K was waived.

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 – Administrative Board President – Hauck & Auffhäuser AG – Administrative Board – Metalor Dental Holding AG – Administrative Board –
Prof. Dr. Dr. Dr. h.c. Reinhard Schnettler	Kliniken des Main-Taunus-Kreises GmbH
Mr. Uwe Ahrens (until July 16, 2010)	None
Mr. Marcel Boekhoorn (until July 16, 2010)	Private Openlot Systems B.V. Motip Dupli Group Toeca International Company B.V. (since October 24, 2008)
Mr. Ronald Meersschaert	Toeca International Company B.V. Voice Cash Holding B.V. Voice Trust AG
Dr. Winfried Weigel (until April 30, 2010)	None

#### **(40) Disclosures Pursuant to 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.

## 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.

Mr. **Uwe Ahrens**, Germany, notified us on January 19, 2010 in accordance with Section 21 (1) WpHG that his share of voting rights in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660, fell below the threshold of 3% of voting rights on January 13, 2010 when it amounted to 2.82%, or 787.236 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) 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%).

Mr. **Oliver Bielenstein**, Germany, on January 13, 2009 fell below the 30, 25, 20, 15, 10, 5 and 3% thresholds. On January 13, 2009 Mr. Bielenstein held 503,128 shares (1.89%).

Mr. **Bruke Alemu**, Germany, on January 13, 2009 fell below the 30, 25, 20, 15, 10, 5 and 3% thresholds. On January 13, 2009 Mr. Alemu held 45,000 shares (0.17%).

Mr. **Bernhard Gottwald**, Germany, on January 13, 2009 fell below the 30, 25, 20, 15, 10, 5 and 3% thresholds. On January 13, 2009 Mr. Gottwald held 205,000 shares (0.77%).

Mr. **Oliver Benz**, Switzerland, on January 13, 2009 fell below the 30, 25, 20, 15, 10, 5 and 3% thresholds. On January 13, 2009 Mr. Benz held 40,000 shares (0.15%), of which in accordance with Section 22 (1) 1 (1) WpHG 40,000 shares (0.15%) were attributable via Carpe Diem AG.

**Carpe Diem AG**, Uerikon, Switzerland, on January 13, 2009 fell below the 30, 25, 20, 15, 10, 5 and 3% thresholds. On January 13, 2009 Carpe Diem AG held 40,000 shares (0.15%).

**KST Beteiligungs AG**, Stuttgart, Germany, informed us on January 13, 2009 that its share of voting rights in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660, on January 13, 2009 fell below the 30, 25, 20, 15, 10, 5 and 3% thresholds. KST Beteiligungs AG on January 13, 2009 held 627,684 shares (2.36%).

Mr. **Hanspeter Schwager**, Switzerland, informed us on January 13, 2009 that his share of voting rights in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660, on January 13, 2009 fell below the 30, 25, 20, 15, 10, 5 and 3% thresholds. Mr. Schwager on January 13, 2009 held 662,579 shares (2.49%).

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.

**Elocin B.V.**, Arnhem, Netherlands, informed us on May 7, 2008 in accordance with Section 21 (1) WpHG that its share of voting rights in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, ISN: 506660 on April 28, 2008 exceeded the 10% threshold and amounted to 10.04%, or 2,544,000 voting rights.

**Ramphastos Investments N.V.**, Arnhem, Netherlands, informed us on May 7, 2008 in accordance with Section 21 (1) WpHG that its share of voting rights in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, ISN: 506660 on April 28, 2008 exceeded the 10% threshold and amounted to 10.04%, or 2,544,000 voting rights. 10.04%, or 2,544,000 voting rights, are to be attributed to the company from Elocin B.V. in accordance with Section 22 (1) 1 (1) WpHG.

Mr. **Marcel Martinus Jacobus Johannes Boekhoorn**, Netherlands, informed us on May 7, 2008 in accordance with Section 21 (1) WpHG that his share of voting rights in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, ISN: 506660 on April 28, 2008 exceeded the 10% threshold and amounted to 10.04%, or 2,544,000 voting rights. 10.04%, or 2,544,000 voting rights, are in accordance with Section 22 (1) 1 (1) WpHG to be attributed to Mr. Boekhoorn from Ramphastos Investments N.V. via Elocin B.V.

2007:

**Union Investment Luxembourg S.A.** 308, route d'Esch, L-1471 Luxembourg, informed us on September 27, 2007 in accordance with Section 21 (1) WpHG that its share of voting rights in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660 on September 26, 2007 fell short of the 3% threshold and now amounts to 2.57%, or 650,708 voting rights.

**Highclere International Investors Limited, London**, UK, informed us on September 27, 2007 in accordance with Section 21 (1) WpHG that its share of voting rights in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660 on September 26, 2007 fell short of the 3% threshold and now amounts to 2.1%, or 532,001 voting rights. 2.1% of the voting rights, or 532,001 voting rights, are attributable to Highclere International Investors Smaller Companies Fund in accordance with Section 22 (1) 1 (6) WpHG.

**Highclere International Investors Smaller Companies Fund, Westport** (CT), USA, informed us on September 27, 2007 in accordance with Section 21 (1) WpHG that its share of voting rights in *aap* Implantate AG, Berlin, Germany, ISIN: DE0005066609, SIN: 506660 on September 26, 2007 fell short of the 3% threshold and now amounts to 2.1%, or 532,001 voting rights.

Mr. **Asuncion Barrueto**, Switzerland, on September 20, 2007 fell below the 50, 30, 25, 20, 15, 10, 5 and 3% thresholds. On September 20, 2007 Mr. Barrueto held 0% (no shares).

Mr. **Oliver Borrmann**, Germany, on September 20, 2007 fell below the 50, 30, 25, 20, 15, 10, 5 and 3% thresholds. On September 20, 2007 Mr. Borrmann held 0.01% (3,000 shares).

**Fermann AG**, Zürich, Switzerland, on September 20, 2007 fell below the 50, 30, 25, 20, 15, 10, 5 and 3% thresholds. On September 20, 2007 Fermann AG held 0% (no shares).

Mr. **Martin Lechner**, Switzerland, on September 20, 2007 fell below the 50, 30, 25, 20, 15, 10, 5 and 3% thresholds. On September 20, 2007 Mr. Lechner held 0% (no shares).

**Dr. Frank Husemann**, Germany, on September 20, 2007 fell below the 50, 30, 25, 20, 15, 10, 5 and 3% thresholds. On September 20, 2007 Dr. Husemann held 0% (no shares).

**Berlex AG**, Berlin, Germany, on September 20, 2007 fell below the 50, 30, 25, 20, 15, 10, 5 and 3% thresholds. On September 20, 2007 Berlex AG held 0% (no shares).

Mr. **Robert Schrödel**, Germany, on September 20, 2007 fell below the 50, 30, 25, 20, 15, 10, 5 and 3% thresholds. On September 20, 2007 Mr. Schrödel held 0% (no shares).

Mr. **Christian Walliker**, Switzerland, on September 20, 2007 fell below the 50, 30, 25, 20, 15, 10, 5 and 3% thresholds. On September 20, 2007 Mr. Walliker held 0% (no shares).

#### **(41) 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: €240K)
- b) Other services: €16K (previous year: €68K)

#### **(42) Events Since the Balance Sheet Date**

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

#### **(43) 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 the website at [www.aap.de/de/Investor/Corporate\\_Governance/index\\_html](http://www.aap.de/de/Investor/Corporate_Governance/index_html).

#### **(44) Publication**

These consolidated financial statements to December 31, 2010 were released for publication by the company's Management Board on March 30, 2011.

Berlin, March 30, 2011

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, 2011

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 2010 to 31 December 2010. 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, 2011

RöverBrönner GmbH & Co. KG  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

Helmut Schuhmann  
Wirtschaftsprüfer

Ralf Bierent  
Wirtschaftsprüfer