aap Implantate AG

Annual Report 2000

aap at a glance

	2000	1999	Change vs. 1999
Sales	21.429 TDM	12.464 TDM	72%
Total output	23.743 TDM	17.368 TDM	37%
EBITDA	4.950 TDM	748 TDM	562%
EBIT**	2.452 TDM	905 TDM	171%
Operating profit	2.240 TDM	905 TDM	147%
DVFA/SG profit	1.200 TDM	453 TDM	165%
DVFA / SG income per share*	0,30 DM	0,12 DM	150%
DVFA / SG	3.507 TDM	1.780 TDM	97%
acquisition-related depreciation	746 TDM	0 TDM	
EBIT without acquisition-related depreciation	3.199 TDM	905 TDM	253%
Operating profit without acquisition-related depreciation	2.986 TDM	905 TDM	230%
DVFA/SG profit without acquisition-related depreciation	1.664 TDM	453 TDM	268%
DVFA / SG profit without acquisition-related depreciation*	0,41 DM	0,12 DM	246%
Fixed assets	50.884 TDM	8.423 TDM	504%
Current assets	36.440 TDM	27.572 TDM	32%
Balance sheet total	89.132 TDM	37.212 TDM	140%
Equity ratio	62%	68%	-9%
Employees	126	94	34%

* with reference to 4.041.066 unit shares in 2000

** after eliminating the extraordinary expenses resulting from the IPO

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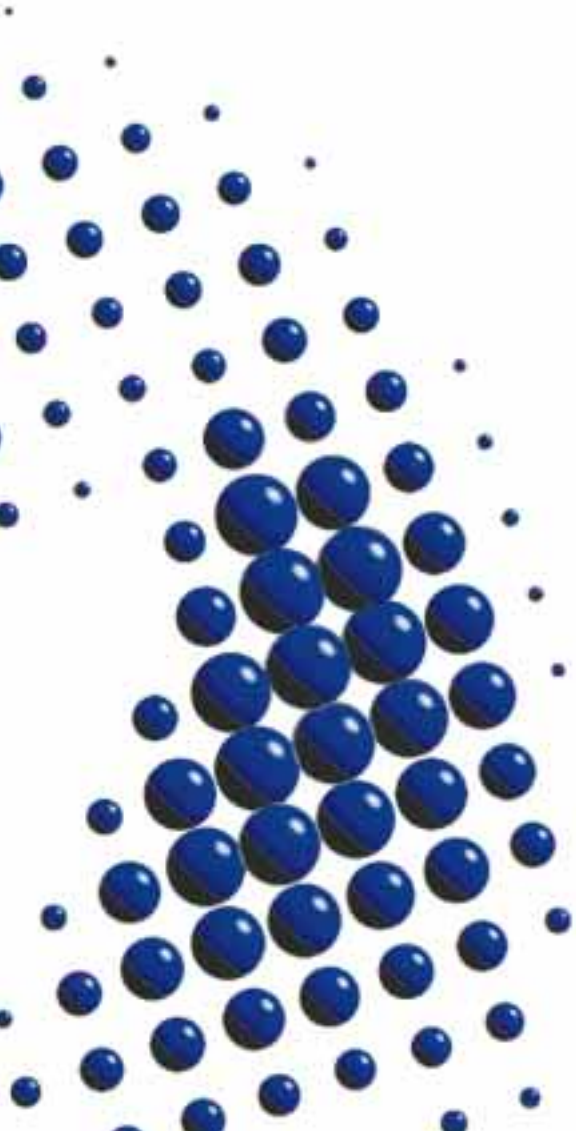

Annual Report 2000

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Bruke Seyoum Alemu, Joachim Staub, Uwe Ahrens

FOREWORD BY THE MANAGEMENT BOARD

Dear Shareholders

and Business Partners,

We set ourselves ambitious targets for the financial year 2000 - and we achieved a great deal.

In financial 2000, sales increased by 72% to DM 21.4 million. DVFA/SG net earnings were up 165% to DM 1.2 million. Expansion of the company's worldwide sales base with the emphasis on the high-growth, high-margin U.S. and Japanese markets led to a new ratio of sales in Germany to revenues in other countries (2000: Germany 64.4%, other countries 35.6%; 1999: Germany 75.5%, other countries: 24.5%). In acquiring the Coripharm/ Mebio Group, *aap* also gained a foothold in a market with a future: orthobiology. The foundations for our long-term success as an innovation leader in the orthopedic market are now more broadly laid.

For us, two factors are of crucial importance when it comes to pressing ahead with the company's global focus. They are its critical mass and market capitalization. To exert a favorable influence on these two factors, *aap* pursues a clear strategy of expansion. In the year under review this expansion strategy was accomplished by means of both internal and external corporate growth.

In the review period *aap* consistently persevered with the company's international orientation. Special mention must here be made of the signing of an exclusive sales agreement with Nasdaq-listed Exactech Inc. and the granting of SDA approval to sell *aap* products in the Chinese market.

Acquisition of the Coripharm/Mebio Group represented a major step in the direction of becoming a biomedical life science enterprise. The acquisition stressed orthobiology as our third core competence after osteosynthesis and endoprosthetics. In view of its high-speed innovation and growth, orthobiology will exert a growing influence on orthopedics. *aap* was quick to spot the potential of this young and innovative market, and in the Coripharm/ Mebio Group was able to find a distinguished partner with proven expertise in the development, manufacture and marketing of ortho-biological products.

In view of these successes and the outlook for further corporate development they convey, we should like to express our thanks.

Thanks to our staff for their performance and the experience, professional competence and creativity they constantly demonstrated.

Thanks to our shareholders for the confidence they have shown in the company. And thanks to our customers and business partners for their superb cooperation.

Uwe Ahrens

President and
Chief Executive Officier

Joachim Staub

Member of the Board

Bruke Seyoum Alemu

Member of the Board

THE HEALTH MARKET

Economists are already referring to the health market as the growth motor of the 21st century. Longer life expectancy, the growing importance of health as reflected by consumer behavior and the greater market orientation of the public health sector in particular will lead to long-term health market growth. Mergers and acquisitions have been hallmarks of the health market in recent years. Growing costs in research and development, fundamental changes in the product portfolio and integrating high tech in production processes are the reasons for the renewal of the coporation's strategic and geographic alignment.

Medical technology, with an estimated world market sales volume of $150 billion and annual growth rates of up to 25% is an important part of the health business. Degenerative joint diseases and age- and leisure-related fractures are constantly on the increase around the world, so that the orthopedic market has become one of the largest and most profitable segments in medical technology. In 1999, world orthopedic market revenues totaled roughly $12 billion*. Over the next 3 to 4 years, market growth is expected to average between 9 and 10%**.

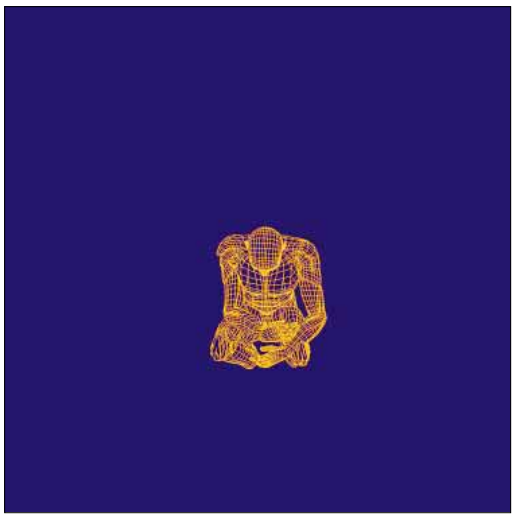
THE ORTHOPEDIC MARKET

▼

One of the Largest and Most Profitable Segments in Medical Technology Today

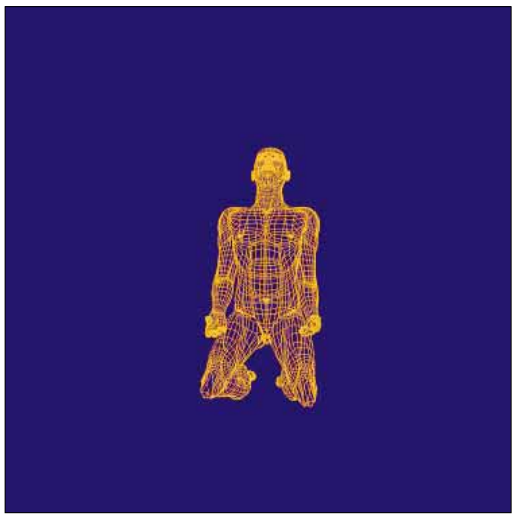
Sources:
*Knowledge Enterprises Inc.:"The Worldwide Orthopaedic Market - 1999-2000", November 2000
** Merrill Lynch: Orthopedic Industry, September 2000

Osteosynthesis, the spinal column sector and endoprosthetics are interesting and highly promising orthopedic market segments. According to Merrill Lynch estimates*, the size of the osteosynthesis market (screws, plates, fixatures) last year was $1.4 billion, up 8% on the year. By 2003, growth in the osteosynthesis segment is expected to be 9%, with an estimated market volume of roughly $1.8 billion. The spinal column sector, with expected growth rates of between 22 and 23% and a world market volume of $1.4 billion in 2000, is one of the fastest-growing and most profitable segments in the orthopedic market. Here, growth rates are expected to average about 20% by 2003*. In 1999, the world market for endoprosthetics reached a total volume of $4 billion. In that year alone, over 1.5 million joint replacement operations were conducted around the world**, and this figure will continue to increase as the over-60s account for a steadily-growing share of the population.



ORTHOBIOLOGY, MARKET OF THE FUTURE

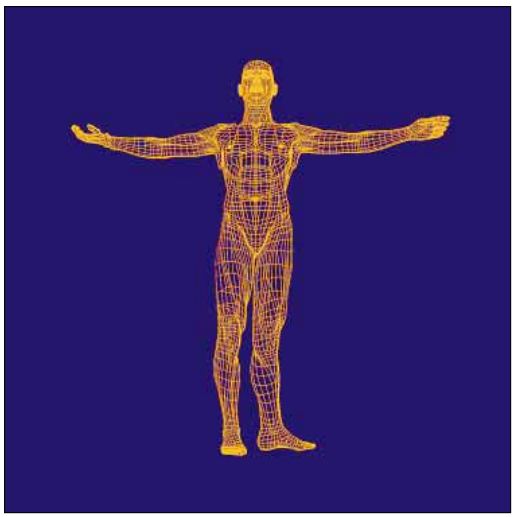
In the orthopedic market a new generation of cost-cutting biological implants has come into its own that have the potential to revolutionize the market. The market for biological implants, or orthobiologicals, is a burgeoning sector with annual growth in excess of 50%***. A key technology in this market is tissue engineering. This technology aims to develop biological substitutes that maintain, regenerate and improve tissue and organ functions. One possible application area is the development of biologically active, „living bone substitute" that supports the healing and treatment of damaged bones. The discovery of bone substitute taken from the patient's own cells will lead to a fundamental long-term change in orthopedics. At present, however, there are still



Sources:
*Merrill Lynch: „Orthopedic Industry", September 2000
**Knowledge Enterprises Inc.:"The Worldwide Orthopaedic Market - 1999-2000", November 2000
***SG Cowen, Hospital Supply & Medical Technology Rounds July 2000, SG Cowen Orthopedic Industry, April 1998

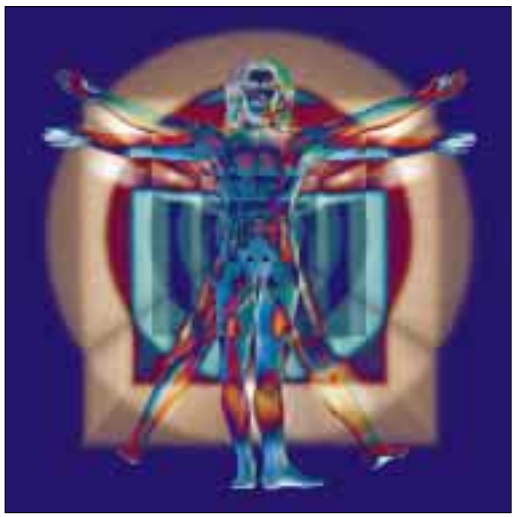
SUCCESS FACTORS
IN THE ORTHOPEDIC MARKET

limits to using these new technologies to restore damaged bones because the mechanical stability of supporting skeletal parts such as the lower leg cannot yet be taken fully into account. That is the reason why we see the combination of bone substitute materials and metal implants as an ideal solution for the treatment and cure of supporting skeletal parts.



Today's market for medical technology and, in particular, for orthopedics is characterized by the clash between medical and technical progress and growing pressure of costs to which hospitals and clinics must knuckle under. New products and services must taken these changes in underlying conditions into account. Process-adapted product development in close cooperation with clinical users is gaining increasingly in importance. The result of our activities is not just reliable implants that are based on state-of-the-art scientific development but all-in-one solutions that also aim

to optimize operation processes. Simpler operation processes ease the burden on the patient and reduce the time he or she spends in the operating theater. And as technology and process are better matched and coordinated, hospitals can be run more economically too.



As we see it, a principal success factor in the orthopedic market is thus, above all, the ability to offer one-stop shop service, combined with an offering that is structured optimally to suit the customer's requirements. *aap* has taken its aim to become an all-in-one provider into account in its acquisitions. It has markedly expanded both the breadth and depth of its product range. By combining the three core competences osteosynthesis, endoprosthetics and orthobiology, *aap* has made crucial progress toward becoming an all-in-one skeletal provider. It offers artificial implants that are currently considered to be the „gold standard" in implantology, combined with biological implants, or bone substitutes that can be used to complement them. We see this mix of osteosynthesis and endoprosthetics with orthobiology as a decisively unique feature that sets *aap* apart from many competitors in the market.

INVESTMENT HIGHLIGHTS

▶ *aap* is a leading, German-based biomedical corporation that for years has been running at a profit, with sales and EBIT returns that are well above the industry average.

In combining three core competences, osteosynthesis (mending bone fractures), endoprosthetics (joint replacement) and orthobiology (biological implants), *aap* has at its disposal a sound base, an outstanding market position and highly promising prospects in the health industry growth market.

aap's convincing fundamentals are augmented by a business strategy with a global focus. Our own sales team in Germany and exclusive sales partners in the high-growth, high-margin U.S. and Japanese markets and in China, a threshold country with dynamic economic development, stand for a selective marketing and expansion strategy in national and international markets.

aap Implantate AG

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Combination of Three Core Competences : Osteosynthesis, Endoprosthetics, Orthobiology

aap is a company with high growth potential. Selective acquisitions and above-average sales growth guarantee growth rates above the industry average. *aap*'s business strategy envisions future corporate growth by means of healthy internal growth and controlled expansion of business at home and abroad.

The business model provides for average annual internal growth of 30%, which has been achieved over the past three financial years. The company's external growth is based on acquisitions aimed at expanding national and international sales activities and strengthening or rounding off the product portfolio or technology base, mainly in the endoprosthetics segment, in the spinal column sector and in orthobiological products.

aap Implantate AG

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Investment in Innovation for Biomedical Technology

We invest in innovation. Jointly with leading medical experts, *aap* is developing in an international research network products with unique features, high market potential and an integrated product philosophy. Products such as the modular Trauma Shoulder System (TSS) are geared to meet practical orthopedic market requirements and to set new standards in the orthopedic market. These innovative product systems now make up 30% of *aap* sales.

aap has a vision. Our long-term objective is market leadership in the biomaterials segment. We have already laid the foundation for achieving it by acquiring the Coripharm/Mebio group of companies. The research team at these companies has long years of experience in research and development and over 200 publications in the biomaterials sector.

THE MANAGEMENT

SUPERVISORY BOARD

Lothar Just
Self-employed tax accountant
and auditor (chairman since 1998)

Klaus Kosakowski
Management consultant and managing
partner of Alkos Grundstücksgesellschaft
(supervisory board member since 1998)

Roger Bendisch
Managing director and investment banker
(supervisory board member since 1998)

Dieter Borrmann
Personnel consultant
(supervisory board member since 1998)

Privatdozent Dr. Heinz Helge Schauwecker
University lecturer and
head of hospital department
(supervisory board member since 1998)

Prof. Dr. Dr. h.c. Horst Cotta
Emeritus director of Heidelberg University
orthopedic clinic and former president
of the German Society for Orthopedics
and Traumatology
(supervisory board member since 1998)

THE MANAGEMENT BOARD

Uwe Ahrens

Mr. Ahrens has been board chairman at *aap* since 1997. He founded the company in a management buyout of parts of Johnson & Johnson subsidiary Mecron, where he was previously head of production and design. Mr. Ahrens is an aerospace engineering graduate of Berlin's Technical University.

Joachim Staub

Mr. Staub has been director of sales and marketing since 1999. He is a mechanical engineering graduate and has worked for *aap* since 1993. He has long years of international experience in sales and marketing in the medical technology sector.

Bruke Seyoum Alemu

Mr. Alemu has been a member of the board since 1999 and is in charge of finance, information technology and organization. He has worked for *aap* since 1993. He is a nuclear engineering graduate with a second degree in management and planning from Berlin's Technical University.

MANAGEMENT OF SUBSIDIARIES

MEBIO MEDIZINISCHE BIOMATERIALIEN GMBH
CORIPHARM GMBH & CO. KG

Klaus Otten

Mr. Otten has been CEO of Coripharm GmbH & Co and Mebio GmbH since 1993 and of Corimed GmbH since 1994. In 1993 and 1994 he founded Coripharm GmbH & Co, Mebio GmbH and Corimed GmbH as Mebio's holding company. He previously headed the biomaterials strategic business unit at Merck. Mr. Otten holds a degree in biology.

Dr. Elvira Dingeldein

Dr. Dingeldein has been head of R & D and production at Coripharm GmbH & Co. KG since 1994. In 2000 she founded Osartis GmbH & Co. KG. She previously worked in clinical research into biomaterials at Merck. Dr. Dingeldein has written numerous scientific publications and is a member of various scientific associations, including the European Society of Biomaterials. She holds a PhD in veterinary medicine from Giessen University.

GROUP
aap Implantate AG

MEBIO (100%)	CORIPHARM (100%)	OSARTIS (49%)	*aap* Implants, Inc. (80%)	GEOT (30%)
SALES COMPANY Sells products from the following segments: Cemented endoprosthetics ♦ Biological bone substitutes ♦ Local wound healing	**R & D COMPANY** Develops concepts for three market segments: Cemented endoprosthetics ♦ Biological bone substitutes ♦ Local wound healing	**PRODUCTION COMPANY AND PATENT MANAGEMENT** Production of bone substituting materials with/without growth factors	**SALES COMPANY FOR THE U.S. MARKET** Sells poducts from the osteosythesis segment Exclusive sales agreement with Exactech Inc.	**GESELLSCHAFT FÜR ELEKTRO-OSTEOTHERAPIE mbH** Process to promote and accelerate healing

▶ *aap* is a leading German provider of biomedical implants for the muscular and skeletal system, which is one of the body's most complex organs. Alongside our head office in Berlin we are represented in Germany by our Dieburg-based subsidiaries Mebio and Coripharm. *aap* also has a U.S. subsidiary, *aap* Implants Inc.

Our core competences are development, production and marketing of implants for healing bone fractures (osteosynthesis), for joint replacement (endoprosthetics) and for biological bone substitute (orthobiology). In expanding the orthobiology segment we aim in the long term to establish ourselves as innovation leaders in the young orthobiology growth market.

The bedrock for *aap*'s success is a customer base of over 2,400 hospitals in over 40 countries. Cooperation with opinion leaders in an international research network supports us in developing new product ideas. That is how our staff repeatedly succeed in developing innovative ideas to market maturity.

aap Implantate AG

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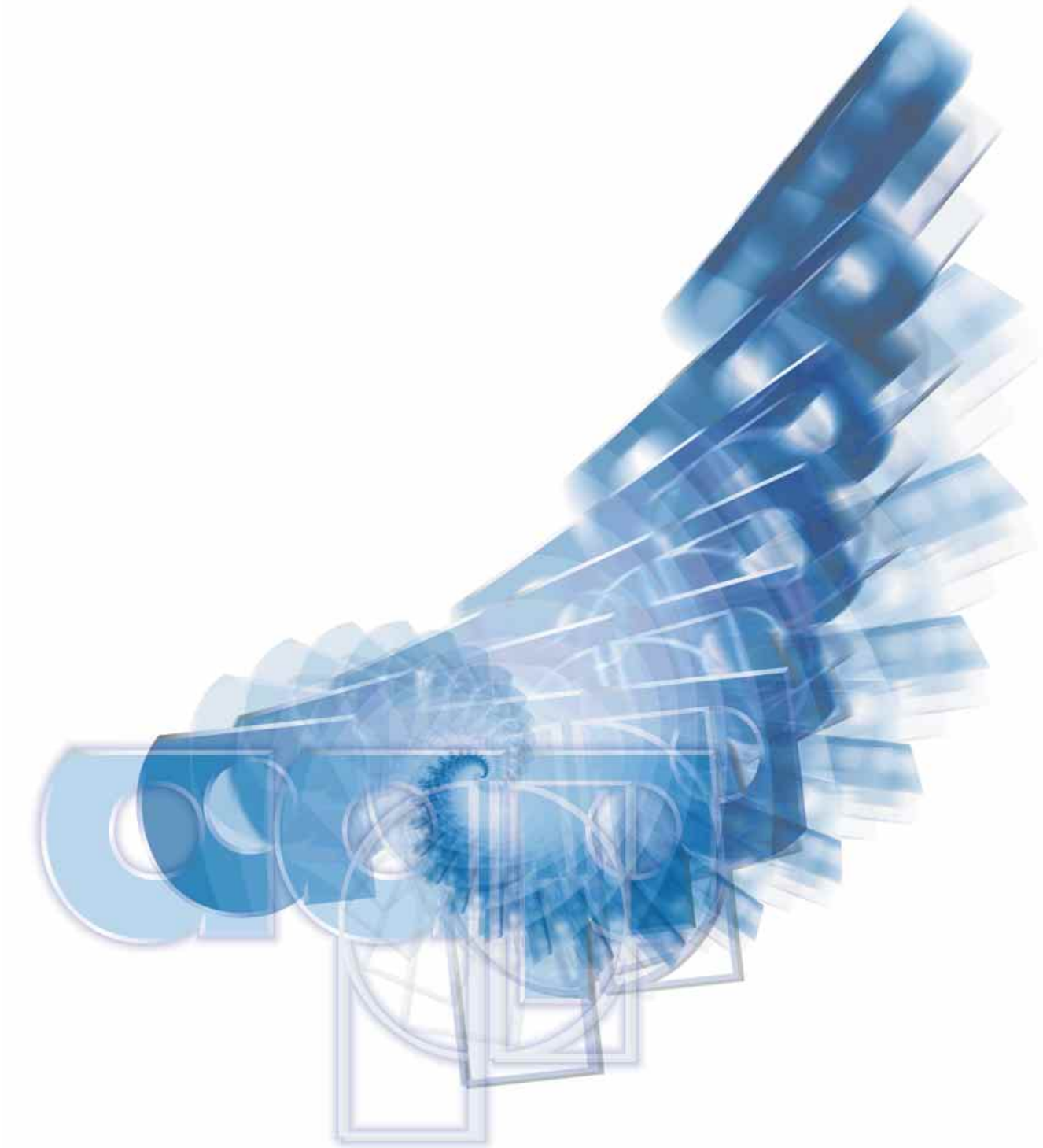
A Biomedical Enterprise with a Global Focus

Since May 1999, *aap* Implantate AG has been the first biomedical technology company to be listed in the Frankfurt stock exchange's Neuer Markt segment.



MARKET AND SECTORAL SITUATITON

▶ The orthopedic market is one of the largest and most profitable segments in medical technology. In 1999, sales in the worldwide orthopedic market totaled $12 billion* and until 2004 the market is expected to grow by between 9 and 10% per year.** Demographic developments will be a fundamental reason for growth of the entire health market in the decades ahead. By 2050 the over-60s' share of the world's population will have increased to 22%, or more than doubled in relation to today.*** Further factors will be a general increase in health costs and improvements in medical care in the so-called threshold countries.

aap Implantate AG
▼
is a
Growth Enterprise
in a
Growth Market

COMPETITIVE POSITION

▶ *aap* is a leading biomedical technology corporation in Germany. In osteosynthesis it is market leader at the national level, holding second to sixth place depending on the segment. Our ambitious long-term objective is to take over as market leader in biomaterials. Orthobiology is such a new business field in which the major orthopedic groups have not been able to establish themselves as market leaders that *aap* as an innovative company with relatively short times to market stands an excellent chance of cornering significant market shares at an early stage.

Sources:
*Knowledge Enterprises, „The Worldwide Orthopaedic Market - 1999 - 2000", November 2000
**Merrill Lynch: „Orthopedic Industry", September 2000
***Population Reference Bureau, 2001

MANAGEMENT CONTROL AND MANAGEMENT

▶ *aap*'s founding and management team combines over 30 years of experience in the health market. This know-how is based on long years of experience in cooperating with the medical profession, with hospitals and clinics.

aap Implantate AG

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Long Years of Experience in the Health Market, Orientated toward Success, with Innovations for the Future

POTENTIAL FOR CORPORATE DEVELOPMENT

▶ At *aap*, 12 product systems are at the beginning of their product life-cycle. The company's intellectual property currently consists of 31 patents or registered designs und 16 registered trade marks. Innovation-leading products account for 30% of total sales.

By acquiring the Coripharm/Mebio Group of companies we made sure of moving forward into orthobiology, a market with a future. Annual growth rates of over 54% testify to this segment's extraordinary potential.* Merrill Lynch** expects world market potential for orthobiology to increase to $700 million by 2003.

The R & D sector biomaterials is represented by a respected team of research scientists with over 200 publications in this field. It liaises with an international network of over 20 leading medical experts to come up with product ideas that are geared to the practical needs of orthopedics.

GLOBAL FOCUS

▶ The *aap* business model is international in outlook. The company is represented in over 40 countries, has set up a subsidiary of its own in the U.S. and works with exclusive sales partners in the U.S., Japan and China. FDA, Shonin and SDA approvals in these high-growth, high-margin markets testify to the corporation's high quality standards.

aap Implantate AG

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A Presence in Highest-Growth, Highest-Margin Markets with a Successful Expansion Strategy

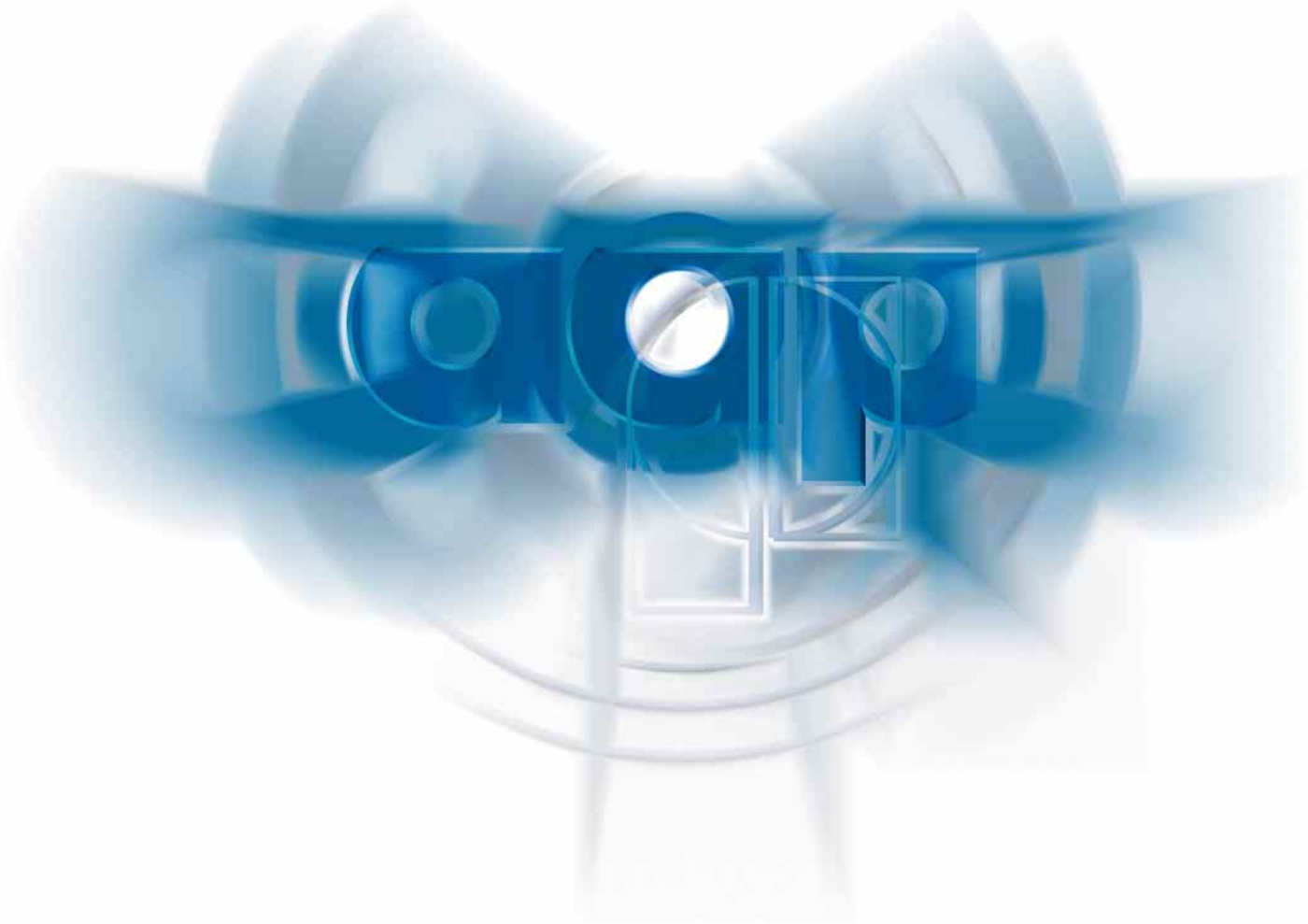
STRATEGY

▶ To gain a critical mass and a market capitalization above the perception level of the institutionals, corporate growth is a strategic essential. That is why *aap*'s future development will continue to be pursued along the lines of what have hitherto been success factor: sound organic growth combined with controlled acquisitions.

Organic growth will for one result from further extension of sales and marketing activities and for another from extension of the innovation pipeline.

External growth is to be achieved by means of acquisitions aimed at extending national and international sales activities and strengthening or rounding the product portfolio and technology base in endoprosthetics, orthobiologicals and the spinal column sector.

Sources:
*SG Cowen, Hospital Supply & Medical Technology Rounds July 2000, SG Cowen Orthopedic Industry, April 1998
**Merrill Lynch: „Orthopedic Industry", September 2000



September Official market launch of the Trauma Shoulder System and Biorigid Femur System to coincide with the 4th European Accident Congress and 64th annual conference of the "Deutsche Gesellschaft für Unfallchirurgie, „Trauma 2000.""

aap concludes with NASDAQ-listed Exactech, Inc. an exclusive sales agreement for the U.S. market.

October *aap* comes to terms on the acquisition of a 30% stake in the Munich-based Gesellschaft für Elektro-Osteotherapie (GEOT) mbH. Over the next two years, *aap* will also hold an option to acquire a further 21% of GEOT's stock.

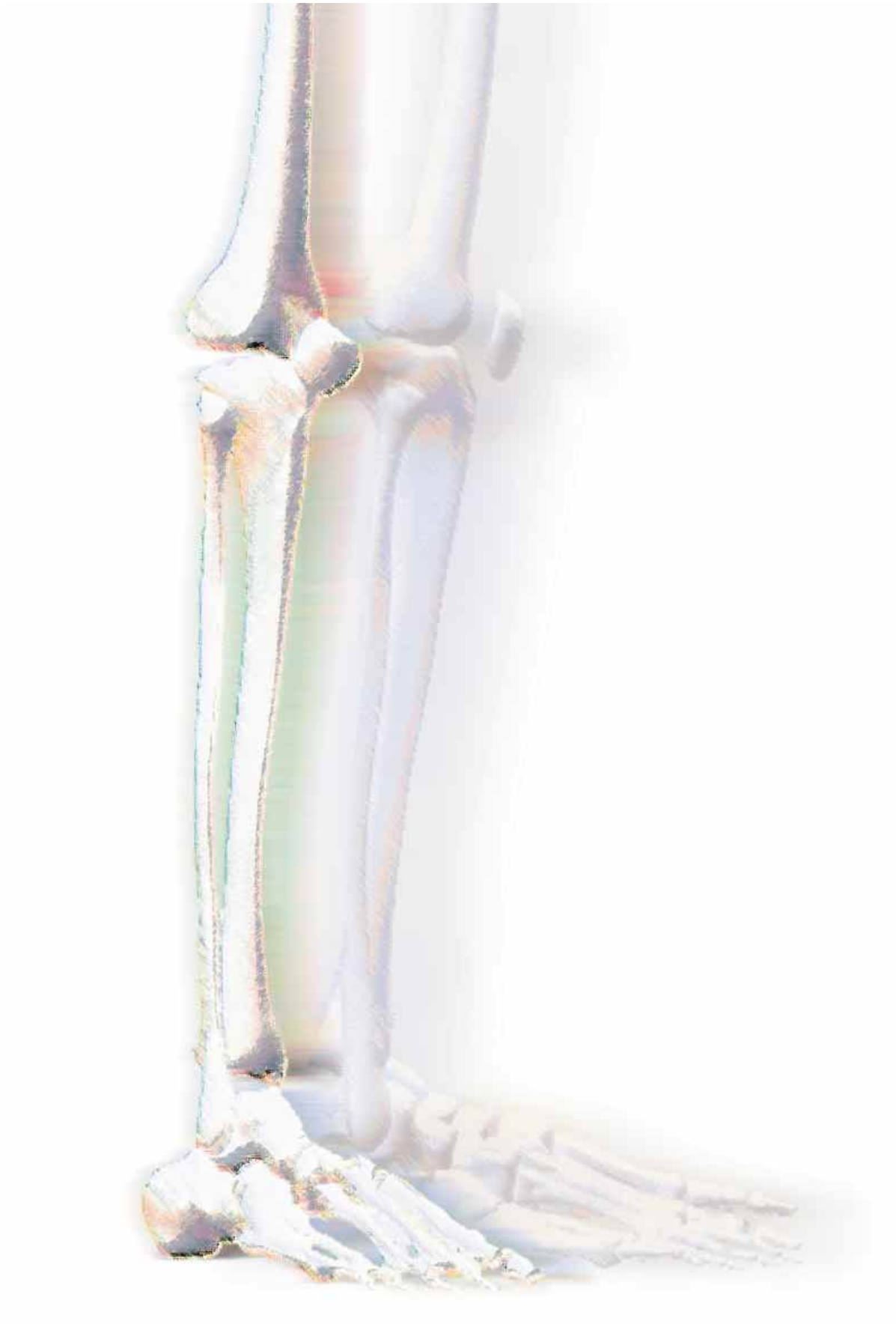
November *aap* is granted sales approval for the Chinese market.

aap moves further into biological implants by acquiring the Coripharm-Mebio Group.

aap's nine-month results show 75% sales growth on the year to DM 13.7 million from DM 7.9 million. The DVFA consolidated surplus for the period is nearly trebled to DM 1.5 million from DM 500,000 in the same period the year before.

December *aap* achieves record sales and a powerful boost to results. Sales are up by roughly 72% to DM 21.4 million from DM 12.5 million and are thus above plan, which was DM 20.6 million. Earnings before interest, tax and depreciations (EBITDA) is DM 5.0 million, or nearly six times the previous year's DM 750,000.

BUSINESS FIELDS, PRODUCTS & TECHNOLOGIES

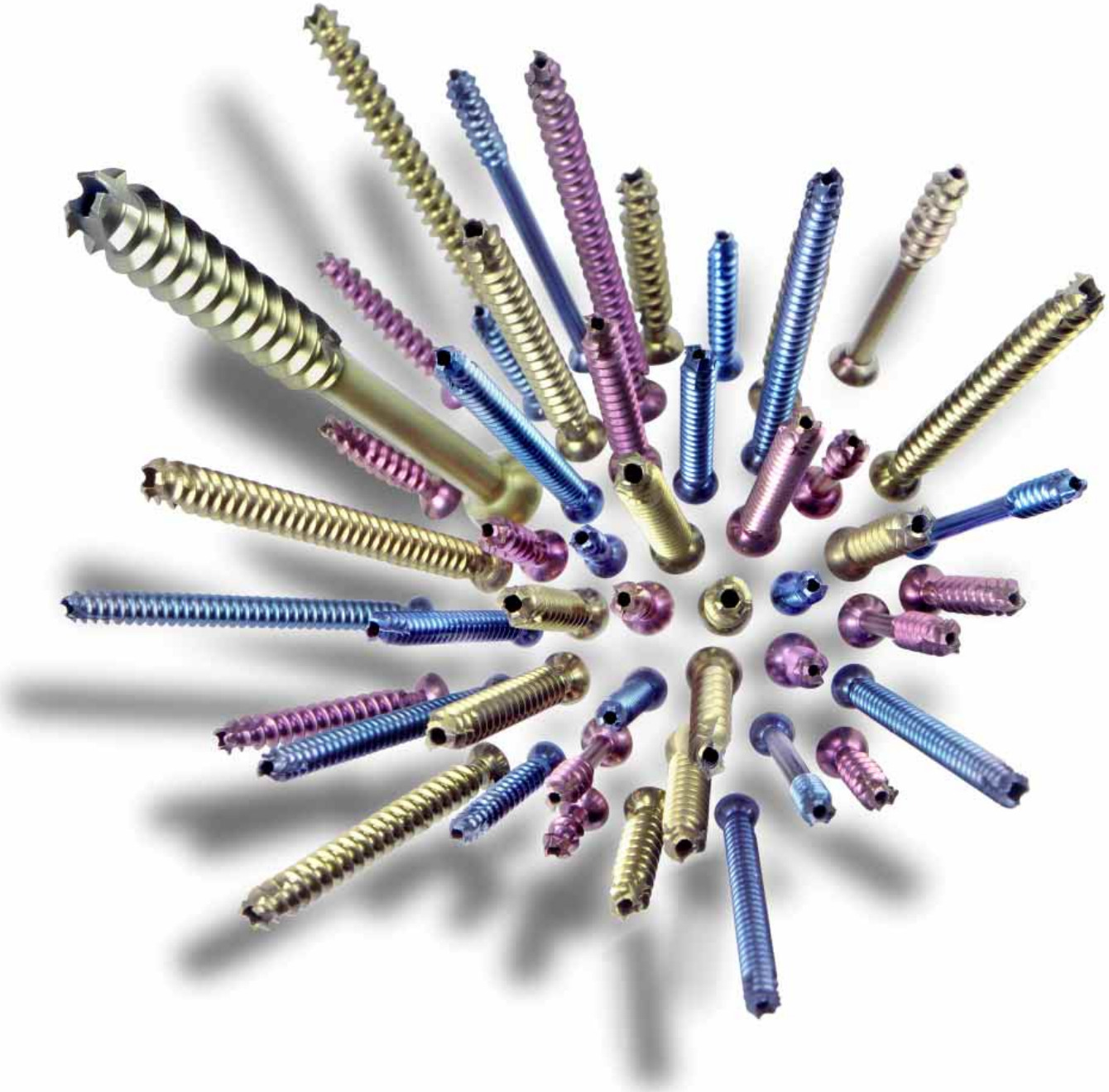


▶ *aap* has steadily increased its competence in the osteosynthesis implant sector.

Osteosynthesis comprises all operation procedures aimed at restoring as soon as possible the full functionality of fractured bones by stabilizing them using temporary implants. Once the treatment is successful, the implant is, as a rule, removed.

In accident and emergency clinics a wide range of standard implants is required for osteosynthesis. It extends from external fixatures via a wide range of plates, screws and nails to special implants such as *aap*'s AcroPlate™, which is used for fractures of the acromic-clavicular joint.

aap supplies standard implants in fragment trays that contain, in addition to a specified range of plates and screws, the instruments needed to insert them. A minifragment set is available for use with fractures of bones in the hand or foot.



The market presence of cannulated screws, which continued in 2000 to be an important sales mainstay, was continuously extended. Operating theaters can no longer be envisioned without them. Their excellent properties make them a flexible implant in minimally invasive osteosynthesis.

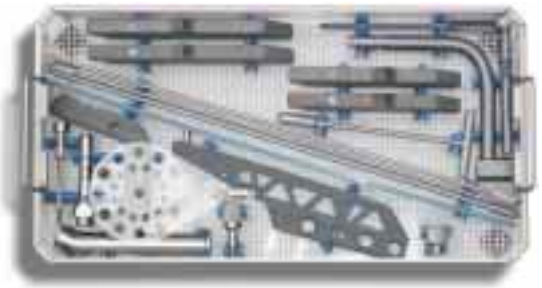
The development of special implants and fundamental innovations in operating technique hold forth the promise of best healing even in complicated cases. The operator expects highly developed products that are easy to use during the operation. Only implants that speed up the healing processes, reduce hospitalization times and thereby minimize both treatment and after-care costs will in future stand any great chance in the market. With a leg management system consisting of the Biorigid Nail Tibia and the Biorigid Nail Femur *aap* has succeeded in setting new standards in trauma surgery.

THE PRODUCT PHILOSOPHY ▼ A Complete Trauma Management System

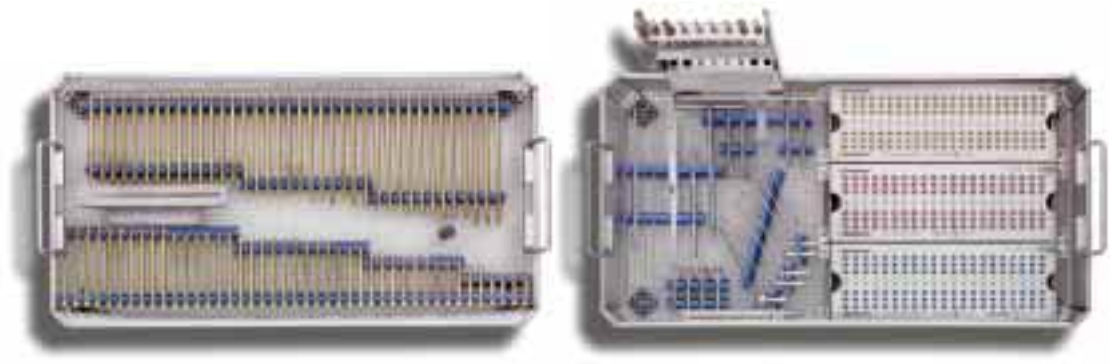
Using the patented interlocking groove technology, treatment of both lower leg and thigh fractures can be based on a uniform principle.

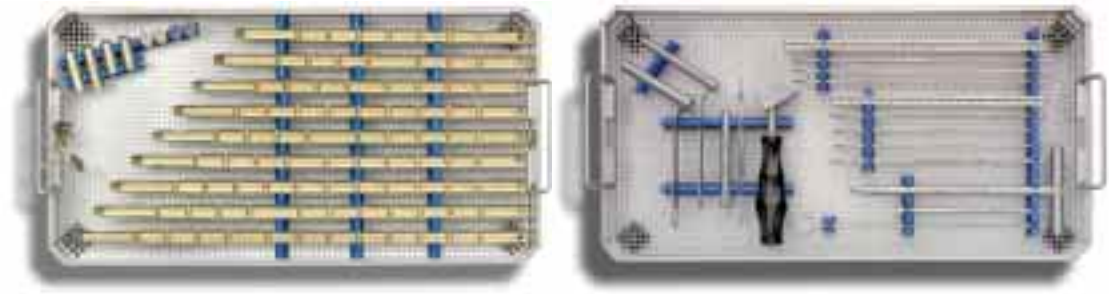
In close collaboration with users, on a partnership basis, the Biorigid Femur System was last year further adjusted to clinical requirements. The Biorigid Nail Femur can be adjusted flexibly between operations, using additional components, to treatment requirements. Distal and proximal targeting devices assure the operator of safety in the most various uses to which the nail that supports this system can be put. The market launch of the comprehensive system has led, especially in Japan, to significant sales growth.

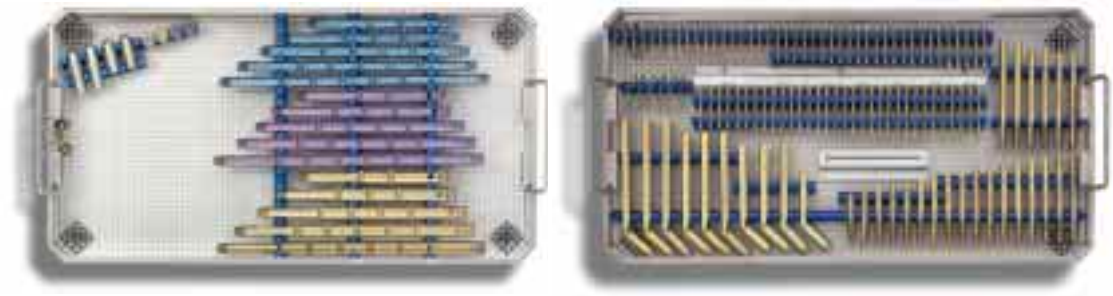


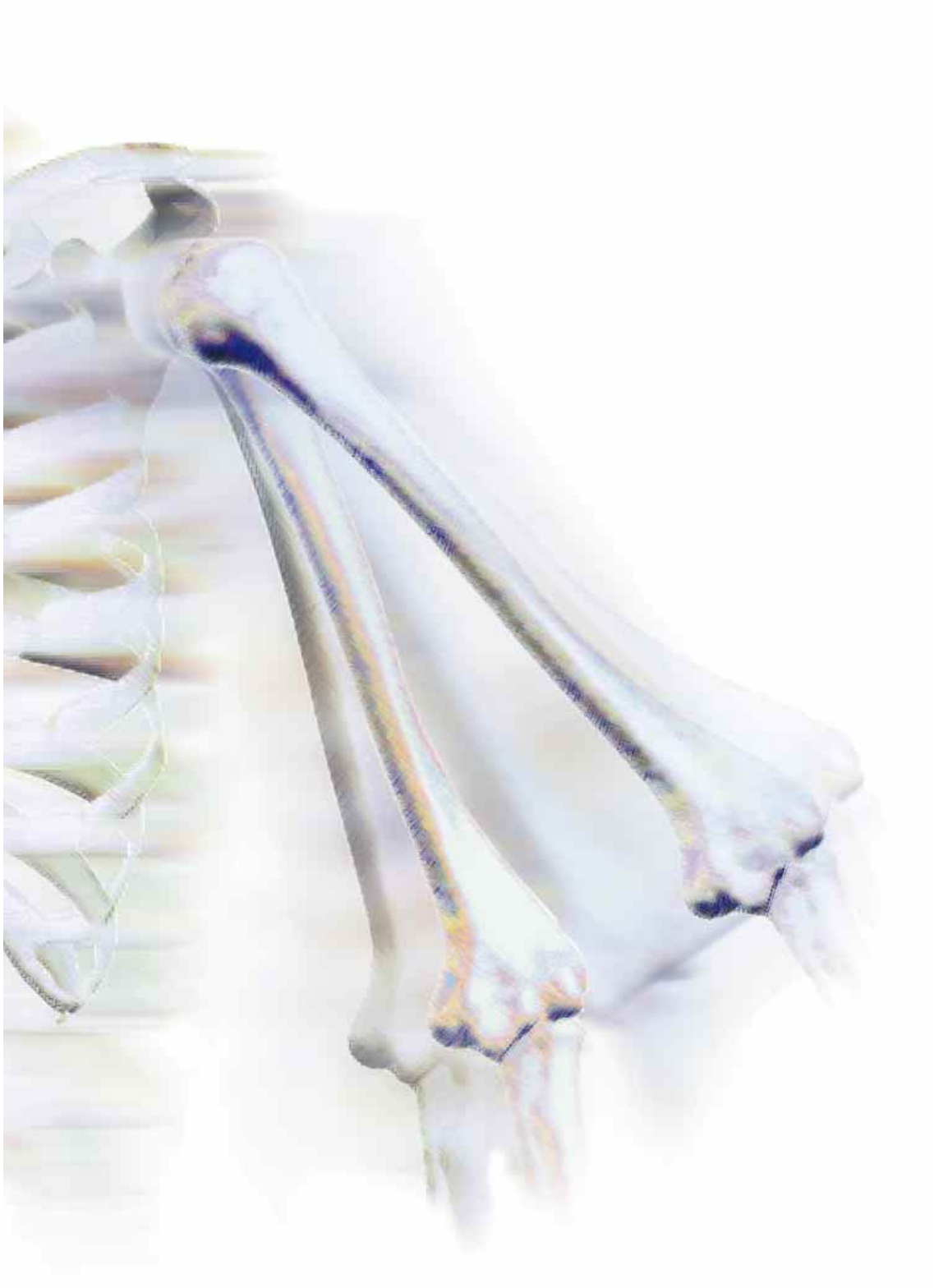





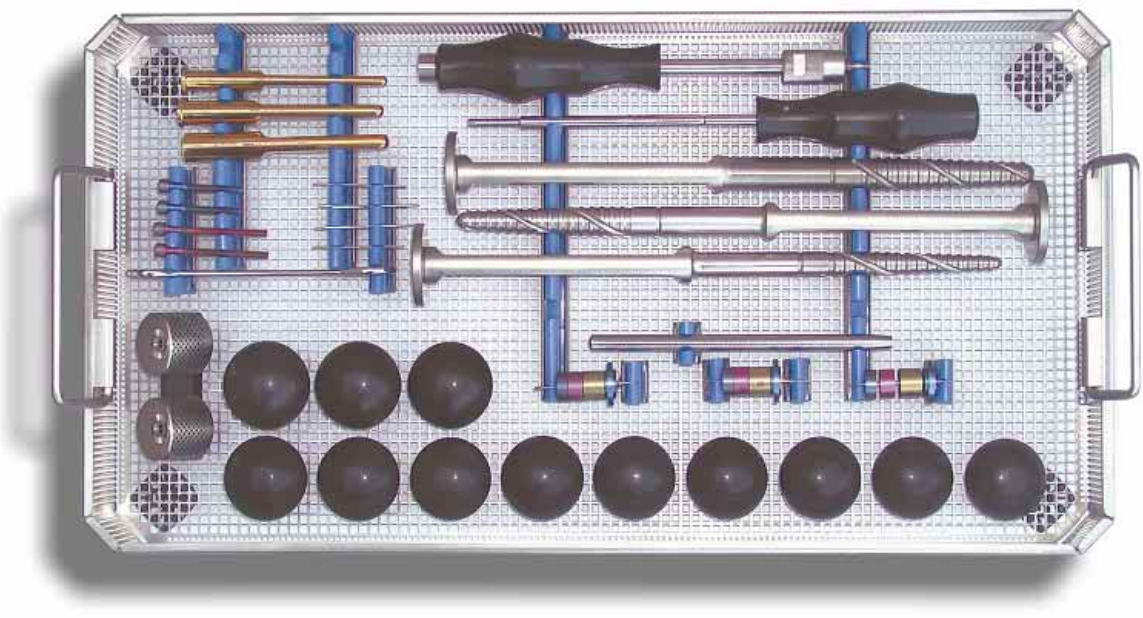






▶ Demographic developments in particular determine the growth potential in endoprosthetics. Higher life expectancy is accompanied by the expectation of being able to lead an active, fulfilled life also in old age. Hip, knee or shoulder joints diseased or worn out by sheer age are replaced by endoprosthetics that in functionality come as close as possible to natural mobility and have a long useful life. The search for a prosthesis design optimally adjusted to anatomical circumstances and made of new materials has for years been the determining factor of implant development. Perfecting operating techniques is a further crucial factor in improving the results of treatment.

Since its acquisition of the Coripharm/MEBIO Group, *aap* has had at its disposal the SM straight-shaft hip prosthesis, a modular total endoprosthetic system for the knee and a further hip replacement. All three prostheses are fixed using cement, so the emphasis will in future be on the combination of implant and cement. Palacos® bone cement and the Easymix® cementing system, which supports easy and safe application of the cement during the operation, has opened up for *aap* a further market segment. Optimal mixture technique improves cement properties and can thus help to prolong the replacement's useful life.



Improved bone integration of the cement and avoidance of infection can counteract the causes of prostheses loosening and the inevitably related early necessity for early replacement.

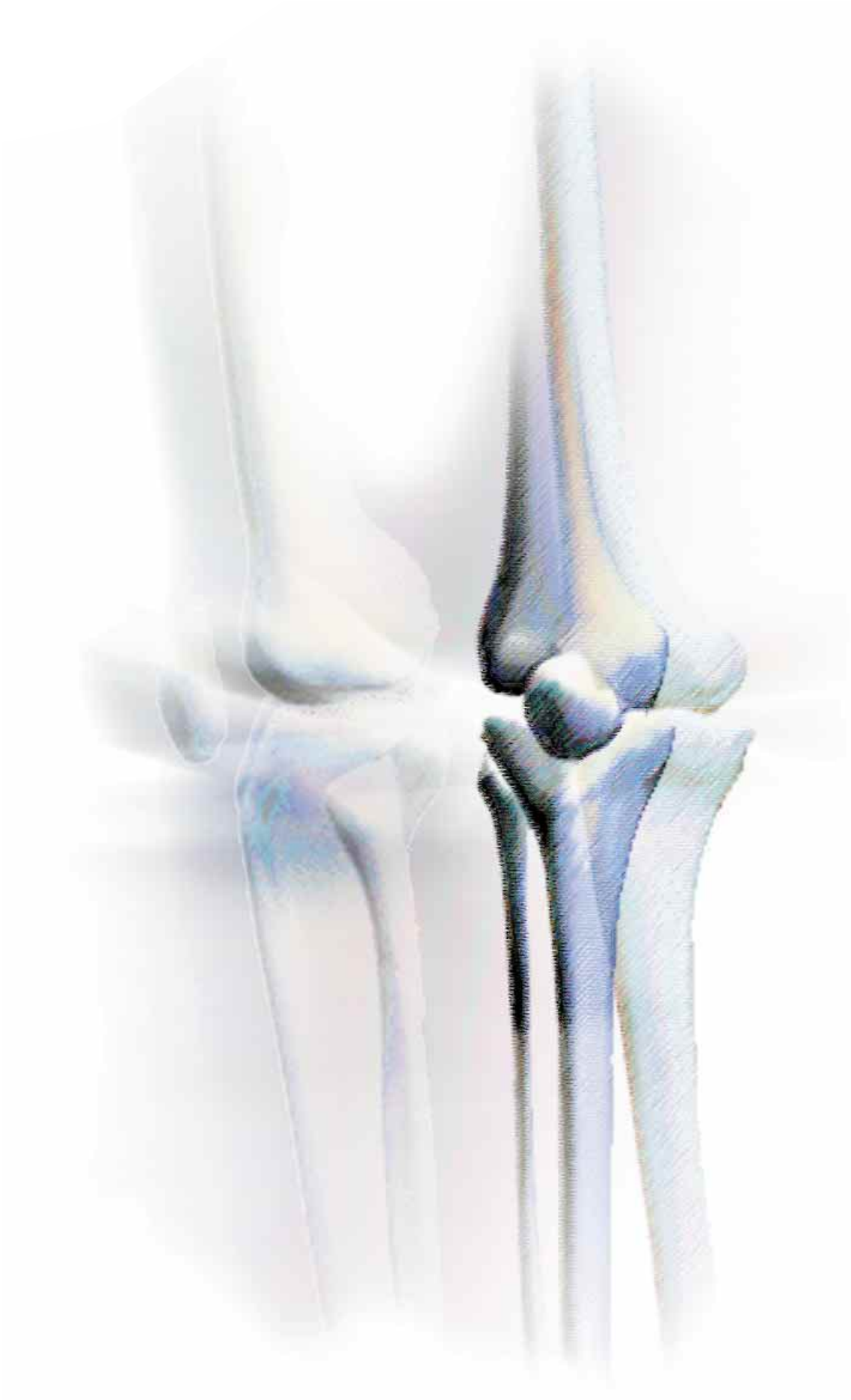
The bone needs to have a clean surface before cement is applied. The innovative high-pressure cleansing system, or jet lavage, rinses residues out of the porous bone structure. Cement can thus be optimally absorbed.

PRODUCT PHILOSOPHY

▼

Complete Product Systems Comprising Endoprosthetics, Instruments, Bone Cement and Cementing Technique

The market launch of the Trauma Shoulder System was a milestone in the successful extension of core competence in endoprosthetics and triggered widespread interest among users - both accident and orthopedic surgeons. The unique way in which muscles can be fixed holds forth fine prospects of the injured shoulder joint regaining form and function. This innovative approach to implant development has earned great acclaim among specialists.



▶ Alongside classical fracture treatment using metal implants, bone defects often need bridging over, especially after accidents. That is mainly done using autogenous bone material taken from the patient's hip. This necessitates secondary surgery, which lengthens the operation and can naturally lead to complications where the bone material is extracted. What is more, only limited quantities of autogenous spongiosa are available, so problems can arise, especially when more extensive bone defects are involved.

That is why, in orthopedics and Accident & Emergency surgery, the use of bone substitute materials is gaining increasingly in significance. Bone substitutes, also known as biomaterials, are non-autogenous materials that can be used to offset bone loss.

Increasing care is being taken to ensure that the substances used do not just fill the defective area but are incorporated in natural bone growth. A distinction is made between biological and synthetic materials.

Biological substances for use as bone substitute are taken directly from bone tissue. Anorganic compounds include calcium phosphates (hydroxylapatite) that are the main ingredient of natural bone. Synthetic-organic substitutes include polymer compounds such as polyester and polylactides.

Coripharm, by improving the production process, has developed a hydroxylapatite ceramic with an interconnecting system of pores that largely corresponds to that of natural bone substance. As the pore volume varies slightly, the ceramic is uniformly stable. The pore system makes it possible to form new bone tissue, so ensuring that bone and ceramic are bonded. The calcium phosphate ceramic serves as a conductor for the new bone to be formed. This process, osteoconduction, is also known as the guide bar effect.

Alongside sintered hydroxylapatite (ceramic), a nanoparticular hydroxylapatite has been developed. Applied as a paste, it can fill every defect so effectively that its range of uses is considerably extended.

The efficacy of the particles is partly due to their enormously large surface area, which makes swift and excellent formation of new bone possible. Nanoparticular hydroxylapatite can also be used as a carrier substance for bone growth factors and drugs such as antiobiotics.

It is not yet possible at this time to treat fractures of large tubular bones successfully using only bone substitute materials. Combined with metal implants, however, treatment results are achieved that are well above average of classical supportive osteosynthesis. In particular, being able to input bone growth substances and antibiotics directly into critical fracture areas makes healing likelier. Experience gained from the combination of osteoconductive (guide bar effect) and osteoinductive bone substitute materials (that encourage the formation of new bone) will make a crucial contribution toward ensuring progress in tissue engineering. The transition from metal implants via biomaterials to load-bearing bone substitute material made of autogenous cells will revolutionize orthopedics. Replacing the damaged joint by a combined biologico-synthetic implant rather than a biocompatible hip endoprosthesis will become a matter of course.

PRODUCT PHILOSOPHY

▼

A Combination of Artificial Metal Implants and Biological Implants

▶ The research and development division is the driving force behind our corporate success. Its interdisciplinary approach and its integration into a far-reaching network of respected research institutions and partners in physical and clinical trials ensure that development processes steer an efficient course.

PRODUCT PHILOSOPHY

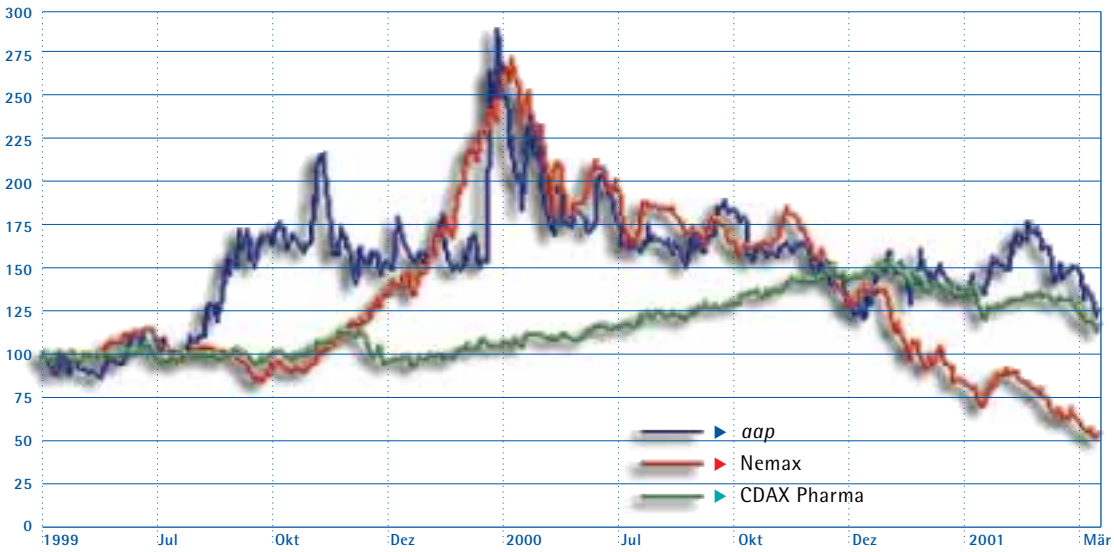
▼

Successful Marketing of R&D Medical Implant Know-How

At the time of the management buyout in 1990, *aap* had a product range that was based solely on me-too products and held no patents whatever. Over the years, it has developed a growing number of innovative products of its own. At the end of the last fiscal year, *aap* held 14 patents and registered designs and 16 registered trade marks. That testifies to an above-average rate of innovation which has made *aap* an interesting and acknowledged partner to entrust with R & D services contracts.

R & D at *aap* assumes responsibility on the customer's behalf for the entire project management of development processes for accident surgery and orthopedic implants from the idea all the way to product and market maturity. By integrating the research team at *aap* subsidiary Coripharm, these core competences will be extended to orthobiology, too. The research team at Coripharm enjoys a considerable scientific reputation for basic research, product development, clinical trials and approvals for innovative bone cements and bone substitute materials. It is a reputation backed by 17 patents.

Customers benefit the excellent know-how and long years of experience of our staff. *aap* Implantate AG will continue to be a competent and experienced partner in converting visionary ideas into marketable products.



▶ share price since IPO (indexed)

SHARE AND STOCK EXCHANGE

SHARE PRICE DEVELOPMENT

▶ On balance, the price of *aap* stock developed pleasingly in 2000. Share price development was characterized by fluctuations, but they were characteristic of the market as a whole. At the end of the first quarter, *aap* stock was quoted at up to 32 euros. In our view, the substantial increase in the share's price at that time was due to two fundamental factors. One was a larger number of research reports about the *aap* share and the greater attention paid to it by the financial press as a result. The second was the positive influence in the New Year of a boom in biotech and medical technology stocks on U.S. stock markets.

After the share's meteoric rise, it underwent a downward price adjustment that was due in part to the pressure of marketing and sales costs and intensive R&D activities in the first two quarters.

The second half of 2000 was characterized by a downturn of the entire market that reached its nadir in October. The cooling-off of the U.S. economy and the resulting low targets set by Nasdaq, plus the fall in oil prices, were some of the factors that triggered these price adjustments. *aap* stock was unable to resist this general downturn, and at the beginning of the fourth quarter slumped to below 12 euros. The subsequent publication of a succession of positive reports on *aap* ushered in an impressive recovery with the result that by the year's end the share convincingly showed itself to be a relatively strong performer in comparison with a weak market environment.

CONSOLIDATED GROUP AND ASSOCIATED COMPANIES

▶ In addition to *aap* Implantate AG, the group's financial statements include, as a matter of principle in accordance with the full consolidation method, the accounts of companies in which the parent company *aap* Implantate AG directly or indirectly, via subsidiaries, holds voting rights majorities.

They are as follows:

aap Implantate AG, Berlin (the parent company)	holding in %
***aap* Implants Inc. Plymouth, USA**	**80 %**
Coripharm Medizinprodukte GmbH & Co. KG, Dieburg	**100 %**
Coripharm Medizinprodukte-Verwaltungs GmbH, Dieburg	**100 %**
Corimed Kundenorientierte Medizinprodukte GmbH, Dieburg	**100 %**
Mebio Medizinische Biomaterial Vertriebs GmbH, Dieburg	**100 %**

Companies in which *aap* Implantate AG holds a stake and exercises a decisive influence on corporate and financial policy have their balance sheets prepared on the basis of the equity method.

They are:

Osartis GmbH & Co. KG	**49 %**
Osartis Verwaltungs-GmbH	**49 %**

SALES AND EARNING TRENDS

▶ The year under review was characterized by an expansion of foreign business and the successful conclusion of a strategic corporate acquisition. Sales were increased by roughly 72% to DM 21.4 million from DM 12.5 million. They were thus clearly ahead of the company's DM 20.6 million sales target. This above-average growth was due mainly to foreign business. The newly-acquired companies contributed with DM1,851 thousands, however, they were only included pro rata from the date of acquisition, October 1,2000. Organic sales growth on the year totaled 57%.

In foreign markets, sales were boosted by over 150%. This above-average growth in foreign sales testifies to *aap*'s strategic alignment as a globally active company. It must, however, be stressed that in addition to intensive

foreign activities, domestic sales were also up by roughly 47% on the year. So the company's position in the German market was further improved. A decisive factor in this improvement in domestic sales was the successful continuation, on schedule, of a development contract.

In comparison with the previous year, total operating performance improved by roughly 37%, totaling DM 23.7 million in the year under review as against DM 17.4 million. But the breakdown of total operating performance shows a clear shift toward sales revenues, which increased from 72 to 90% of the total. Strategic stockpiling was continued, albeit less intensively, to ensure that *aap* as an all-round provider continues to provide optimal service and is able to achieve its sales targets for 2001, especially in the U.S., Japanese and Chinese markets. In relation to 1999 figures, inventories increased by a mere DM 1,183 thousands. The increase in stocks in 2000 was thus roughly 73% lower than in 1999.

The operating result in the year under review increased to DM 2,240 thousands, or DM 1,335 thousands more than the previous year's DM 905 thousands. This marked increase of roughly 148% can be attributed to *aap*'s success, despite extraordinary sales growth, in markedly reducing materials and manpower quotas.

A major reason why materials input was reduced from roughly 29% to 21% was the increase in foreign sales of new and innovative products, especially in the high-growth, high-margin U.S., Japanese and Chinese markets, plus the progressive fulfillment of the knee development contract. The high fourth-quarter sales revenues in particular, achieved by our new U.S. sales partner Exactech, sounded a positive note and deserve special mention.

Other operating expenditure remained more or less constant in relation to total operating performance, amounting to DM 7,141 thousands (previous year: DM 5,092 thousands). This was due to markedly higher marketing and sales costs, especially in connection with activities in the U.S., Japan and China. Extraordinary expenditure in connection with M&A activities and the restructuring costs they entail must also be mentioned. The newly-acquired stake in OSARTIS KG led to pro rata negative results as a result of start-up losses by this research company.

The financial result deteriorated from -DM 244 thousands to -DM 601 thousands as a result of the raising of bank loans and short-term loans by shareholders to bridge the financing of acquisitions. In addition, the holding in Cybernetic Vision AG, Health Monitoring

Technologies, worth a nominal DM 104 thousands had to be written off, reducing net income, due to the opening of insolvency proceedings.

The group thus posted pre-tax 2000 earnings of DM 1,454 thousands (previous year: -DM 2,116 thousands), equivalent to an increase of roughly 169%. This result must mainly be seen in the context of the following factors. For one, *aap* focused strongly in the year under review on product launches of the new Trauma Shoulder and the Biorigid Femur System. That led to an extraordinary but temporary capacity commitment in the development and, above all, the production department. In addition, further research and development projects, especially in the new core sector orthobiology, were pushed ahead. The costs incurred were only partly capitalized with an effect on results. In addition, the marked increase in marketing and distribution costs and expenditure on M&A activities are reflected in the figures. What is more, *aap* has increased its staff according to plan in view of sales increases achieved and further planned.

Earnings achieved must thus be assessed, with particular consideration for the acquisition and the building-up of a new core competence, as highly successful. Earnings before interest, taxes and depreciations (EBITDA) amounted to DM 5,120 thousands and were thus roughly 585% up on the previous year's DM 748 thousands. The profit on ordinary activities was increased by roughly 124% to DM 1,505 thousands from DM 673 thousands in the previous year. Including deferred taxes on income totaling DM 599 thousands and minority holdings, the group profit amounts to DM 1,056 thousands, which is a DM 1,992 thousands improvement on the previous year. Adjusted profit for the year, calculated in accordance with the DVFA/SG method, totals DM 1,200 thousands (previous year: DM 453 thousands), a 165% increase. DVFA/SG group earnings per share, based on the diluted share total of 4,041,066 shares, is DM 0.30 (previous year: DM 0.12). The DVFA/SG adjustments relate to expenditure incurred in respect of the planned secondary public offering or private placement.

BALANCE SHEET DEVELOPMENT

▶ Changes in balance-sheet structure and total are largely due to the enlargement of the consolidation group as of October 1, 2000. The balance-sheet total increased by 140% in the year under review, amounting to DM 89.1 million (previous year: DM 37.2 million). Growth in fixed assets is mainly due to the increase in intangible assets.

They increased by DM 37,295 thousands (previous year: DM 1,890 thousands) and thus make up the largest item on the assets side. They account for roughly 44% of the balance-sheet total. The change is mainly due to patents acquired (DM 28,723 thousands) and goodwill (DM 7,706 thousands) in connection with the contribution of the Coripharm-Mebio group.

Tangible fixed assets increased by DM 3,471thousands (previous year: DM 1,580 thousands), including DM 2,886 thousands resulting from the contribution of assets by the newly-acquired subsidiaries. Current increases total DM 2,024 thousands and consist in particular of further newly-acquired modern production faciities and the equipment of sales staff with additional presentation sets.

The increase in current assets is mainly due to the following factors. The first is an increase in stocks to DM 4,255 thousands (previous year: DM 5,218 thousands) in view of market gains in the U.S., Japan and China during the year under review, plus the first consolidated inventories of subsidiaries. A second major item is *aap*'s claim to DM 4,016 thousands, listed under Other Assets, from Coripharm-Mebio Group shareholders in respect of warranty undertakings not upheld. Trade receivables increased markedly on account of the research and development contract too. But financial resources at the end of the review period was down DM 6,396 thousands on the year.

Equity capital, taking into account group profits totaling DM 1,056 thousands in 2000 and the capital increase agreed, has increased by DM 29,844 thousands in all. The equity ratio now stands at 62% (previous year: 68%).

Cash earnings calculated on the DVFA/SG basis were DM 3,507 thousands (previous year: DM 1,780 thousands) and thus 97% above the previous year's figure. It must be stressed that *aap* in 2000, in contrast to the previous year, achieved an inflow of funds totaling DM 3,325 thousands from operative business (1999: -DM 4,611 thousands). Cash inflow from financial activities must be seen in connection with investment of assets and relates to the acquisition of holdings in Corimed, Mebio, Coripharm and Osartis.

STRATEGIC MEASURES

▶ *aap*'s business strategy is aimed at achieving future corporate growth by means of healthy internal growth and a controlled expansion of business in Germany and elsewhere.

Our overrriding priority is to achieve average internal growth of at least 25 to 30% as we have done over the past three financial years. The company's external growth will be based on acquisitions aimed at making headway in national and international sales activities and at consolidating or rounding off the product portfolio or technology base, mainly in the endoprosthetics segment, in the spinal column sector and in orthobiological products. In the year under review, *aap* undertook acquisitions that fulfilled these criteria or bought shareholdings that comply with them.

Strategic measures or objectives that *aap* pursued or set itself for 2000 were:

- to intensify marketing and sales activities in the U.S., Japan and China to achieve significant sales shares,
- to launch two new innovative product systems, the Trauma Shoulder System (TSS) and the Biorigid Femur System (BFS),
- and to conclude at least one of the acquisition projects begun.

All these targets were reached and boost the company's fundamental data.

An important market for the future in orthopedics is orthbiology. With an estimated market volume of 500 million euros, orthobiology may only be a small orthopedics market segment, but in view of average growth rate forecasts of over 50% it is a highly attractive one (SG Cowen Hospital Supply & Medical Technology Round July 2000, SG Cowen Orthopedic Industry, April 1998, VISCARDI Research). „Orthobiologicals" such as materials that replace natural bone or boost bone growth have the potential to revolutionize the orthopedics market by enlarging decisively the range of products available to the orthopedic specialist. That is why the move into orthobiology with the acquisition of Corimed, Mebio, Coripharm and Osartis is seen as a highlight of last year's strategic measures.

ACQUISITIONS AND STRATEGIC PARTICIPATIONS
CORIMED, MEBIO, CORIPHARM AND OSARTIS

▶ In the fourth quarter of 2000, Dieburg-based companies Corimed, Mebio and Coripharm were wholly acquired. In addition, a 49% stake in Obernburg-based Osartis was acquired.

In the medical and pharmaceutical market for biomaterials, these companies are active in the endoprosthetics and bone replacement research and sales sectors. For *aap* these acquisitions and shareholdings represent a decisive move toward becoming an all-round provider in the orthopedics market. This acquisition pushes ahead with orthobiology (biological implants) as a third core competence alongside osteosynthesis and endoprosthetics. Alongside additional innovative products, *aap* has gained by means of these acquisitions and participations a research team with long years of experience, a total of 17 patents in the above-mentioned business fields and an international network of recognized scientists and practising physicians. The six companies, which have hitherto been independent both organisationally and legally, represent, with a staff of roughly 30, sales of approximately DM 8.3 million in 2000.

In addition to the move into orthobiology, *aap* Implantate AG expects to achieve considerable growth potential from enlarging its product range and by integrating sales structures and production capacities.

STRATEGIC PARTICIPATION

GEOT (GESELLSCHAFT FÜR ELEKTRO-OSTEOTHERAPIE mbH)

▶ In the fourth quarter of the review period, agreement was reached on the acquisition of a 30% holding in Munich-based Gesellschaft für Elektro-Osteotherapie (GEOT) mbH. Over the next two years, *aap* can also exercise the option to purchase a further 21%.

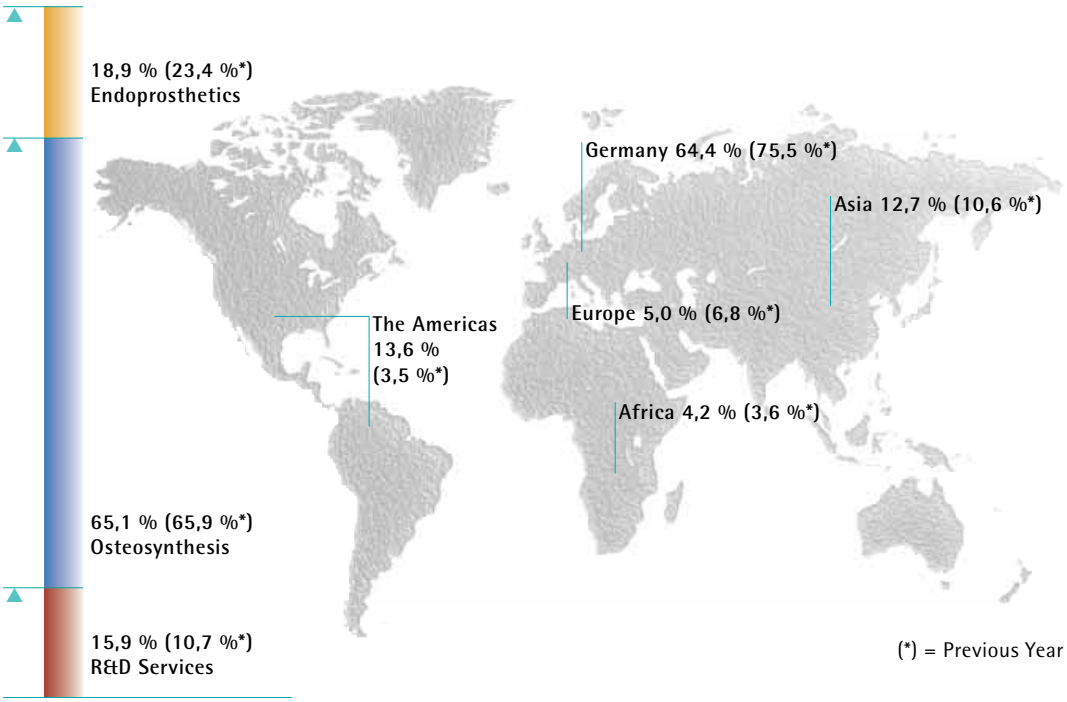
Gesellschaft für Elektro-Osteotherapie GmbH has developed a procedure to promote and accelerate the bone-healing process that is an outstanding unique selling proposition and has already been approved by the German Federal Committee of Doctors and Health Insurers and been included in the list of approved aids. The new procedure, electro-osteostimulation, markedly improves the degree of therapeutic efficacy in treatment of serious traumatic and pathological bone damage. It can also be integrated in surgical and orthopedic implants.

As roughly 340,000 prosthetic systems a year are implanted in Germany alone, there is an extraordinarily high market potential for this procedure. The new GEOT procedure will, for instance, be used in the cement-free artificial hip that is currently under development at *aap*. In acquiring the shareholding *aap* has taken over sales of the products too.

▶ The number of employees at December 31, 2000 was 126, including 109 full-time, 13 part-time and four temporary staff (previous year: 109, including 88 full-time, 16 part-time and 10 temporary staff).

As agreed at the annual shareholders' meeting on June 30, 2000 the equity capital of *aap* was to be increased by up to 380,000 euros by issuing up to 380,000 bearer shares. This conditional capital increase was to serve the purpose of granting stock options to *aap* staff, management and board members. The introduction of stock options underscores the point that *aap* staff are on the one hand committed to the company's economic development and on the other to be entitled to share in its success.

PRODUCTS, MARKETS & SALES



▶ Expansion of the company's worldwide sales base and successful implementation in the key U.S., Japanese and Chinese markets led to a new ratio of sales in Germany as against sales in other countries (2000: 64.4% to 35.6%; 1999: 75.5% to 24.5%). The U.S. and Japanese markets in particular have proved to be mainstays of positive sales development in the export field.

The exclusive sales agreement with U.S. partner Exactech Inc. now opens up an opportunity for *aap* to introduce its products faster and on a countrywide basis in the U.S. market.

The launch of the Trauma Shoulder (TSS) and the Femur Fracture Management System BFS were two major new developments. In the orthobiology segment development and manufacture of the biological bone replacement product Cerabone were completed by *aap* subsidiary Coripharm in the year under review. Cerabone is manufactured for launch in Europe and is marketed by another *aap* subsidiary, Mebio.

SEGMENT REPORT

▶ The main business fields at *aap* are osteosynthesis, endoprosthetics, orthobiology and R&D services. Osteosynthesis and endoprosthetics accounted for 65.1% and 18.9% of overall revenues respectively (previous year: 65.9 and 23.4%). R&D services made up the remaining 15.9% (previous year: 10.7%). In the orthobiology segment, no sales were generated in the year under review. The first products are expected to be ready for market in 2001.

We were able to consolidate our position in the German market. The greater part of overall revenues was achieved in Germany: 64.4% (previous year: 75.5%). Other sales were in Europe: 5.0% (previous year 6.8%), Asia: 12.7% (previous year 10.6%), the Americas: 13.6% (previous year: 3.5%) and Africa: 4.2% (previous year: 3.6%).

ACTIVITIES IN GERMANY

▶ Despite belt-tightening by customers and restructuring of sales organization at *aap*, sales in Germany were increased by roughly 47% on the year. Restructuring of the German sales team began at the year's end as part of the integration of acquisitions Mebio and Coripharm. The basic idea behind the new structure is to make the existing knowledge of individuals available to team colleagues by working in teams of two to four field sales representatives.

The main product focus was on the modular Trauma Shoulder System, Biorigid Nail Femur and the *aap* cannulated screw systems in titanium.

ACTIVITIES IN EUROPE

▶ Significant sales gains were recorded in various European markets, with Austria, Cyprus, Greece and Italy developing particularly well. In a number of markets, especially France, attendance at important national congresses has lent impetus to a positive development.

ACTIVITIES IN THE U.S.

▶ In the third quarter of 2000 a sales agreement was signed with Nasdaq-listed Exactech Inc. on exclusive rights to sell *aap* trauma products in the U.S. This sales cooperation covers the entire U.S. market for *aap*.

Gainesville, Florida, based Exactech Inc. develops and markets orthopedic implants and instruments for hip and knee and biological implants and equipment. In 2000, its revenues totaled $ 41.9 million. Exactech works the U.S. market with a field sales staff of 157. Its products are marketed in 13 countries in Europe, Asia, Australia and Latin America.

The *aap* products that Exactech markets include the APS system for healing fractures of the neck of the femur, the innovative cannulated screw system for standard osteosynthesis and the Biorigid Nail System for the regeneration of fractures of the lower leg. Plymouth, MA, based *aap* subsidiary *aap* Implants Inc. shipped the first products to Exactech in the third quarter of 2000.

ACTIVITIES IN ASIA (CHINA, JAPAN)

▶ Business developed in a most positive manner in Asia, which accounted for 12.7% of sales (previous year: 10.6%). Swift expansion of the product portfolio of our Japanese exclusive partner Kobayashi Medical Devices (KMD) was the hallmark of activities in the year under review. The introduction of the cannulated screw and APS hip-joint plate systems in spring and the sales launch of the Biorigid Nail Femur in the fourth quarter required considerable efforts on both sides. Japan today ranks alongside the U.S. as the most important foreign market for *aap*.

In addition to the important Taiwan market, sales in the People's Republic of China progressed most pleasingly. After official approval by the SDA, the first Biorigid Nail and APS systems were shipped to China in the fourth quarter.

RESEARCH & DEVELOPMENT

▶ Our Biorigid Femur System (BFS), the universal building-block system for healing fractures of the thigh, underwent substantial further development and trials in 2000. The system is based on the idea of providing a standard implant and standard instruments for the main operations on the femur.

The CondyLock opens up the possibility, given retrograde operation access, of an extremely distal nail fixature, i. e. one that is close to the joint. The femoral head component ColPort is designed to handle femoral head fractures and fractures of the upper part of the thigh.

The new-generation Hahn revision prosthesis is compatible not only with the Biorigid Nail Femur but with standard instruments. We have successfully concluded the test series of our target device for X-ray free proximal and distal fixature of bone marrow nails. It has now been issued with a German patent. International registration of *aap*'s trade marks has been undertaken.

The Trauma Shoulder System (TSS) was supplied to selected hospitals in Germany in the third quarter of 2000. Results of operations carried out so far have highly positive. In the first quarter of 2001 the first Trauma Shoulder System users' meeting was held, and the response was enormous.

The development project for a new artificial knee joint based on a specially patented dimer joint chain continues to be well on schedule.

After optimization and validation of manufacture, Coripharm has delivered a first lot of Versabond with Gentamicin, a bone cement developed, in addition to standard Versabond, exclusively for Smith & Nephew.

After developing exclusively for Smith & Nephew the bone cement mixture and application system Mixor, Coripharm developed under contract to Mebio the new Easymix system, specially devised for the European market. For this system, comprising cement gun,

vacuum pump, mixing and application cartridge, approval as a Class IIa medical product was granted in November 2000. Market launch is scheduled for the first quarter of 2001. A market analysis undertaken made it necessary to develop a revision and shoulder snorkel for the application of bone cement in replacement surgery and for shoulder prostheses.

A prepacked mixing system supplied with the cement components has been developed up to the completion of a working model. This system eliminates the need to transfer cement powder and fluid to the mixing cartridge openly and thus with an element of risk.

Pre-clinical development of reabsorbable bone substitute balls (CS balls) to fill in defective bone parts was completed in the fourth quarter of 2000. These CS balls can at the same time be used as antibiotics carriers to treat bone infections. A concept for clinical trials was drawn up in December 2000. Trials are scheduled to begin in the first quarter of 2001.

This is the first time it has been possible to use a local carrier material in variable antibiotics treatment. A patent has been granted for the process. Giessen University and the Bad Langensalza Research Center (fzmb) have been entrusted with pre-clinical development.

Production of Cerabone was optimized and validated in the year under review. Approval documentation was submitted to the state health authorities in Nuremberg, Germany, in the first half of 2000. The approval procedure is expected to be completed in the first quarter of 2001.

PRODUCTION & SALES

▶ Bulding up the logistical competence that is required for the growth we have in mind, optimizing production planning and control and integrating new production capacities were for us the keynotes of the financial year 2000.

By investing in new and modern machinery over the past two years we have been able, despite the high capacity commitment in connection with the new products mentioned in this report, the Trauma Shoulder System (TSS) and the Biorigid Femur System (BFS), we have been able to maintain our supply service at a high level.

QUALITY- AND ENVIRONMENTAL MANAGEMENT

QUALITY MANAGEMENT

▶ The annual review audit of our quality management system and for the CE logo was successfully undertaken in March 2000. The positive development of the QM systems was confirmed by the auditor. In January 2001 the first recertification audit was conducted as the existing certificate for our quality management system and the CE logo was only valid until March.

The Trauma Shoulder System can be sold in the European market with the CE logo entirely without sales restrictions. Product approval preparations have been undertaken for the Japanese and U.S. markets.

In the third quarter, *aap* received notification from the Chinese authorities that its product licensing documents had been approved. Approvals extend to the entire osteosynthesis and endoprosthetics product range.

In the Asian region, product approvals were nursed and extended, with the emphasis on licenses for the Biorigid Nail Tibia (BNT), Biorigid Femur System (BFS), cannulated screw (LS) and Autodynamic Plate and Screw (APS) osteosynthesis systems. Approvals in these markets were granted in the course of the year under review. In Australia, approval was under preparation, with a positive ruling expected in the second quarter of 2001.

At *aap* subsidiary Coripharm the endoprosthetics division (research, development and production) was certified to DIN 9001/EN 46001 in October 2000.

ENVIRONMENTAL MANAGEMENT

▶ In the fourth quarter of 1999, *aap* was admitted to a project group entrusted with drawing up eco-profiles for medical products. The aim of the current project section is to develop and agree on methods by which to evaluate the environmental acceptabilitgy of medical products.

The objectives of the environmental program outlined in an environmental declaration have for the most part already been achieved and will continue to be pursued according to plan.

▶ The orthopedic market is one of the largest and most profitable segments in the medical technology sector. According to Knowledge Enterprises (2000), world revenues in the orthopedic market totaled roughly $12 billion. Demographic developments are a fundamental reason why the health market is set to grow in the decades ahead. As a result of higher living standards and improvements in medical facilities the number of older people is constantly increasing in the industrialized countries. Higher life expectancy is accompanied by a high degree of mobility and lively participation in social and sports activities. Degenerative joint complaints and fractures resulting from age and leisure activities are constantly on the increase. What is more, people are spending more on health in general, with the U.S. holding pride of place. The improvement of health care in the so-called threshold countries, including, for instance, populous China, can be expected to lend strong impetus for growth.

The orthobiology market is still characterized by a fragmented competitive structure. On the one hand, due to the newness of the segment, large orthopedic enterprises have yet to establish themselves as market leaders. On the other, a number of smaller, innovative enterprises have gained market shares. Now the latest acquisitions have rounded off its portfolio, *aap* is particularly well positioned.

Within the framework of *aap*'s growth strategy, the acquisition of the Mebio/Coripharm Group represents an important step toward becoming a biomedical life science company, given that *aap* has, by means of these acquisitions, assured itself of an advance into the promising orthobiology market. The highly-reputed research team at Coripharm can look back on years of R&D experience and over 200 publications on biomaterials. The acquisition also leads to an enlargement of the product range to almost all indications in the operative orthopedics and accident surgery sectors. *aap* with its three core competences osteosynthesis, endoprosthetics and orthobiology thus now has a more comprehensive product range than most of its competitors, both national and international.

One of the priority objectives for the year ahead is to integrate the group of companies that *aap* has acquired. That presupposes an optimal incorporation and information of staff that was begun at the end of 2000 in the form of workshops and training courses. In the financial year ahead the restructuring or integration measures embarked on as part of inte-

gration management will concentrate mainly on organizational, company law, fiscal and commercial aspects.

For *aap* as a developer and manufacturer of artificial metal implants, the orthobiology segment is a new business field that entails risks. Orthobiology is an extremely research-intensive sector. That is why substantial amounts of both manpower and capital are needed, especially to take projects successfully to market readiness in relatively short innovation cycles. In addition to many established orthopedics enterprises a number of biotech companies are engaged in research in this or similar areas. First, there can be no guarantee that all current and planned product developments in this segment can be successfully developed into market-ready products. Second, success in the orthobiology segment will depend to a decisive extent on whether *aap* succeeds in establishing research findings and marketable, licensed products before its competitors do so. Specific risks also arise from regulatory requirements and the resulting uncertainty in respect of statutory licenses and approvals.

In strategic expansion of its degree of internationalization and gaining access to new markets, the primary focus for *aap* is a global approach. To achieve a lasting expansion of the company's internationalization we see two factors as crucial: *aap*'s critical mass and its market capitalization. In order to exert a positive influence on both, *aap*'s business strategy is aimed at combining healthy internal and controlled external growth.

In the internal growth sector our efforts to date have concentrated with great success on setting up a director and indirect sales network focused on the high-growth, high-margin U.S., Japanese and Chinese markets.

The swift enlargement of the product portfolio handled by our Japanese exclusive partner Kobayashi Medical Devices (KMD) was the hallmark of the period under review. The introduction of the cannulated screw and APS femoral joint plate system in spring and the sales launch of the Biorigid Nail Femur in the fourth quarter involved substantial efforts on both sides. The highly positive response to the presentation of the new BFS system opens up very fine sales prospects for the year ahead.

We expect further impetus for internal growth from the Chinese market. China, as the largest Asian threshold country, is in the throes of dynamic economic development. The

simultaneous emergence of an affluent middle class has led to a swift and intensive modernization of the Chinese health system. After official approval was granted by the SDA in the fourth quarter of 2000 and the first Biorigid Nail and APS systems, *aap* in conjunction with P & T Technologies, its exclusive local sales partner, expects a high growth potential. P & T Technologies is represented in all industrial and commercial centers in the People's Republic by either branches of its own or sales partners.

Developments in the R&D sector will continue to be a further mainstay of internal growth, laying the groundwork for innovation at *aap*. Last financial year the Trauma Shoulder System (TSS) and Biorigid Femur System (BFS) were officially launched in the third quarter. So these product systems will only be reflected positively in sales figures this year. An extremely promising product that is about to be launched as a product is the Callus Distraction System, a leg-lengthening system for use in cases of bone defects or to offset differences in leg length, is an interesting market prospect in traumatology, orthopedics and limb extension osteotomy. Further interesting products in the development pipeline include a monocondylar knee-joint surface replacement. It is an innovative implant to replace cartilage and bone defects in the knee joint. Using minimally invasive techniques this implant cuts operating times, reduces the burden on the patient and shortens post-operative rest periods.

Coripharm too has a well-filled R&D product pipeline. In 2001 *aap* will be represented by a new product in the biomaterials market segment, Coripharm's Cerabone. Cerabone is a biological bone ceramic that can be used in accident surgery and orthopedics everywhere where bone replacements are required.

The corporate purpose of Osartis GmbH & Co. KG is research into bone healing. It includes the manufacture and marketing of Ostim, a bone marrow substitute based on hydroxylapatite and the development of a matrix including Ostim for use as a carrier for growth factors and cells in tissue engineering. Last year, preparations were undertaken for certification in connection with the manufacture and marketing of Ostim, and the product's quality was inspected on the basis of previously drawn-up specifications. In addition, a production facility for Ostim was set up in Oldenburg. The next steps in the current financial year are ISO certification for the production facility,

clinical trials or approval of the bone marrow substitute material and its official product launch.

With sales support from *aap*, GEOT is moving in the invasive electro-osteotherapy segment into a German market that has yet to be sufficiently developed. The main indications, in addition to prophylactic use for swifter and more intensive bone healing, are pseudoarthrosis (failure of bones to mend after a fracture) and necrosis of the femoral head (local tissue death). Results achieved in years of experiments and studies with the GEOT process indicate a marked improvement in bone healing in these cases. The official market launch is scheduled for the second quarter of 2001 once use of the CE logo has been authorized.

In the context of external corporate growth the continuation of existing talks on possible acquisitions is an important project. Acquisitions are primarily planned that will enable headway to be made in expanding national and international sales activities and consolidating or rounding off the product portfolio with innovative products, mainly in the endoprosthetics segment, the spinal column sector and the orthobiological products segment. The declared objective is to be able to offer customers coordinated products from a single source as a „one-stop shop."

In addition to reaching plan targets, concluding at least one acquisition project in the endoprosthetics, spinal-column implant or bone cement sector is a further key objective in the current financial year. In this connection capital market measures are planned by way of capital increases to finance acquisitions and growth. *aap* also aims to expand business in the U.S., Japan, China and Europe to significant shares of revenue in each case. In these high-growth, high-margin countries *aap* will continue to work with exclusive sales partners. Our objective in cooperating with these partners will in part be to expand the product line sold by our partners and to bring about further-reaching alliances. Market launches of further new products, especially in the orthobiology sector, will reinforce *aap*'s above-average business development in the year ahead.

In the context of national and international activities *aap* is exposed to a large number of development trends that entail both opportunities and risks. They include national statutory requirements for approvals, secu-

ring and handling tenders outside Germany, global concentration processes, changes in the health sector and exchange-rate risks. The large number of different approval procedures handled by national authorities in different approval cycles clearly represent an uncertainty factor in medical technology. In individual instances the tightening-up of national statutory requirements in strategically relevant countries can cause delays in approval procedures. A result of the concentration process in recent years has been an orthopedic industry that has undergone significant changes. In general, tougher competition has led to intensive M&A activities by many companies. Their objective is, in particular, to enlarge their product portfolio so as to establish a market presence as a „one-stop shop." Market concentration processes have reduced the number of major market players to a small group of increasingly large big players. In view of destabilization of existing competitive and customer structures as a result of concentration processes, *aap* stands a chance of gaining access to new customers as a niche specialist with a high pace of innovation. In addition, there is the possibility of finding new cooperation partners by way of expert staff whose services are no longer required elsewhere. By virtue of the newness of orthobiology as a business field in which the major orthopedic groups have yet to establish themselves as market leaders, *aap* as an innovative company with relatively short times to market also stands an outstanding opportunity of securing significant market shares at an early juncture.

Health service reforms including countrywide lump-sum totals for hospitals or lump-sum payments for cases have led to general cost and rationalization pressure at clinics and hospitals. Hospitals are coordinating their activities more efficiently and joining forces to set up group purchasing organizations. In this connection *aap* is superbly positioned since we as a full service provider are able to offer hospitals and GPOs an almmost complete and coordinated product portfolio in an optimal supply structure. In osteosynthesis *aap* already offers all-inclusive solutions for modern trauma management. An extremely important step on the way to becoming an all-inclusive provider has undoubtedly been the acquisition of the Coripharm-Mebio Group. As a result of this acquisition *aap* can now supply, in addition to the metal implants that are the current „gold standard" in orthopedic and other sectors, biological implants or bone substitutes for supplementary use. In endo-

prosthetics too, the product portfolio has been decisively enlarged. In connection with joint implants, *aap* will in future be able to offer bone cements and the techniques that go with them.

Due to the internationalization of our business activities supply and payment flows occur that are subject to potential risks. Exchange-rate exposure has hitherto, where *aap* is concerned, been almost negligible as invoices have, as a matter of principle, been almost exclusively denominated in deutsche marks. As debtor safeguards use is mainly made of letters of credit, bank guarantees and prior cash payment. For foreign revenues in the years ahead further hedges are planned. The failure rate has in the past been well below 0.1% of sales.

aap is a company that has been profitable for years and combines convincing fundamental data and a business strategy with a global focus. In addition to continuous internal growth we are aiming for external growth via acquisitions. This business strategy has enabled us to extend our core competences - osteosynthesis and endoprosthetics - at an early stage to one of the most important markets of the future in orthopedics: orthobiology. Our company's long-term objective and ambitious vision is to become a market leader in the biomaterials sector. We are confident that we will be able to continue a strategy that has been successful so far and to achieve our ambitious objectives for the good of our shareholders, customers, staff and suppliers.

Berlin, March 1, 2001

Uwe Ahrens

Board Chairman

Bruke Seyoum Alemu

Director

Joachim Staub

Director

CONSOLIDATED ANNUAL FINANCIAL STATEMENT

ASSETS	APPENDIX	▶ 1.1.- 31.12.00	▶ 1.1.- 31.12.99
		DM	DM1,000
▶ A **Outstanding contribution to subscribed capital**	**(1)**	**25,500.00**	**0**
▶ B **Fixed assets**	**(2)**		
I. Intangible assets			
1. Industrial property rights and similar rights and values		31,102,014.69	2,288
2. Good will		7,567,649.33	0
3. Activated own contributions		913,526.38	(2,288)
		39,583,190.40	
II. Tangible assets			
1. Lands, rights and buildings similar to lands including buildings on someone else's lands		3,029,509.00	1,643
2. Technical plants and machinery		3,530,437.34	2,642
3. Other plant, office systems and outfitting		2,903,899.64	1,707
4. Deposits and plants in construction		0,00	0
		9,463,845.98	**(5,992)**
III. Financial assets	(20)		
1. Equity investments		783,897.44	104
2. Other lendings		1,053,527.46	38
		1,837,424.90	(142)
▶ C **Current assets**			
I. Inventories			
1. Raw materials and supplies		3,333,321.48	1,858
2. Work in process		2,364,389.98	2,115
3. Finished products and merchandise		13,732,867.35	11,203
		19,430,578.81	**(15,176)**
II. Accounts receivable and other assets			
1. Trade receivables		10,653,001.06	2,509
2. Other assets	(3)	4,451,508.55	1,584
		15,104,509.61	**(4,093)**
III. Cash on hand, balance with banks		**1,905,098.62**	**8,302**
▶ D **Deferred charges to operation, prepayments**	**(4)**	**378,611.55**	**357**
▶ E **Deferred taxes on income**	**(5)**	**1,403,161.11**	**862**
Total assets		**89,131,920.98**	**37,212**

GROUP BALANCE SHEET ACCORDING TO IAS

EQUITY AND LIABILITIES	APPENDIX	▶ 1.1.- 31.12.00	▶ 1.1.- 31.12.99
		DM	DM1,000
▶ A **Shareholders' equity**	(6)		
I. Subscribed capital		7,432,154.01	7,432
II. Capital reserve		18,328,062.27	18,193
III. Earnings reserves			
(based on shareholders' decision)			
1. Statuatory reserves		81,565.83	82
2. Other reserves		532,391.74	428
IV. Net retained profits/			
Net accumulated losses		317,231.82	-635
		26,691,405.67	**(25,500)**
▶ B **Minority interests**		**-308,697.80**	**-107**
▶ C **Contribution to**	(6)		
increase in share capital		**28,854,842.23**	**0**
▶ D **Special reserves**			
with an equity portion		**620,813.50**	**693**
▶ E **Accruals**			
1. Tax accruals		698,000.00	0
2. Other accruals	(7)	1,613,705.94	726
		2,311,705.94	**(726)**
▶ F **Liabilities**	(8)		
1. Liabilities to banks		8,923,544.57	2,843
2. Payments received to bank		2,519,623.85	0
3. Trade account payable		4,983,575.76	4,088
4. Liabilities towards			
associated companies		19,141.50	19
5. Other liabilities		14,515,965.76	3,450
		30,961,851.44	**(10,400)**
Total equity and liabilities		**89,131,920.98**	**37,212**

Liabilities from liabilitiy circumstances DM 1,673,833.00
of which with regard to affiliated companies DM 0.00

CONSOLIDATED STATEMENT OF INCOME ACCORDING TO IAS

	APPENDIX	▶ 1.1.- 31.12.00	▶ 1.1.- 31.12.99
		DM	DM1,000
1. Sales	**(9)**	**21,429,185.23**	**12,464**
2. Increase in inventories finished and unfinished goods		1,182,930.77	4,429
3. Own work capitalized		1,130,496.14	474
4. Other operating income	(10)	798,995.14	1,211
5. Costs of material			
a) Expenditures on raw materials and supplies and bought in services		-4,212,781.10	-4,201
b) Expenditures on bought in services		-772,985.59	-904
		-4,985,766.69	(-5,105)
6. Personnel expenses	(11)		
a) wages and salaries		-6,609,772.53	-5,348
b) Social security contributions, pensions and welfare expenses		-1,135,114.95	-960
		-7,744,887.48	(-6,308)
7. Depreciation	(12)	-2,378,651.98	-1,155
8. Other operating expenses	(13), (16), (17)	-7,140,902.16	-5,092
9 . Result of partcipations	(14)	-185,076.00	0
10. Income from long term loans	(15)	17,804.90	1
11. Interests income	(15)	95,815.22	203
12. Amortization of financial assets	(20)	-104,000.00	0
13. Interests expenses	(15)	-610,811.94	-448
14. Operating income		**1,505,131.15**	**674**

(Continued)	APPENDIX	▶ 1.1.- 31.12.00	▶ 1.1.- 31.12.99
		DM	DM1,000
15. Extraordinary income		0.00	0
16. Extraordinary expense		0.00	-2,777
17. Extraordinary results		0.00	-2,777
18. Taxes on income	(5)	-599,000.00	1,104
19. Other taxes		-51,573.90	-12
20. Net income/Net Loss		**854,557.25**	**-1,011**
21. Minority interests		201,908.52	76
22. Accumulated losses brought forward/ retained profits		-634,953.04	809
23. Transfer in revenue reserve			
a) to statutory reserves		0.00	0
b) to other revenue reserves		-104,280.91	-509
		-104,280.91	**(-509)**
24. Consolidated attributable profit/ loss		**317,231.82**	**-635**
Income per share (DM)	**(18)**	**0.26**	**-0.30**

CONSOLIDATED STATEMENT OF CASH FLOWS ACCORDING TO IAS

	▶ 1.1.- 31.12.00	▶ 1.1.- 31.12.99
	DM 1,000	DM 1,000
1. Net profit/loss	855	-1,011
2. Depreciation on fixed assets	2,379	1,156
3. Increase/decrease in accurals	1,586	-623
4. Loss from disposal of fixed assets	0	9
5. Increase in inventories, accounts receivable and other assets	-15,830	-7,843
6. Decrease/Increase in accounts payable and other liabilities	14,408	3,530
7. Increase in special reserves with an equity portion	-73	171
8. Total cash provided by/ used in operating activities	**3,325**	**-4,611**
9. Investments in fixed assets	-43,145	-4,635
10. Investments in financial assets	-1,799	-102

(continued)	▶ 1.1.- 31.12.00	▶ 1.1.- 31.12.99
	DM 1,000	DM 1,000
11. Amortization of financial assets	104	0
12. Cash provided by investments in financial assets	0	193
13. Total cash used in investing activities	**-44,840**	**-4,544**
14. Proceeds from increase in shares*	28,966	19,401
15. Proceeds from bank loans	7,655	0
16. Repayments of bank loan	-1,574	-1,966
17. Total cash provided by financing activities	**35,047**	**17,435**
18. Decrease in cash and cash equivalents	-6,468	8,280
19. Changes due to currency conversion	72	-73
20. Cash and cash equivalents at the beginning of the period	8,302	95
21. Cash and cash equivalents at the end of the period	**1,906**	**8,302**

* The contributions, resulting from the increase in shares, refer at the rate of DM 28,855 thousands to the consolidation of the stake in the Mebio/Coripharm group by means of an increase in non-cash capital.

GROUP FIXED ASSET MOVEMENT SCHEDULE ACCORDING TO IAS

	HISTORICAL AQUISITION COSTS			
		Addition due to		
	POSITION	Changes of Con-		
	▶ 1.1.2000	solidation Group	ADDITIONS	DISPOSALS
	DM	DM	DM	DM
▶ A Fixed assets				
I. Intangible assets				
1) Industrial property rights				
and similar rights and values	2,566,954.56	7,484,453.05	22,403,845.16	0.00
2) Goodwill	100,000.00	1,113,064.77	6,648,626.17	0.00
3) Activated R & D costs	0.00	0.00	913,526.38	0.00
	2,666,954.56	**8,597,517.82**	**29,965,997.71**	**0.00**
II. Tangible assets				
1) Land and buildings	1,689,264.00	1,720,727.79	3,000.00	0.00
2) Technical plant and machinery	7,129,581.97	0.00	1,498,873.73	0.00
3) Other plant, office systems				
and outfittings	3,381,473.25	3,266,150.72	522,120.07	33,610.13
	12,200,319.22	**4,986,878.51**	**2,023,993.80**	**33,610.13**
III. Financial assets				
1) Shares in affiliated companies	104,000.00	0.00	968,973.44	0.00
2) Other lendings	38,078.91	0.00	1,133,321.75	117,873.20
	142,078.91	**0.00**	**2,102,295.19**	**117,873.20**
	15,009,352.69	**13,584,396.33**	**34,092,286.70**	**151,483.33**

GROUP EQUITY CAPITAL DEVELOPMENT ACCORDING TO IAS

	Status 01.01.2000
	DM
I. Subscribed capital	7,432,154.01
II. Capital reserves	18,192,747.00
III. Earnings reserves	
Legal reserves	81,565.83
Other earnings reserves	428,110.83
IV. Net accumulated loss/net retained profits	-634,953.04
	25,499,624.63

		CUMULATIVE DEPRECIATION				BOOK VALUES		
			Addition due to					
	POSITION	POSITION	Changes of Con-	DEPRECIATION		POSITION	POSITION	POSITION
	▶ 31.12.2000	▶ 1.1.2000	solidation group	IN CURRENT YEAR	DISPOSALS	▶ 31.12.2000	▶ 31.12.2000	▶ 31.12.1999
	DM	DM	DM	DM	DM	DM	DM	DM
	32,455,252.77	278,850.56	325,153.49	749,234.03	0.00	1,353,238.08	31,102,014.69	2,288,104.00
	7,861,690.94	99,999.00	0.00	194,042.61	0.00	294,041.61	7,567,649.33	1.00
	913,526.38	0.00	0.00	0.00	0.00	0.00	913,526.38	0.00
	41,230,470.09	**378,849.56**	**325,153.49**	**943,276.64**	**0.00**	**1,647,279.69**	**39,583,190.40**	**2,288,105.00**
	3,412,991.79	46,690.00	277,313.79	59,479.00	0.00	383,482.79	3,029,509.00	1,642,574.00
	8,628,455.70	4,487,118.89	0.00	610,899.47	0.00	5,098,018.36	3,530,437.34	2,642,463.08
	7,136,133.91	1,674,184.21	1,825,404.32	764,996.87	32,351.13	4,232,234.27	2,903,899.64	1,707,289.04
	19,177,581.40	**6,207,993.10**	**2,102,718.11**	**1,435,375.34**	**32,351.13**	**9,713,735.42**	**9,463,845.98**	**5,992,326.12**
	1,072,973.44	0.00	0.00	289,076.00	0.00	289,076.00	783,897.44	104,000.00
	1,053,527.46	0.00	0.00	0.00	0.00	0.00	1,053,527.46	38,078.91
	2,126,500.90	**0.00**	**0.00**	**289,076.00**	**0.00**	**289,076.00**	**1,837,424.90**	**142,078.91**
	62,534,552.39	**6,586,842.66**	**2,427,871.60**	**2,667,727.98**	**32,351.13**	**11,650,091.11**	**50,884,461.28**	**8,422,510.03**

Additions according to § 272 Clause 2, Item 2 HGB			
DM	DM	DM	TDM
0	0	0	7,432,154.01
135,315.27	0	0	18,328,062.27
0	0	0	81,565.83
0	104,280.91	0	532,391.74
0	-104,280.91	1,056,465.77	317,231.82
135,315.27	**0**	**1,056,465.77**	**26,691,405.67**

Appropriation into the revenue reserves

Income of the group

Status 31.12.2000

NOTES ON CONSOLIDATED ANNUAL FINANCIAL STATEMENT 31.12.2000 ACCORDING TO IAS

A. Company data

Name, registered office

aap Implantate AG, Berlin

Head office

12099 Berlin, Lorenzweg 5

Commercial register

The company is registered with the Berlin-Charlottenburg district court, reference number HR B 64083, and was entered in the register on September 10, 1997.

Stock-market listing

aap Implantate AG has been listed since May 10, 1999 on the Regulated Market and traded on the Frankfurt stock exchange's Neuer Markt, Security No. 506 660.

Created by conversion

The company emerged from the conversion on January 1, 1997 of *aap* Ahrens, Ahrens & Partner GmbH & Co. Betriebs KG.

B. General information

1. Principles

The IAS consolidated financial statement of *aap* Implantate AG, Berlin, to December 31, 2000 is drawn up in accordance with the International Accounting Standards (IAS) 2000 laid down by the International Accounting Standards Committee (IASC).

The consolidated financial statement accords with European Union Directive 83/349/EC. Due to §292 inserted into the German Commercial Code (HGB) in the context of legislation making it easier to raise capital, this consolidated financial statement drawn up in accordance with IAS has an exempting effect.

The consolidated financial statement of *aap* Implantate AG to December 31, 2000 is based on year-end financial statements of the companies in the group that were prepared applying uniform accounting and valuation methods of the parent company in accordance with the German Commercial Code and the Stock Corporation Act (Aktiengesetz). Transition to IAS rules was effected at the individual company level.

The structure of the consolidated balance sheet and the consolidated profit and loss account corresponds to IAS regulations.

The consolidated profit and loss account was drawn up by the total costs method.

All amounts are stated are in deutsche marks (DM), the parent company's national currency.

2. Cash flow statements

The consolidated cash flow statement was drawn up by the indirect method in accordance with IAS 7.

3. Segment reporting

Since the business activities of the *aap* Implantate Group do not extend across heterogeneous lines of business or across geographical segements distinguished by different structures of opportunity or risk, no segment reporting as per IAS 14 was undertaken.

Nevertheless, the annex includes a breakdown of sales revenues by region and line of business.

C. Consolidation principles

1. Consolidation circle

aap Implantate AG, Berlin
Parent company

	Holding
aap Implants Inc., Plymouth, MA, USA	80%
Coripharm Medizinprodukte GmbH & Co. KG, Dieburg	100%
Coripharm Medizinprodukte-Verwaltungs GmbH, Dieburg	100%
Corimed Kundenorientierte Medizinprodukte GmbH, Dieburg	100%
Mebio Medizinische Biomaterial Vertriebs GmbH, Dieburg	100%

2. Balance-sheet date for the consolidated year-end financial statement

The integrated companies' financial year is the calendar year. The consolidated financial statement was thus drawn up to December 31, 2000.

3. Currency conversion

The financial statements of the integrated foreign subsidiary were converted into DM on the functional currency principle.
Since in the financial economic and organizational sense the subsidiary forms an integrated part of *aap* Implantate AG, the functional currency is the parent company's national currency.
Consequently, monetary items were converted at the rate on the balance-sheet date, not at historic rates. For reasons of economy, inventory assets were converted at the rate on the balance-sheet date.

Expenditure and income in connection with non-monetary balance-sheet items were converted at the corresponding historic rate or the rate on the balance-sheet date, and the remaining expenditure and income at average rates.

Differences arising from currency conversion were treated as affecting results.

4. Accounting and valuation methods

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

5. Capital consolidation

Capital was consolidated by offsetting the book values of holdings against the proportion of newly-valued equity of the subsidiary at the time of acquisition (IAS 22).
Where advisable, positive balances are apportioned to assets. The remaining balances are capitalized as goodwill and depreciated over a period of 10 years in accordance with their future useful life.
The negative balance of DM 58,000 from the capital consolidation of Coripharm Medizinprodukte-Verwaltungs GmbH was carried as a liability at the time of acquisition and taken into the results on December 31, 2000 (IAS 22).

6. Debt consolidation

Intra-group receivables and liabilities were offset against each other. Differences which arose in the reporting period were recorded as affecting results.

7. Results consolidation

In the context of results consolidation, internal sales and intragroup income and expenditure were offset. Intermediate results were eliminated.

D. Accounting and valuation methods

Intangible assets are shown at cost of acquisition minus planned depreciation. Goodwill from the individual financial statements is capitalized and depreciated in a straight line over a period of up to 10 years in the same way as goodwill from the capital consolidation.
Development costs are capitalized as intangible assets if a newly developed product or method can be clearly demarcated, is technically practicable and if there are plans to market it. Further criteria for capitalization are anticipated achievement of a future economic benefit and a reliable valuation of the asset (IAS 38, 45).

Capitalized development costs are depreciated in a straight line over a useful life, as a rule of 5 to 10 years, from the time of application (IAS 38, 79). Research costs are recorded as expenses in the period in which they are incurred.

Tangible assets are valued at cost of purchase or manufacture and, if depreciable, taking into account planned depreciation. Manufacturing costs of tangible assets comprise total costs as IAS 16.
Interest on loan capital is not capitalized as part of purchase of manufacturing costs (IAS 23).
Movable assets up to a value of DM 800 are fully written off in the year of acquisition.

Financial assets are included in the accounts at cost of purchase of at carried over book values. The proportions relating to associated companies accounted for by the equity method are shown in the balance at the proportion of equity plus goodwill (IAS 28).
Lendings at usual market rates are accounted for at nominal value.

Inventories are shown at either cost price or cost of production or at their net sale value. Manufacturing costs comprise total costs (IAS 2) and are established on the basis of normal employment.
In addition to directly attributable costs, manufacturing costs include appropriate proportions of essential production overheads. These include material and production overheads and production-related administrative costs, plus straight-line depreciation on production plant and machinery. Loan capital costs are not capitalized as part of purchase or manufacturing costs. Inventory risks arising from reduced utility are taken account of by appropriate reductions in value.

Down payments from customers are carried as liabilities.

Long-term production orders are accounted for by the percentage-of-completion method and the amount to be capitalized according to IAS 11 is shown under receivables and under sales revenues.
The progress of performance is determined according to the expenditure incurred and the project stages proven to have been completed.

Receivables and other assets are balanced at purchase cost after making allowance for necessary value adjustments geared to the actual risk of non-payment.

Investment grants awarded are carried as liabilities under a special investment grant item. Profit-effective reversal is in a straight line according to the useful life of the subsidized assets.

Stock options awarded to employees and directors are recorded in accordance with the position paper of the German Standardization Council (DSR), on the one hand as personnel costs and on the other in analogous application of § 272 Clause 2 Item 2 of the German Commercial Code (HGB) as a deposit into the capital reserve. Addition to the capital reserve is for the performance period, which corresponds to the contractually agreed waiting period of two years. The stock options awarded were valued at the time of award following the Black/Scholes option price model.

Reserves are established when a liability exists to a third party on the basis of a past event, when a claim is probable and the anticipated level of the necessary reserve can be reliably estimated.

Deferred taxes are shown from valuations at different times in IAS and tax balance sheets and from consolidation transactions.
Deferred taxes on the asset side include tax reduction claims arising from the expected use of existing losses carried over in subsequent years, the realization of which is sufficiently certain. The deferred taxes are calculated on the basis of the tax rates applicable or expected at the time of realization.

Liabilities are assessed at redemption value.
Foreign-currency liabilities are converted at the repayment rate when the liability was incurred or at the posted rate on the balance-sheet date, if higher.

E. Notes on the balance-sheet

(1) Outstanding deposits into subscribed capital

The figure shown relates to Coripharm Medizinprodukte-Verwaltungs GmbH. The deposits have not been called in.

(2) Fixed assets

For the development of fixed assets, please see the consolidated schedule of fixed asset movements attached as Annex 1.

1. Intangible assets

Depreciation of intangible assets bought for cash is in a straight line, pro rata temporis to the historic acquisition costs.
Useful life is as follows:

	Years
Commercial property rights and similar rights and values	3-15
Goodwill	10

2. Development costs

In the period under review, development costs totaling DM 914 thousands were capitalized for the first time. They essentially relate to the following projects:

- Biorigid Femur System
- Modular Trauma Shoulder System
- Hempel-Seligson Nail
- Cavat bone substitute materials
- CS balls
- absorbable bone substitute (local antibiotic prophylaxis and bone restoration)

In addition, research and further development costs of DM 448 thousands were recorded as expenses.
No depreciation was undertaken in the period under review.

3. Tangible assets

Tangible assets are depreciated by the straight-line method on the basis of the historic purchase or manufacturing costs.

Average useful life is as follows	Year
Land and buildings	50
Technical plant, operating and business equipment	5-10
Other plant, operating and business equipment	5-10

No unplanned depreciation or retrospective value adjustments were undertaken.

The book value of leased tangible assets on 31 December 2000 was DM 2,649 thousands.

4. Financial assets

	2000		1999	
	DM 1,000	%	DM 1,000	%
Stakes				
Cybernetic Vision AG				
Health Monitoring Technologies, Berlin	0	5.69	104	11
OSARTIS Verwaltungs-GmbH	0	49.00	0	
OSARTIS GmbH & Co. KG	784	49.00	0	
Other lendings	1,053		38	
	1,837		142	

(3) Receivables and other assets

The claim for payment for breach of warranty is against the shareholders who contributed the holdings in Corimed kundenorientierte Medizinprodukte GmbH, Coripharm Medizinprodukte-Verwaltungs-GmbH and Coripharm Medizinprodukte GmbH & Co. KG.

	2000	1999
	DM 1,000	DM 1,000
Payments receivable for goods and services		
Based on percentage of completion	4,754	1,337
Others	5,899	1,172
Other asset items		
Tax refund claims	332	781
Warranty claims	4,0160	
Others	104	803
	15,105	4,093

(4) Asset-side accruals and deferrals

This item includes discounts totaling DM 28,000.

(5) Deferred taxes

The sum of DM 1,403 thousands (previous year: DM 861 thousands) includes the following capitalized tax reduction claims arising from the expected use of existing losses carried over in subsequent years:

	2000	1999
	DM 1,000	DM 1,000
Corporation tax including solidarity surcharge (or comparable foreign earnings tax)	774	525
Business tax	0	225
	774	750

Realization of these carried-over losses is sufficiently certain.

The other deferred taxes carried as assets, totaling DM 629 thousands result from consolidation. Eliminating of interim results and debt consolidation including currency differences totaling DM 79 thousands are entered as earnings for the year under review.

Deferred taxes carried as liabilities are attributable to temporary differences between valuations in balance-sheet items according to HGB and IAS respectively.

In order to calculate business income tax, business income was established on the basis of the annual result as per IAS by means of business tax additions and deductions. The rate of business tax taking account of deductibility is approximately 17%. Deferred corporation tax was calculated on the basis of the tax rate of 25% applicable from January 1, 2000 plus solidarity surcharge of 5.5% of the corporation tax owed.

For calculating deferred taxes carried as assets on the carried-over losses of *aap* Implants Inc., Plymouth, MA, U.S., an average tax rate of 35% was assumed. The deferred taxes carried as assets in connection with consolidation were calculated on the basis of an average tax rate of 38% in the group

(6) Equity

The company's capital stock on December 31, 2000 was €3,800,000, divided into 3,800,000 individual bearer shares.
The general meeting of June 30, 2000 agreed a conditional capital increase of up to €380,000 by means of issuing up 380,000 individual bearer shares. The new shares will be entitled to draw profit from the beginning of the financial year in the year of issue.
The conditional capital increase serves the sole purpose of guaranteeing stock options to employees and directors of the company or an associated company.
On December 1, 2000, 252,149 stock options were allocated to employees and management of *aap* Implantate AG.
The Board of Management is empowered with the Supervisory Board's consent to increase the company's capital stock in one or more stages by up to a total of €1,900,000 by February 21, 2004, in return for deposits in cash or kind, and in doing so to set the conditions for the stock issue.
In doing so, shareholders' subscription privileges can be ruled out,

a) to compensate for residual amounts,
b) to issue employee stocks to company employees,
c) to acquire holdings in companies or from companies or parts of companies in return for the grant of company stock.
d) if a capital increase in return for cash deposits does not exceed 10% of capital stock and the share issue price is not significantly below the stock market price.

The Board of Management on November 7, 2000 with the consent of the Supervisory Board on November 7, 2000 decided to increase capital stock within the parameters of the approved capital by €964,265.00 from 964.265 bearer shares to €4,764,265.00 in return for deposits in kind, that is in return for the contribution of 100% of the shares in Corimed Kundenorientierte Medizinprodukte GmbH, 100% in Coripharm Medizinprodukte GmbH & Co. KG, 100% in Coripharm Medizinprodukte-Verwaltungs-GmbH, 49% in OSARTIS GmbH & Co. KG, and 49% in OSARTIS Verwaltungs-GmbH.
The value of the shares contributed with effect from October 1, 2000 was set at the nominal value of the unit shares to be issued by *aap* Implantate AG, plus the cash payment of DM 5,325 thousands made, and is listed as the special item „Contribution made toward the capital increase agreed."
Acquisition costs were reduced by means of purchase price reductions to which there was a contractual entitlement because of breaches of warranty.

The statutory reserve at the end of the financial year was DM 82 thousands, and together with the capital reserve exceeds one tenth of the capital stock.

Equity capital developed thereafter as follows:

(7) Other reserves

	31.12.2000	31.12.1999
	DM 1,000	DM 1,000
Commitments to staff	447	263
Financial statement,		
audit and consultancy costs	486	92
Bonus and commission commitments	199	240
Outstanding invoices	347	105
Litigation costs and risks	0	8
Minimum remuneration of silent partners	0	7
Supervisory board emoluments	0	11
Guarantees	135	0
	1,614	726

(8) Liabilities

The remaining terms of liabilities - broken down by balance-sheet item - are as follows:

Bank debts totaling DM 2,300 thousands are secured by land charges and by mortgages on various machines and assignment of receivables, and to the amount of DM 3,850 thousands by a license/patent pool mortgage.

	31.12.2000	Remaining term			
	total	up to 1 yr.	1-5 years	< 5 years	Prev. Year
	DM 1,000	DM 1,000	DM 1,000	DM 1,000	DM 1,000
Bank debts	8,924	3,030	1,431	4,463	2,843
Deposits received on orders	2,520	2,520	0	0	0
Accounts payable for goods and services	4,983	4,983	0	0	4,088
Liabilities to associated companies	19	19	0	0	19
Other creditors	14,516	10,233	3,783	500	3,450
of which					
social security-related	(229)	(229)	0	0	(171)
arising from taxes	(200)	(200)	0	0	(130)
leasing liabilities	(2,484)	(1,001)	(1,483)	0	(2,049)
	30,962	20,785	5,214	4,963	10,400

F. Notes on the profit and loss account

(9) Sales revenues

	2000	1999
	DM 1,000	DM 1,000
By region		
Germany	13,802	9,415
Asia	2,726	1,352
Africa	908	457
North and South America	2,918	382
Europe	1,075	858
	21,429	12,464
By line of business		
Endoprothetics	4,060	2,942
Osteosynthesis	13,952	8,185
Other R & D services	3,417	1,337
Group total as per IAS	21,429	12,464

(10) Other operating income

	2000	1999
	DM 1,000	DM 1,000
Use of private cars	104	93
Income from the cancellation		
of liabilities	104	21
Income from releasing reserves	91	331
Income from winding up of liabilities		
for investment grants	123	84
Rental income	58	0
Cancellation of negative balance	0	4
Income from expenditure grants	27	104
Income from the disposal		
of current assets	13	190
Other	279	384
	799	1,211

(11) Personnel costs

	2000	1999
	DM 1,000	DM 1,000
Wages and salaries	6,610	5,348
(Of which grant of stock options)	(135)	
Social contributions and costs		
of old-age provision and support	1,135	960
	7,745	6,308

Average No. of employees during the year

	2000	1999
Industrial staff	61	58
Clerical staff	65	36
	126	94

(12) Depreciation

Depreciation on tangible assets is DM 1,435 thousands (previous year: DM 1,046 thousands) and on intangible assets DM 943 thousands (previous year: DM 110 thousands); of this, DM 194 thousands (previous year: DM 0) was on goodwill arising from the capital consolidation.

(13) Other business expenses

	2000	1999
	DM 1,000	DM 1,000
Advertising and travel costs	1,553	1,073
Accommodation costs	855	694
Consultancy costs	1,205	417
Leasing	283	245
Office requisites, telephone, fax, postage	369	289
Sales commission	220	374
Dispatch costs, packing material	370	338
Vehicle costs	196	158
Repairs and maintenance	283	206
Insurance, contributions, dues	335	111
Losses and reductions		
in value arising from receivables	28	130
Third-party wages	100	232
Patent fees, other fees	256	142
Other costs	1,088	683
	7,141	5,092

(14) Net earnings from holding

This includes the pro rata result of the holding in OSARTIS GmbH & Co. KG, valued by the equity method, and depreciation on the goodwill acquired.

(15) Net financial earnings

	2000	1999
	DM 1,000	DM 1,000
Income from other lendings	18	1
Other interest and similar income	96	203
Other interest and similar expenditure		
Interest on long-term loan liabilities	./. 255	./. 192
Interest on short-term bank debts	./. 70	./. 43
Interest to silent partners	./. 121	./. 81
Cancellation of financing costs	./. 165	./. 117
Other interest costs	0	./. 15
Depreciation of financial assets	./. 104	0
	./. 715	./. 448
	./. 601	./. 244

(16) Exchange rate differences

Exchange rate differences offset and affecting results in the accounting period are:

	2000	1999
	DM 1,000	DM 1,000
Income from exchange rate differences	79	12
Cost of exchange rate differences	./. 7	./. 85
	72	-73

(17) Expenditure outside the period

In the financial year, non-period expenditure of DM 224 thousands was incurred, comprising as follows:

	DM 1,000
Consultancy expenses	49
Commission	35
Insurance and contributions	73
Travel costs	6
Other	61
	224

(18) Taxes on income

Taxes on income according to IAS (cf. No. 6) can be applied at the following theoretical rate comprising German corporation tax, provision for accumulation, plus solidarity surcharge and trade tax.

	2000	1999
	DM 1,000	DM 1,000
Profit/loss before tax	1,505	./. 2,103
Other deductible taxes	./. 52	./. 12
Basis of assessment	1,453	./. 2,115
Theoretical tax outlay at 51,0%	741	./. 1,079
Effects of tax on:		
Depreciation of goodwill arising from capital consolidation and companies whose balance sheets are drawn up on an equity basis	69	0
Dissolution of negative differences arising from capital consolidation	./. 22	0
Difference resulting from future rate of corporation tax	./. 116	0
Difference arising from tax charged rate payable on distributed earnings	0	79
Tax-free earnings and other effects	0	./.198
Differences from foreign tax rates	./. 73	94
Tax on income according to IAS	599	./. 1,104

(19) Earnings per share as per IAS 33

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

	2000	1999
Earnings for the period (in thousands)	DM 1,057	DM ./. 935
935 No. of shares (in thousands)	4,041	3,112
Result per share	DM 0.26	DM ./. 0.30

Diluted earnings per share take account of the weighted average of potential shares due to the 252,149 stock options issued on December 1, 2000.

	2000	1999
Earnings for the period (in thousands)	DM 1,057	DM ./. 935
Diluted No. of shares (in thousand units)	4,041	3,112
Result per share	DM 0.26	DM ./. 0.30

G. Other information

(20) Statement of funds provided and utilized

	2000	1999
Interest earnings (in thousands)	DM 94	DM 190
Interest expenditure (in thousands)	DM 642	DM 424

Inflow of funds from current business includes the following:

Taxes paid on earnings totaled DM 340 thousands (previous year: DM 199 thousands). Tax refinds totaled DM 39 thousands (previous year: nil).

Acquisition of subsidiaries	DM 1,000
Cash and cash equivalent taken over	212
Assets and debts taken over:	
Contributions outstanding	125
Fixed assets	40,249
Current assets (excluding liquid assets)	4,174
Prepayment and accrued income	25
Provisions	659
Liabilities	14,654

Name	Reg. office	Holdings	Equity	Ernings
		%	DM 1,000	DM 1,000.
Cybernetic Vision AG				
Health Monitoring				
Technologies	Berlin	5.96	negativ	
Stand (30.09.2000)				

(21) Shareholdings

Bankruptcy proceedings on the assets of this company were opened on 1 December 2000.

(22) Contingencies

By the terms of the contribution agreement dated November 7, 2000, *aap* Implantate AG is obliged to replace by March 31, 2001, by other guaranties the sureties stood by shareholders of contributed companies toward third parties in respect of monies owed by the contributed companies totaling DM1,674 thousands.

	Finance leasing	Cash value	Operate leasing
	Nominal value		Nominal value
	DM 1,000	DM 1,000	DM 1,000
Due within 1 year	1,001	935	196
Due within 1-5 years	1,483	1,226	35
Not due for over 5 years	0	0	0
	2,484	2,161	131

The liabilities resulting from financial leasing for the most part refer to installment plans for production machines and an EDP-system. The operate leasing contracts refer to short-term contracts for cars.

(23) Other financial commitments

Other financial commitments in accordance with §285 No. 3 HGB arise from rental agreements and total DM 3,554 thousands, of which DM 711thousands is due within one year and the remaining DM 2,843 thousands is due within two to six years.

(24) Related parties

The shareholder and director Mr. Uwe Ahrens has made the company two loans of DM 2,700 thousands and DM 2,300 thousands.
These loans were valued at DM 4,573 thousands on December 31, 2000, and bear interest at 7 and 7.5% respectively. Interest paid in 2000 totaled DM 8 thousands.

(25) Management Board, Supervisory Board

Members of the Board of Management in the year under review were:

- **Herr Uwe Ahrens**, Dipl.-Ing., Berlin
- **Herr Bruke Seyoum Alemu**, Dipl.-Ing, Berlin
- **Herr Joachim Staub**, Dipl-Ing., Berlin

Directors' emoluments totaled DM 634,415.64.

Members of the board hold the following supervisory board mandates:
Herr Uwe Ahrens:
bmp AG, Berlin
bmp Life Science AG, Berlin - chairman
bmp eBusiness AG, Berlin
media mind AG, Berlin
Mediport Venture Fonds GmbH, Berlin - Supervisory board member

The members of the company's Supervisory Board in the year under review were:

- **Herr Lothar Just**, tax accountant and auditor, Berlin (Chairman)
- **Herr Klaus Kosakowski**, Dipl. Volkswirt, Berlin (Vice-Chairman)
- **Herr Roger Bendisch**, Dipl. Kaufmann, Berlin
- **Herr Dieter Borrmann**, Dipl. Ingenieur, Berlin
- **Herr Prof. Dr. Dr. h.c. Horst Cotta**, Heidelberg
- **Frau Susanne Rübenach**, Dipl. Volkswirtin, Bonn
- **Herr Dr. Heinz Helge Schauwecker**, medical consultant, Priv.-Doz., Berlin

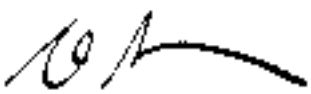
The Supervisory Board in the financial year received emoluments totaling DM 58 thousands.

In addition to their work for *aap* Implantate AG, the members of the Supervisory Board hold other supervisory board mandates, as follows:

Herr Lothar Just:
Cybernetic Vision AG, Berlin
- Vice-Chairman
(to 12 January 2001)
Herr Klaus Kosakowski:
Cybernetic Vision AG, Berlin
(to 15.01.2001)
Herr Roger Bendisch:
echtzeit AG, Berlin
- Vice-Chairman
OPIX AG, Berlin
- Vice-Chairman
Orametrix Inc., Dallas (U.S.)
- Board Member
Herr Dieter Borrmann:
bmp AG, Berlin
- Vice-Chairman
(to 3 August 2000)
bmp eBusiness AG, Berlin
(to 17 May 2000)
bmp Life Science AG, Berlin
(to 17 May 2000)

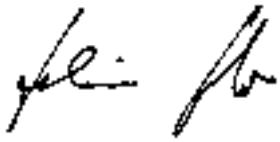
Berlin, March 21, 2001

The Board of Management



Uwe Ahrens

Bruke Seyoum Alemu



Joachim Staub

Just & Coll. GbR
Wirtschaftsprüfer & Steuerberater

AUDITOR'S CERTIFICATION

▶ We have audited the financial statement drawn up by *aap* Implantate AG for the financial year 1 January 2000 to 31 December 2000, consisting of balance-sheet, profit and loss account, statement of changes in equity, cashflow statement and annex. It is the responsibility of the company's board of directors to draw up and decide the content of the corporate financial statement. Our job is to assess on the basis of our audit whether the financial statement complies with International Accounting Standards (IAS).

We carried out our audit of the corporate financial statement in accordance with German audit regulations, observing the principles of proper auditing laid down by the Institute of Auditors in Germany (IDW) supplemented by the International Standards on Auditing (ISA). These stipulate that the audit is to be planned and executed so as to make it possible to judge with sufficient certainty whether the financial statement is free from material wrong statements. In determining the audit activities, knowledge of the company's business activities and of its economic and legal environment, and expectations of potential errors are taken into account. As part of our audit, evidence of the values stated and information given in the corporate financial statement is assessed on the basis of random checks. The audit includes assessing the accounting principles applied and the material appraisals undertaken by legal representatives, and forming an opinion of the overall picture presented by the corporate financial statement. We are of the opinion that our audit forms a sufficiently certain basis for our judgement.

It is our conviction that the corporate financial statement in accordance with IAS conveys a picture of the company's asset, financial and earnings situation and of the payment flows in the financial year that tallies with the actual situation.

Our audit, which also extended to the corporate situation report prepared by the board for the financial year 1 January to 31 December 2000, revealed no cause for objection. It is our conviction that overall the company situation report gives an accurate idea of the company's situation and accurately describes the risks of future development. We further confirm that the corporate financial statement and the corporate situation report for the financial year 1 January to 31 December 2000 meet the criteria for the company to be exempted from drawing up a corporate financial statement and corporate situation report in accordance with German law. In order to qualify for exemption from the obligation to present accounts in accordance with German company law, the presentation of accounts must accord with EU Guideline No. 7. We examined the fulfilment of this condition on the basis of the guideline's interpretation by the European Commission contact committee for guidelines on presenting accounts.

Berlin, 26. March 2001
Dr. Röver & Partner KG
Auditors
Tax Advisers
Helmut Schuhmann
Auditor
Gertrud R. Bergmann
Auditor

SITUATION REPORT OF
aap Implantate AG

▶ On balance, the price of *aap* stock developed pleasingly in 2000. Share price development was characterized by fluctuations, but they were characteristic of the market as a whole. At the end of the first quarter, *aap* stock was quoted at up to 32 euros. In our view, the substantial increase in the share's price at that time was due to two fundamental factors. One was a larger number of research reports about the *aap* share and the greater attention paid to it by the financial press as a result. The second was the positive influence in the New Year of a boom in biotech and medical technology stocks on U.S. stock markets.

After the share's meteoric rise, it underwent a downward price adjustment that was due in part to the pressure of marketing and sales costs and intensive R&D activities in the first two quarters.

The second half of 2000 was characterized by a downturn of the entire market that reached its nadir in October. The cooling-off of the U.S. economy and the resulting low targets set by Nasdaq, plus the fall in oil prices, were some of the factors that triggered these price adjustments. *aap* stock was unable to resist this general downturn, and at the beginning of the fourth quarter slumped to below 12 euros. The subsequent publication of a succession of positive reports on *aap* ushered in an impressive recovery with the result that by the year's end the share convincingly showed itself to be a relatively strong performer in comparison with a weak market environment.

SALES- AND EARNINGS TRENDS

▶ The year under review was characterized by an expansion of foreign business and the successful conclusion of a strategic corporate acquisition. Sales were increased by roughly 16 % to DM 14.7 million from DM 12.7 million. That is all the more encouraging in that sectoral growth in the German market is a mere 5% or so and in the world market only about 10 to 12%. This above-average growth was due to foreign business. In foreign markets, sales were boosted by over 150%. This above-average growth in foreign sales testifies to *aap*'s strategic alignment as a globally active company. It must, however, be stressed that in addition to intensive foreign activities, domestic sales were also up by roughly 7 % on the year. So the company's position in the German market was further improved.

In comparison with the previous year, total operating performance improved slightly, totaling DM 17.7 million in the year under review as against DM 17.0 million. But the breakdown of total operating performance shows a clear shift toward sales revenues, which increased from 75 to 83 % of the total. Strategic stockpiling was continued, albeit less intensively, to ensure that *aap* as an all-round provider continues to provide optimal service and is able to achieve its sales targets for 2001, especially in the U.S., Japanese and Chinese markets. In relation to 1999 figures, inventories increased by a mere DM 2,710 thousands. The increase in stocks in 2000 was thus roughly 29 % lower than in 1999, even though the development year accounted for a larger proportion of the fiscal year than in the previous year.

The operating result in the year under review decreased to - DM 168 thousands, or DM 1,139 thousands less than the previous year's DM 971 thousands. It should, however, be borne in mind that the R&D contract, in keeping with the principles of commercial law, is only stated at its capitalizable cost of manufacture, DM 673 thousands, as against much higher contributions toward profits. If profits were to posted in keeping with performance, a positive result would have been achieved.

The deterioration in operating result is mainly due to personnel and other operating expenditures that were slightly higher than the substantial growth in revenues. Other operating

expenditure as a proportion of total operating performance amounted to 33% and was 19.5% up on the year. That was due first to the strong focus in the last fiscal year on the product launches of the new Trauma Shoulder and Biorigid Femur Systems. That led to an extraordinary commitment of capacity for a limited period in the research and, above all, production departments. Costs thereby incurred during the review period total over DM 600 thousands and were booked as running expenses, with the resulting negative effect on earnings. Second, a marked increase in marketing and sales expenditure, especially in connection with activities in the U.S., Japan and China, is also reflected in the result. Third, the decline in net earnings is also due to extraordinary expenditure in connection with M&A activities and the restructuring costs that accompany them. The material input quota was reduced significantly from 27.3 to 21.1%. That was mainly due to what, in comparison with the previous year, was a change in the composition of total operating performance as a basis of assessment and to a marked increase in sales of new and innovative products, especially in the high-growth, high-margin U.S. and Japanese markets. The personnel expenditure quota increased from 35.8 to 39.1%, due mainly to an increase in the number of staff employed in sales, production and investor relations.

The financial result deteriorated from - DM 219 thousands to -DM 335 as a result of the raising of bank loans and short-term loans by shareholders to bridge the financing of acquisitions. In addition, the holding in Cybernetic Vision AG, Health Monitoring Technologies, worth a nominal DM 104 thousands had to be written off, reducing net income, due to the opening of insolvency proceedings.

The result of ordinary business activity thus fell in fiscal 2000 from DM 763 thousands to minus DM 466 thousands. Taking into account a loss-related tax credit of DM 146 thousands (previous year: DM 936 thousands), the net loss for the year was DM 357 thousands (previous year: DM 1,089 thousands). The DVFA/SG-adjusted result for the year was minus DM 28 thousands (previous year: DM 766 thousands). The DVFA/SG adjustments relate to expenditure incurred in connection with the proposed secondary public offering or private placement.

BALANCE-SHEET DEVELOPMENT

▶ The balance-sheet total increased by 16,8 % in the year under review, amounting to DM 43.7 million (previous year: DM 37.4 million). This was due to an investment policy consistently implemented by *aap* with a view to achieving strategic objectives. The DM 5,123 thousands increase in fixed assets was due mainly to financial asset accruals totaling DM 5,046 thousands, of which DM 3,414 thousands consist of shareholdings in Corimed Kundenorientierte Medizinprodukte GmbH, Coripharm Medizinprodukte GmbH & Co. KG and Coripharm Verwaltungs GmbH plus Osartis GmbH & Co. KG and Osartis Verwaltungs GmbH that were transferred to the company by the terms of the November 7, 2000 agreement relating to the contribution of capital. The statement of financial assets also includes payments in respect of the acquisition of a 30% holding in GEOT (Gesellschaft für Elektro-Osteotherapie mbH). Expenditure on fixed assets totaling DM 1,887 thousands in the year under review related in particular to the purchase of additional modern production plant and to equipping sales staff with extra sample cases.

The moderate increase in current assets was due mainly to three factors, first the increase in inventories to DM 3,699 thousands (previous year: DM 3,807 thousands) undertaken in the year under review on account of market progress already made in the U.S., Japan and China. A second main factor is *aap*'s entitlement, listed under other financial assets, to DM 4,016 thousands from Coripharm-Mebio Group shareholders in connection with unfulfilled warranty undertakings. Third, financial resources at the end of the review period totaled DM 166 thousands, down DM 8,034 thousands on the year. DVFA/SG cash flow at DM 1,749 thousands was below the previous year's DM 2,147 thousands.

ACQUISITIONS AND STRATETIC PARTICIPATIONS

▶ In the fourth quarter of the review period, agreement was reached on the acquisition of a 30% holding in Munich-based Gesellschaft für Elektro-Osteotherapie (GEOT) mbH. Over the next two years, *aap* can also exercise the option to purchase a further 21%.

Gesellschaft für Elektro-Osteotherapie GmbH has developed a procedure to promote and accelerate the bone-healing process that is an outstanding unique selling proposition and has already been approved by the German Federal Committee of Doctors and Health Insurers and been included in the list of approved aids. The new procedure, electro-osteostimulation, markedly improves the degree of therapeutic efficacy in treatment of serious traumatic and pathological bone damage. It can also be integrated in surgical and orthopedic implants.

As roughly 340,000 prosthetic systems a year are implanted in Germany alone, there is an extraordinarily high market potential for this procedure. The new GEOT procedure will, for instance, be used in the cement-free artificial hip that is currently under development at *aap*. In acquiring the shareholding *aap* has taken over sales of the products too.

ACQUISITION OF THE MEBIO/ CORIPHARM GROUP

▶ In the fourth quarter of 2000, Dieburg-based companies Corimed, Mebio and Coripharm were wholly acquired. In addition, a 49% stake in Obernburg-based Osartis was acquired.

In the medical and pharmaceutical market for biomaterials, these companies are active in the endoprosthetics and bone replacement research and sales sectors. For *aap* these acquisitions and shareholdings represent a decisive move toward becoming an all-round provider in the orthopedics market. This acquisition pushes ahead with orthobiology (biological implants) as a third core competence alongside osteosynthesis and endoprosthetics. Alongside additional innovative products, *aap* has gained by means of these acquisitions and participations a research team with long years of experience, a total of 17 patents in the above-mentioned business fields and an international network of recognized scientists and practising physicians. The six companies, which have hitherto been independent both organisationally and legally, represent, with a staff of roughly 30, sales of approximately DM 8.3 million in 2000.

In addition to the move into orthobiology, *aap* Implantate AG expects to achieve considerable growth potential from enlarging its product range and by integrating sales structures and production capacities.

▶ The number of employees at December 31, 2000 was 100, including 88 full-time, 9 part-time and three temporary staff (previous year: 109, including 88 full-time, 12 part-time and 9 temporary staff).

As agreed at the annual shareholders' meeting on June 30, 2000 the equity capital of *aap* was to be increased by up to 380,000 euros by issuing up to 380,000 bearer shares. This conditional capital increase was to serve the purpose of granting stock options to *aap* staff, management and board members. The introduction of stock options underscores the point that *aap* staff are on the one hand committed to the company's economic development and on the other to be entitled to share in its success.

PRODUCTS, MARKETS AND SALES

▶ Expansion of the company's worldwide sales base and successful implementation in the key U.S., Japanese and Chinese markets led to a new ratio of sales in Germany as against sales in other countries (2000: 58.6 % to 41.4 %; 1999: 63.4 % to 36.6 %). The U.S. and Japanese markets in particular have proved to be mainstays of positive sales development in the export field.

The exclusive sales agreement with U.S. partner Exactech Inc. now opens up an opportunity for *aap* to introduce its products faster and on a countrywide basis in the U.S. market.

The launch of the Trauma Shoulder and the Femur Fracture Management System BFS were two major new developments. In the orthobiology segment development and manufacture of the biological bone replacement product Cerabone were completed by *aap* subsidiary Coripharm in the year under review. Cerabone is manufactured for launch in Europe and is marketed by another *aap* subsidiary, Mebio.

SEGMENT REPORT

▶ The main business fields at *aap* are osteosynthesis and endoprosthetics. Osteosynthesis and endoprosthetics accounted for 83.3 % and 16.7 % of overall revenues respectively (previous year: 78.2% and 21.8 %). R&D services represents a further business field.

We were able to consolidate our position in the German market. The greater part of overall revenues was achieved in Germany: 58.6 % (previous year: 63.4 %). Other sales were in Europe: 7.2 % (previous year 6.0 %), Asia: 19.5 % (previous year 9.5 %), the Americas: 8.2 % (previous year: 17.9 %) and Africa: 6.5 % (previous year: 3.2 %).

ACTIVITIES IN GERMANY

▶ Despite belt-tightening by customers and restructuring of sales organization at *aap*, sales in Germany were increased by roughly 7 % on the year. Restructuring of the German sales team began at the year's end as part of the integration of acquisitions Mebio and Coripharm. The basic idea behind the new structure is to make the existing knowledge of individuals available to team colleagues by working in teams of two to four field sales representatives.

The main product focus was on the modular system Trauma Shoulder, Biorigid Nail Femur and the *aap* cannulated screw systems in titanium.

ACTIVITIES IN EUROPE

▶ Significant sales gains were recorded in various European markrets, with Austria, Cyprus, Greece and Italy developing particularly well. In a number of markets, especially France, attendance at important national congresses has lent impetus to a positive development.

ACTIVITIES IN THE U.S.

▶ In the third quarter of 2000 a sales agreement was signed with Nasdaq-listed Exactech Inc. on exclusive rights to sell *aap* trauma products in the U.S. This sales cooperation covers the entire U.S. market for *aap*.

Gainesville, Florida, based Exactech Inc. develops and markets orthopedic implants and instruments for hip and knee and biological implants and equipment. In 2000, its revenues totaled $ 41.9 million. Exactech works the U.S. market with a field sales staff of 157. Its products are marketed in 13 countries in Europe, Asia, Australia and Latin America.

The *aap* products that Exactech markets include the APS system for healing fractures of the neck of the femur, the innovative cannulated screw system for standard osteosynthesis and the Biorigid Nail System for the regeneration of fractures of the lower leg. Plymouth, MA, based *aap* subsidiary *aap* Implants Inc. shipped the first products to Exactech in the third quarter of 2000.

ACTIVITIES IN ASIA

▶ Business developed in a most positive manner in Asia, which accounted for 19.5 % of sales (previous year: 9.5 %). Swift expansion of the product portfolio of our Japanese exclusive partner Kobayashi Medical Devices (KMD) was the hallmark of activities in the year under review. The introduction of the cannulated screw and APS femoral joint plate systems in spring and the sales launch of the Biorigid Nail Femur in the fourth quarter required considerable efforts on both sides. Japan today ranks alongside the U.S. as the most important foreign market for *aap*.

In addition to the important Taiwan market, sales in the People's Republic of China progressed most pleasingly. After official approval by the SDA, the first Biorigid Nail Femur and APS systems were shipped to China in the fourth quarter.

RESEARCH AND DEVELOPMENT

▶ Our Biorigid Femur System (BFS), the universal building-block system for healing fractures of the thigh, underwent substantial further development and trials in 2000. The system is based on the idea of providing a standard implant and standard instruments for the main operations on the femur.

The CondyLock opens up the possibility, given retrograde operation access, of an extremely distal nail fixature, i. e. one that is close to the joint. The femoral head component ColPort is designed to handle femoral head fractures and fractures of the upper part of the thigh.

The new-generation Hahn revision prosthesis is compatible not only with the Biorigid Nail Femur but with standard instruments. We have successfully concluded the test series of our target device for X-ray free proximal and distal fixature of bone marrow nails. It has now been issued with a German patent. International registration of *aap*'s trade marks has been undertaken.

The development project for a new artificial knee joint based on a specially patented dimer joint chain continues to be well on schedule.

The Trauma Shoulder System (TSS) was supplied to selected hospitals in Germany in the third quarter of 2000. Results of operations carried out so far have highly positive. In the first quarter of 2001 the first Trauma Shoulder System users' meeting was held, and the response was enormous.

PRODUCTION & SALES

▶ Building up the logistical competence that is required for the growth we have in mind, optimizing production planning and control and integrating new production capacities were for us the keynotes of the financial year 2000.

By investing in new and modern machinery over the past two years we have been able, despite the high capacity commitment in connection with the new products mentioned in this report, the Trauma Shoulder System (TSS) and Biorigid Femur System (BFS), we have been able to maintain our supply service at a high level.

QUALITY- AND ENVIRONMENTAL MANAGEMENT

The annual review audit of our quality management system and for the CE logo was successfully undertaken in March 2000. The positive development of the QM systems was confirmed by the auditor. In January 2001 the first recertification audit was conducted as the existing certificate for our quality management system and the CE logo was only valid until March 2001.

The Trauma Shoulder System can be sold in the European market with the CE logo entirely without sales restrictions. Product approval preparations have been undertaken for the Japanese and U.S. markets.

In the third quarter, *aap* received notification from the Chinese authorities that its product licensing documents had been approved. Approvals extend to the entire osteosynthesis and endoprosthetics product range.

In the Asian region, product approvals were nursed and extended, with the emphasis on licenses for the Biorigid Nail Tibia (BNT), Biorigid Femur System (BFS), cannulated screw (LS) and Autodynamic Plate and Screw (APS) osteosynthesis systems. Approvals in these markets were granted in the course of the year under review. In Australia, approval was under preparation, with a positive ruling expected in the second quarter of 2001.

In the fourth quarter of 1999, *aap* was admitted to a project group entrusted with drawing up eco-profiles for medical products. The aim of the current project section is to develop and agree on methods by which to evaluate the environmental acceptabilitgy of medical products.

The objectives of the environmental program outlined in an environmental declaration have for the most part already been achieved and will continue to be pursued according to plan.

OUTLOOK & PROSPECTS

▶ The orthopedic market is one of the largest and most profitable segments in the medical technology sector. According to Knowledge Enterprises (2000), world revenues in the orthopedic market totaled roughly $12 billion. Demographic developments are a fundamental reason why the health market is set to grow in the decades ahead. As a result of higher living standards and improvements in medical facilities the number of older people is constantly increasing in the industrialized countries. Higher life expectancy is accompanied by a high degree of mobility and lively participation in social and sports activities. Degenerative joint complaints and fractures resulting from age and leisure activities are constantly on the increase. What is more, people are spending more on health in general, with the U.S. holding pride of place. The improvement of health care in the so-called threshold countries, including, for instance, populous China, can be expected to lend strong impetus for growth.

A major orthopedic market of the future is orthobiology. Its estimated market volume of € 500 million may make it a small market segment, but with average growth rate forecasts of over 50%, it represents a highly attractive market segment in orthopedics. Orthobiologicals, such as substances to replace natural bone or promote bone growth, have the potential to revolutionize the orthopedic market by enlarging decisively the range of products available to the orthopedic specialist. The orthobiology market is still characterized by a fragmented competitive structure. On the one hand, due to the newness of the segment, large orthopedic enterprrises have yet to establish themselves as market leaders. On the other, a number of smaller, innovative enterprises have gained market shares. Now the latest acquisitions have rounded off its portfolio, *aap* is particularly well positioned.

Within the framework of *aap*'s growth strategy, the acquisition of the Mebio/Coripharm Group represents an important step toward becoming a biomedical life science company, given that *aap* has, by means of these acquisitions, assured itself of an advance into the promising orthobiology market. The highly-reputed research team at Coripharm can look back on years of R&D experience and over 200 publications on biomaterials. The acquisition also leads to an enlargement of the product range to almost all indications in the operative orthopedics and accident surgery sectors. *aap* with its three core competences osteosynthesis, endoprosthetics and orthobiology

thus now has a more comprehensive product range than most of its competitors, both national and international.

One of the priority objectives for the year ahead is to integrate the group of companies that *aap* has acquired. That presupposes an optimal incorporation and information of staff that was begun at the end of 2000 in the form of workshops and training courses. In the financial year ahead the restructuring or integration measures embarked on as part of integration management will concentrate mainly on organizational, company law, fiscal and commercial aspects.

For *aap* as a developer and manufacturer of artificial metal implants, the orthobiology segment is a new business field that entails risks. Orthobiology is an extremely research-intensive sector. That is why substantial amounts of both manpower and capital are needed, especially to take projects successfully to market readiness in relatively short innovation cycles. In addition to many established orthopedics enterprises a number of biotech companies are engaged in research in this or similar areas. First, there can be no guarantee that all current and planned product developments in this segment can be successfully developed into market-ready products. Second, success in the orthobiology segment will depend to a decisive extent on whether *aap* succeeds in establishing research findings and marketable, licensed products before its competitors do so. Specific risks also arise from regulatory requirements and the resulting uncertainty in respect of statutory licenses and approvals.

In strategic expansion of its degree of internationalization and gaining access to new markets, the primary focus for *aap* is a global approach. To achieve a lasting expansion of the company's internationalization we see two factors as crucial: *aap*'s critical mass and its market capitalization. In order to exert a positive influence on both, *aap*'s business strategy is aimed at combining healthy internal and controlled external growth.

In the internal growth sector our efforts to date have concentrated with great success on setting up a director and indirect sales network focused on the high-growth, high-margin U.S., Japanese and Chinese markets.

The swift enlargement of the product portfolio handled by our Japanese exclusive partner Kobayashi Medical Devices (KMD) was the hallmark of the period under review. The

introduction of the cannulated screw and APS femoral joint plate system in spring and the sales launch of the Biorigid Nail Femur in the fourth quarter involved substantial efforts on both sides. The highly positive response to the presentation of the new BFS system opens up very fine sales prospects for the year ahead.

We expect further impetus for internal growth from the Chinese market. China, as the largest Asian threshold country, is in the throes of dynamic economic development. The simultaneous emergence of an affluent middle class has led to a swift and intensive modernization of the Chinese health system. After official approval was granted by the SDA in the fourth quarter of 2000 and the first Biorigid Nail and APS systems, *aap* in conjunction with P & T Technologies, its exclusive local sales partner, expects a high growth potential. P & T Technologies is represented in all industrial and commercial centers in the People's Republic by either branches of its own or sales partners.

Developments in the R&D sector will continue to be a further mainstay of internal growth, laying the groundwork for innovation at *aap*. Last financial year the Trauma Shoulder System (TSS) and Biorigid Femur System (BFS) were officially launched in the third quarter. So these product systems will only be reflected positively in sales figures this year. An extremely promising product that is about to be launched as a product is the Callus Distraction System, a leg-lengthening system for use in cases of bone defects or to offset differences in leg length, is an interesting market prospect in traumatology, orthopedics and limb extension osteotomy. Further interesting products in the development pipeline include a monocondylar knee-joint surface replacement. It is an innovative implant to replace cartilage and bone defects in the knee joint. Using minimally invasive techniques this implant cuts operating times, reduces the burden on the patient and shortens post-operative rest periods.

In the context of external corporate growth the continuation of existing talks on possible acquisitions is an important project. Acquisitions are primarily planned that will enable headway to be made in expanding national and international sales activities and consolidating or rounding off the product portfolio with innovative products, mainly in the endoprosthetics segment, the spinal column sector and the orthobiological products segment. The declared objective is to be able

to offer customers coordinated products from a single source as a „one-stop shop."

In addition to reaching plan targets, concluding at least one acquisition project in the endoprosthetics, spinal-column implant or bone cement sector is a further key objective in the current finanncial year. In this connection capital market measures are planned by way of capital increases to finance acquisitions and growth. *aap* also aims to expand business in the U.S., Japan, China and Europe to significant shares of revenue in each case. In these high-growth, high-margin countries *aap* will continue to work with exclusive sales partners. Our objective in cooperating with these partners will in part be to expand the product line sold by our partners and to bring about further-reaching alliances. Market launches of further new products, especially in the orthobiology sector, will reinforce *aap*'s above-average business development in the year ahead.

In the context of national and international activities *aap* is exposed to a large number of development trends that entail both opportunities and risks. They include national statutory requirements for approvals, securing and handling tenders outside Germany, global concentration processes, changes in the health sector and exchange-rate risks. The large number of different approval procedures handled by national authorities in different approval cycles clearly represent an uncertainty factor in medical technology. In individual instances the tightening-up of national statutory requirements in strategically relevant countries can cause delays in approval procedures. A result of the concentration process in recent years has been an orthopedic industry that has undergone significant changes. In general, tougher competition has led to intensive M&A activities by many companies. Their objective is, in particular, to enlarge their product portfolio so as to establish a market presence as a „one-stop shop." Market concentration processes have reduced the number of major market players to a small group of increasingly large big players. In view of destabilization of existing competitive and customer structures as a result of concentration processes, *aap* stands a chance of gaining access to new customers as a niche specialist with a high pace of innovation. In addition, there is the possibility of finding new cooperation partners by way of expert staff whose services are no longer required elsewhere. By virtue of the newness of orthobiology as a business field in which the major orthope-

dic groups have yet to establish themselves as market leaders, *aap* as an innovative company with relatively short times to market also stands an outstanding opportunity of securing significant market shares at an early juncture.

Health service reforms including countrywide lump-sum totals for hospitals or lump-sum payments for cases have led to general cost and rationalization pressure at clinics and hospitals. Hospitals are coordinating their activities more efficiently and joining forces to set up group purchasing organizations. In this connection *aap* is superbly positioned since we as a full service provider are able to offer hospitals and GPOs an almmost complete and coordinated product portfolio in an optimal supply structure. In osteosynthesis *aap* already offers all-inclusive solutions for modern trauma management. An extremely important step on the way to becoming an all-inclusive provider has undoubtedly been the acquisition of the Coripharm-Mebio Group. As a result of this acquisition *aap* can now supply, in addition to the metal implants that are the current „gold standard" in orthopedic and other sectors, biological implants or bone substitutes for supplementary use. In endoprosthetics too, the product portfolio has been decisively enlarged. In connection with joint implants, *aap* will in future be able to offer bone cements and the techniques that go with them.

Due to the internationalization of our business activities supply and payment flows occur that are subject to potential risks. Exchange-rate exposure has hitherto, where *aap* is concerned, been almost negligible as invoices have, as a matter of principle, been almost exclusively denominated in deutsche marks. As debtor safeguards use is mainly made of letters of credit, bank guarantees and prior cash pay-

ment. For foreign revenues in the years ahead further hedges are planned. The failure rate has in the past been well below 0.1% of sales.

aap is a company that has been profitable for years and combines convincing fundamental data and a business strategy with a global focus. In addition to continuous internal growth we are aiming for external growth via acquisitions. This business strategy has enabled us to extend our core competences – osteosynthesis and endoprosthetics – at an early stage to one of the most important markets of the future in orthopedics: orthobiology. Our company's long-term objective and ambitious vision is to become a market leader in the biomaterials sector. We are confident that we will be able to continue a strategy that has been successful so far and to achieve our ambitious objectives for the good of our shareholders, customers, staff and suppliers.

Berlin, March 1,2001

Uwe Ahrens
Board Chairman

Bruke Seyoum Alemu
Director

Joachim Staub
Director

ANNUAL FINANCIAL STATEMENT OF *aap* IMPLANTATE AG

AKTIVA	NOTE	▶ 1.1.– 31.12.00	▶ 1.1.– 31.12.99
		DM	DM 1,000
▶ A **Business expansion**			
expenses	**(3)**	**146,204.00**	**350**
▶ B **Fixed assets**			
I. Intangible assets			
1. Industrial property rights and			
similar rights and values		2,170,085.00	2,288
2. Goodwill		1,00	0
		2,170,086.00	**(2,288)**
II. Tangible assets			
1. Land and buildings		1,626,681.00	1,643
2. Technical plant and machinery		2,958,504.00	2,218
3. Other plant, office systems			
and outfitting		1,507,955.00	1,729
		6,093,140.00	**(5,590)**
III. Financial assets			
1. Shares in			
affiliated companies		3,204,355.46	
2. Lendings to			
affiliated companies		703,600.00	
3. Equity Investments	(14)	209,286.00	104
4. Other lendings		966,622.75	38
		5,083,864.21	**(142)**
▶ C **Current assets**			
I. Inventories			
1. Raw materials and supplies		2,847,060.41	1,858
2. work in process		2,806,851.75	2,340
3. Finished products and merchandise		12,237,099.80	9,994
		17,891,011.96	**(14,192)**
II. Receivables and			
other assets			
1. Trade receivables		2,377,570.29	1,156
2. Due from			
affiliated companies	(4)	5,134,964.44	3,540
3. Other assets	(4)	4,268,105.05	1,584
		11,780,639.78	**(6,280)**
III. Checks, cash in hand, Bundesbank,			
bank and girobank balances		166,283.73	8,200
▶ D **Prepaid and deferred income**	**(5)**	**342,121.16**	**347**
Total assets		**43,673,350.84**	**37,389**

PASSIVA	NOTE	▶ 1.1.- 31.12.00	▶ 1.1.- 31.12.99
		DM	DM 1,000
▶ A **Equity**	(6)		
I. Registrated capital		7,432,154.01	7,432
II. Capital reserve		18,328,062.27	18,193
III. Revenue reserve			
1. Statutory reserves		81,565.83	82
2. Other revenue reserves		428,110.83	428
		509,676.66	
IV. Loss carried forward		-1,088,886.00	0
V. Attributable loss		-356,652.96	-1,089
		24,824,353.98	**(25,046)**
▶ B **Contribution to increase**			
in share capital		**1,885,937.40**	**0**
▶ C **Special items for fixed**			
assets investment subsidies		**620,813.50**	**693**
▶ D **Provisions**			
1. Provisions for taxes		0.00	576
2. Other provisions	(7)	1,179,400.00	705
		1,179,400.00	**(1,281)**
▶ E **Liabilities**			
1. Liabilities to banks	(8)	3,433,102.69	2,843
2. Trade payables		3,308,612.19	4,075
3. Liabilities to associated companies		19,141.50	19
4. Other liabilities of		14,516	3,450
which arising from tax:			
DM 99,467.73 (previous year:DM 122.814,55)			
which arising from social security:			
DM 162,850.26 (previous year:DM 170,326.34)		8,401,989.58	3,432
		15,162,845.96	**(10,369)**
Total equity and liabilities		**43,673,350.84**	**37,389**

liabilities resulting from liability circumstances DM 1,673,833.00
of these liabilities DM 0.00 refer to affiliated companies

INCOME STATEMENT

	NOTE	▶ 1.1.- 31.12.00	▶ 1.1.- 31.12.99
		DM	DM 1,000
1. Sales revenues	(9)	14,741,663.12	12,746
2. Increase in stocks of finished products and work in process		2,709,716.44	3,807
3. Other capitalized own work		226,890.12	487
4. Other operating income		452,243.19	1,199
5. Materials expense			
a) Expenditures on raw materials and supplies and bought-in goods		-2,955,101.47	-3,756
b) Expenditure on bought-in services		-773,400.87	-903
		-3,728,502.34	(-4,659)
6. Personnel expenses	(10)		
a) Wages and salaries		-5,864,798.38	-5,162
b) Social security contributions, pension and welfare expenses		-1,050,502.65	-938
		-6,915,301.03	(-6,100)
7. Depreciation on tangible and intangible fixed assets and on capitalized business expansion expenses		-1,705,252.72	-1,550
8. Other operating expenses	(12)	-5,912,656.23	-4,948
9. Income from lending of financial assets		16,260.50	1

(continued)	NOTE	▶ 1.1.– 31.12.00	▶ 1.1.– 31.12.99
		DM	DM 1,000
10. Other interest and similar income			
- of which from affiliated companies:			
DM 55,384.52 (previous year: 25,021.67 DM)		151,911.92	228
11. Depreciations on financial assets and			
stocks and shares of current assets		-104,000.00	
12. Other interest and			
similar expenses		-399,009.17	-448
13.Profit/loss from ordinary			
operations		**-466,036.20**	**763**
14. Extraordinary expense	(11)	0	-2,777
15.Net extraordinary income/expense		**0**	**-2,777**
16. Taxes on income		145,900.34	936
17. Other taxes		-36,517.10	-11
18. Net loss for the year		-356,652.96	-1,089
19. Loss carried forward		-1,088,886.00	509
20.Allocation to revenue reserves			
a) to statutory reserve		0	0
b) to other revenue reserves		0	-509
		0	(-509)
21.Attributable loss		**-1,445,538.96**	**-1,089**

NOTES ON THE ANNUAL FINANCIAL STATEMENT

Notes on the annual financial statements

(1) General remarks

The annual financial statement as of December 31, 2000, was drawn up in accordance with the regulations of the German commercial code (Handelsgesetzbuch, HGB).

The general provisions of §§ 238-263 that apply to all businessmen and the supplementary provisions for incorporated companies (§§ 264 ff) were observed.

The profit and loss account was drawn up on the basis of the total cost style of presentation.

The balance sheet and profit and loss account outlines complied with §§ 266 and 275 HGB.

The company was incorporated by modifying conversion on January 1, 1997 of *aap* Ahrens, Ahrens & Partner GmbH & Co. Betriebs KG, taking over the valuations and amounts stated as of December 31, 1996. The capital stock took the form of undisclosed reserves that could not be disclosed because no private-law transfer of assets took place. The monetary difference resulting from the modifying conversion and consisting of the KG partners' loss accounts being offset against the contributions made by shareholders as part of the conversion was carried over as a loss and itself offset against annual profits.

(2) Balance sheet and valuation methods

The balance sheet aid created in previous years in accordance with § 269 HGB is written off in keeping with § 282 HGB by one quarter in each of the subsequent financial years.

Intangible assets purchased for cash are stated at the cost of purchase and depreciated according to plan.
Tangible fixed assets are valued at the cost of purchase or manufacture and, insofar as they are depreciable, are valued with due regard being paid to scheduled depreciations.

Capitalized services rendered for own account were valued at the cost of manufacture, the cost corresponding to the valuation of finished products.

Non-real-estate fixed assets are depreciated in a straight line over the shortest period permitted for tax purposes, with first-half accruals being depreciated at the full annual rate and assets acquired in the second half being depreciated at half the annual rate. Fixed assets costing less than DM 800 are written off in full in the year of acquisition in accordance with § 6, Par. 2 of German Income Tax Law (EStG).
Retirements are undertaken at the cost of acquisition less accumulated depreciation at the time of retirement.

Shareholdings in associated companies and participations are stated at cost of acquisition or at any lesser value that might be applicable.
Loans on which interest is paid are reported at their nominal value.

Inventories are valued at either the cost of acquisition or manufacture or their value on the balance sheet date.

Raw materials and supplies are valued at the cost of purchase in strict accordance with the lowest value principle (§ 253 Par. 3 HGB).

Unfinished and finished products and unfinished services are valued at cost of manufacture. This includes individual costs that must be capitalized in accordance with § 255 Par. 2 S. 2 HGB and an appropriate share of material and manufacturing overheads as per § 255 Par. 2 S. 3 HGB and of the fixed-asset depreciation insofar as that is due to manufacture. General administrative costs are included in manufacturing costs in accordance with § 255 Par. 2 S. 4 HGB.
Interest paid on capital from outside sources is not taken into account. In keeping with the lowest-value principle of § 253 Par. 3 HGB, reductions were made in view of limited usability.

Accounts receivable and other assets are stated at their nominal value or at their lower reporting-date value as per § 253 Par. 3 S. 2 HGB. A flat-rate deduction amounting to 3% of accounts receivable for which individual adjustments have not been made is undertaken to cover the general credit risk.

Investment allowances are carried as liabilities under the heading special item for investment allowances. They are written off, with the resulting effect on earnings, in a straight line in accordance with the useful economic life of the assets thereby acquired.

Stock options granted to employees and management are reported in accordance with the position paper of the German Standardization Council (DSR) as personnel expenditure on the one hand and as a contribution toward capital reserves as per § 272 Par. 2. No. 2 HGB on the other.
Transfer to capital reserves is undertaken over the two-year lock-up period agreed. Stock options were valued at the time of issue on the basis of the Black-Scholes option price model.

In creating reserves, due regard was paid to recognizable risks and reported liabilities. They are assessed at a level based on a sensible commercial judgement.

Liabilities are stated as the sum that is due to be repaid.
Liabilities in foreign currency were converted either at the repayment rate at the time when the liability was incurred or at the selling rate on the balance sheet date, should that be higher.

Notes on the balance sheet and profit and loss account

(3) Expenditure on expansion of business activity and fixed assets

For developments in capitalized expenditure on expanding business activity and fixed assets in fiscal 2000, cf fixed-asset movement schedule enclosed as Annex A 3..

(4) Financial assets

The shares in Coripharm GmbH & Co. KG, Coripharm Medizinprodukte-Verwaltungs-GmbH, Corimed Kundenorientierte Medizinprodukte GmbH, OSARTIS GmbH & Co. KG and OSARTIS Verwaltungs-GmbH acquired on October 1, 2000 were reported at the nominal value of the individual *aap* Implantate AG share certificates issued to the contributors plus the cash payment made. Acquisition costs were reduced by a purchase price reduction entitlement resulting from breach of warranty.

(5) Current assets

Other assets include a claim arising from breach of warranty against the contributors of the shareholdings in Coripharm GmbH & Co. KG, Coripharm Medizinprodukte-Verwaltungs-GmbH and Corimed Kundenorientierte Medizinprodukte GmbH totaling DM 4,015,995.94.

Accounts receivable and other assets include the following loans not due for more than a year:

	DM
Loan *aap* Implants Inc.	1,495,882.39
Loan to Mr. Siewert	14,600.00
Loan to Mr. Gottwald	16,790.00
Claims for branch of warranty	3,015,995.94

(6) Accruals and deferrals

Discounts totaling DM 19,770.55 are listed.

(7) Equity capital

The company's equity capital on December 31, 2000 amounted to €3,800,000.00, consisting of 3,800,000 individual bearer share certificates.
The general meeting of shareholders held on June 30, 2000 agreed to a conditional increase in equity capital of up to €380,000,00 by the issue of up to 380,000 individual bearer share certificates. The new shares will be entitled to profits from the beginning of the financial year in which they are issued.
The conditional capital increase will serve the sole purpose of issuing stock options to employees and management of the company or an associated company.
On December 1, 2000 a total of 252,149 stock options were issued to employees and management of *aap* Implantate AG.

The management board is authorized, with the approval of the supervisory board, to increase the company's equity capital on one or several occasions by up to €1,900,000.00 in cash or kind and to issue shares on such terms as it may see fit.

It may rule out a rights issue to existing shareholders:

a) to offset residual amounts,
b) to issue employee shares to company staff,
c) to acquire holdings in companies or companies or parts of companies in return for shares in *aap* Implantate AG,
d) if a capital increase in cash does not exceed 10% of equity capital and the issue price of the shares is not substantially lower than the market price.

The management board decided on November 7, 2000, as approved by the supervisory board on November 7, 2000, to increase the company's approved equity capital by € 964,265.00 to € 4,764,265.00 by issuing 964,265 individual non-par bearer shares against payment in kind, this being 100% of the shares in Corimed Kundenorientierte Medizinprodukte GmbH, 100% of the shares in Coripharm Medizinprodukte-Verwaltungs-GmbH, 100% of the shares in Coripharm Medizinprodukte GmbH & Co. KG, 49% of the shares in OSARTIS Verwaltungs-GmbH and 49% of the shares in OSARTIS GmbH & Co. KG.

At the end of the financial year the statutory reserve was to DM 81,565.83 and, jointly with the capital reserve, amounted to more than one tenth of the equity capital.

Development of equity capital as per December 31, 2000 was as follows:

	▶ Status 1.1.2000	Tranfer as per § 272 Par. 2 No. 2	Loss on year	▶ Status 31.12.2000
	DM	DM	DM	DM
I. Paid-up capital	7,432,154.01	0	0	7,432,154.01
II Capital reserves	18,192,747.00	135,315.27	0	18,328,062.27
III. Revenue reserves				
1. Statuary reserves	81,565.83	0	0	81,565.83
2. Other revenue reserves	428,110.83			
IV. Balance-sheet profit	-1,088,886.00	0	-356,652,96	-1,445,538,96
	25,045,691.67	135,315.27	-356,652,96	24,824,353.98

(8) Provisions

Other provisions developed as followed in the course of the financial year:

	▶ Status 01.01.2000	Consumption	Retransfer	Transfer	▶ Status 31.12.2000
	DM	DM	DM	DM	DM
Commitments towards staff	263,000.00	263,000.00	0.00	376,900.00	376,900.00
Bonuses and commision					
payments outstanding	240,000.00	157,166.95	82,833.05	199,000.00	199,000.00
Invoices outstanding	100,000.00	99,975.27	24.73	476,000.00	476,000.00
Cost od annual financial					
statement and audit	75,000.00	75,000.00	0.00	120,000.00	120,000.00
Supervisory board remuneration	11,000.00	11,000.00	0.00	0.00	0.00
Legal costs and risks	8,000.00	0.00	8,000.00	0.00	0.00
Minimum remuneration					
of dormant partners	7,500.00	7,500.00	0.00	7,500.00	7,500.00
	704,500.00	613,642.22	90,857.78	1,179,400.00	1,179,400.00

(9) Liabilities

Times to maturity of liabilities, arranged by balance-sheet item, will be seen from Annex A.4.2 (schedule of liabilities).

(10) Sales revenues

Sales revenues, broken down by region, were as follows:

	▶ 2000	▶ 1999
	DM1,000	DM 1,000
Germany	8,643	8,077
Other EU countries	879	736
Other foreign countries	5,508	4,198
Sales deducation	./. 288	./. 264
	14,742	12,747

(11) Breakdown of employees by category:

	2000	1999
Average number of staff employed:	100	92
thereof		
wage-earners	61	58
sales-earners	39	34
	100	92
full-time	87	66
part-time	10	12
temporary	3	14
	100	92

(12) Expenses unrelated to the accounting period

In fiscal 2000, expenses unrelated to the accounting period totaling DM224,000 were incurred (breakdown as follows):

	DM 1,000
Consulting fees	49
Commission	35
Insurance and other contributions	73
Travel expenses	6
Miscellaneous	61
	224

Other information

(13) Participations

I. Affiliated companies (§ 271 Par. 2 HGB)

Name	Domicile	Shareholding	Equity capital	Result
		%		DM 1,000
1. *aap* Implants Inc.	Massachusetts, U.S.	80	0	./. 1,009
2. Corimed Kundenorientierte Medizinprodukte GmbH Dieburg	Germany	100	29	./. 92
3. Coripharm Medizinprodukte Verwaltungs-GmbH Dieburg	Germany	100	51	1
4. Coripharm Medizinprodukte GmbH & Co. KG Dieburg	Germany	100	180	./. 4,650
5. Mebio med. Biomaterial Vertriebs GmbH Dieburg	Germany	100	21	15

II. Associated companies

Name	Domicile	Shareholding	Equity capital	Result
		%		DM 1,000
6. OSARTIS Verwaltungs GmbH Aschaffenburg	Germany	49	49	2
7. OSARTIS GmbH & Co. KG Aschaffenburg	Germany	49	147	./. 1,203

III. Shareholdings

Name	Domicile	Shareholding	Equity capital	Result
		%		DM 1,000
8. Cybernetic Vision AG Health Monitoring Technologies	Berlin, Germany	11	978	./. 2,338
	(30.09.2000)	(5,69)	(1,828)	

Insolvency proceedings against this company's assets were inaugurated on December 1, 2000.

(14) Guaranty commitments

By the terms of the November 7, 2000 agreement relating to the contribution of capital, *aap* Implantate AG undertook to replace by March 31, 2001 the guaranty commitments to third parties made by the shareholders in the companies acquired in respect of liabilities incurred by the said companies totaling DM 1,674 thousands.

(15) Other financial commitments

Other financial commitments as per § 285 No. 3 HGB arise from rental agreements. They total DM 3,554 thousands, of which DM 711 thousands is due within one year and the remaining DM 2,843 thousands is due within two to six years.

(16) Management board and supervisory board

Members of the company's management board in the year under review were:

- **Mr. Uwe Ahrens**, Dipl.-Ing., Berlin,
- **Mr. Bruke Seyoum Alemu**, Dipl.-Ing, Berlin,
- **Mr. Joachim Staub**, Dipl-Ing., Berlin.

Their combined remuneration totaled DM 634,415.64.

Members of the management board hold the following supervisory board directorships:

Mr. Uwe Ahrens
bmp Mobility AG Venture Capital, Berlin - chair
bmp Life Science AG, Berlin - chair
bmp AG Venture Capital & Network Management, Berlin

Members of the company's supervisory board in the year under review were:

- **Mr. Lothar Just**, tax accountant and auditor, Berlin (chairman)
- **Mr. Klaus Kosakowski**, Dipl. Volkswirt, Berlin (vice-chairman)
- **Mr. Roger Bendisch**, Diplom-Kaufmann, Berlin
- **Mr. Dieter Borrmann**, Dipl. Ingenieur, Berlin
- **Mr. Prof. Dr. Dr. h.c. Horst Cotta**, Heidelberg
- **Mr. Dr. Heinz Helge Schauwecker**, hospital director and university lecturer, Berlin

In the year under review members of the supervisory board received remuneration totaling DM 58,000.

Members of the supervisory board hold the following supervisory board directorships in addition to their *aap* Implantate AG directorships:

Mr. Lothar Just:
Cybernetic Vision AG, Berlin
- vice-chairman
(until January 12, 2001)

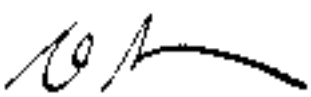
Mr. Klaus Kosakowski:
Cybernetic Vision AG, Berlin
(until January 15, 2001)

Mr. Roger Bendisch:
echtzeit AG, Berlin
- vice-chairman
OPIX AG, Berlin
- vice-chairman
Orametrix Inc., Dallas (USA)
- board Member

Mr. Dieter Borrmann:
bmp AG, Berlin
- vice-chairman
(until August 3, 2000)
bmp eBusiness AG, Berlin
(until May 17, 2000)
bmp Life Science AG, Berlin
(until May 17, 2000)

Berlin, March 16, 2001

Management Board



Uwe Ahrens

Bruke Seyoum Alemu

Joachim Staub

Just & Coll. GbR
Wirtschaftsprüfer & Steuerberater

STATEMENT OF FIXED-ASSET MOVEMENTS

	HISTORICAL ACQUISITION COSTS		
	POSITION AT ▶ 1.1.2000	ADDITIONS	DISPOSALS
	DM	DM	DM
Expenses for the upholding and extension of daily business	**1,249,941.84**	**0.00**	**0.00**
Fixed assets			
I. Intangible assets			
1) Industrial property rights and similar rights and values	2,566,954.56	837.47	0.00
2) Goodwill	100,000.00	0.00	0.00
	2,666,954.56	**837.47**	**0.00**
II. Tangible assets			
1) Land and buildings	1,689,264.00	0.00	0.00
2) Technical plant and machinery	7,129,581.97	1,498,873.73	0.00
3) Other plant, office systems and outfitting	3,017,088.74	388,453.51	33,610.13
	11,835,934.71	**1,887,327.24**	**33,610.13**
III. Financial assets			
1) Shares in affiliated companies	0.00	3,204,355.46	0.00
2) Lendings to affiliated companies	0.00	703,600.00	0.00
3) Stake in other companies	104,000.00	209,286.00	0.00
4) Other lendings	38,078.91	928,543.84	0.00
	142,078.91	**5,045,785.30**	**0.00**
Sum	**15,894,910.02**	**6,933,950.01**	**33,610.13**

			CUMULATIVE DEPRECIATION			BOOK VALUES
POSITION AT ▶ 31.12.2000	POSITION AT ▶ 1.1.2000	DEPRECIATION IN CURRENT YEAR	DISPOSALS	POSITION AT ▶ 31.12.2000	POSITION AT ▶ 31.12.2000	POSITION AT ▶ 31.12.1999
DM	DM	DM	DM	DM	DM	DM
1,249,941.84	**900,325.84**	**203,412.00**	**0.00**	**1,103,737.84**	**146,204,00**	**349,616,00**
2,567,792.03	278,850.56	118,856.47	0.00	397,707.03	2,170,085.00	2,288,104.00
100,000.00	99,999.00	0.00	0.00	99,999.00	1.00	1.00
2,667,792.03	**378,849.56**	**118,856.47**	**0.00**	**497,706.03**	**2,170,086.00**	**2,288,105.00**
1,689,264.00	46,690.00	15,893.00	0.00	62,583.00	1,626,681.00	1,642,574.00
8,628,455.70	4,911,325.97	758,625.73	0.00	5,669,951.70	2,958,504.00	2,218,256.00
3,371,932.12	1,287,862.74	608,465.51	32,351.13	1,863,977.12	1,507,955.00	1,729,226.00
13,689,651.82	**6,245,878.71**	**1,382,984.24**	**32,351.13**	**7,596,511.82**	**6,093,140.00**	**5,590,056.00**
3,204,355.46	0.00	0.00	0.00	0.00	3,204,355.46	0.00
703,600.00	0.00	0.00	0.00	0.00	703,600.00	0.00
313,286.00	0.00	104,000.00	0.00	104,000.00	209,286.00	104,000.00
966,622.75	0.00	0.00	0.00	0.00	966,622.75	38,078.91
5,187,864.21	**0.00**	**104,000.00**	**0.00**	**104,000.00**	**5,083,864.21**	**142,078.91**
22,795,249.90	**7,525,054.11**	**1,809,252.71**	**32,351.13**	**9,301,955.69**	**13,493,294.21**	**8,369,855.91**

DEVELOPMENT OF EQUITY CAPITAL

I. Subscribed Capital	
II. Capital reserves	
III. Earning reserves	
1. Legal reserves	
2. Other earning reserves	
IV. Retained earnings	

SCHEDULE OF LIABILITIES

	Position at 31.12.2000
	DM 1,000
Liabilities to banks	3,433,102.69
Trade payables	3,308,612.19
Liabilities to associated companies	19,141.50
Other liabilities	8,401,989.58
In relation to taxation	(99,467.73)
In relation to social security	(162,850.26)
	15,162,845.96

Amounts owed to credit institutions totaling DM 2,300,000 are secured by charges against various machinery and by assignments of claims.

Additions according to § 272 Clause 2, Item 2 HGB			
Status 01.01.2000			
DM	DM	DM	DM
7,432,154.01	135,315.27	0	7,432,154.01
18,192,747.00	0	0	18,328,062.27
81,565.83	0	0	81,565.83
428,110.83	0	0	428,110.83
-1,088,886.00	0	-356,652.96	-1,445,538.96
25,045,691.67	135,315.27	-356,652.96	24,824,353.98
		Consolidated attributable loss	
			Status 21.12.2000

up to one year			
DM	DM	DM	DM 1,000
1,389,102.21	1,430,798.30	613,239.18	2,843
3,308,612.19	0	0	4,075
19,141.50	0	0	19
5,919,119.00	1,982,870.58	500,000.00	3,432
(99,467.73)	(0)	(0)	(123)
(162,850.26)	(0)	(0)	(170)
10,635,937.90	3,413,668.88	1,113,239.18	10,369
	Repayable in 1-5 years		
		Repayable in in more than 5 years	
			Previous year

AUDITOR'S CERTIFICATION

▶ We have audited the financial statement drawn up by aap Implantate AG, including the accounts and situation report, for the fiscal year January 1 to December 31, 2000. Drawing up the accounts and the financial statement and situation report in accordance with German commercial regulations is the responsibility of the company's legal representatives. Our task is to assess the financial statement, including the accounts and the situation report, on the basis of our audit.

We carried out our annual audit in accordance with § 317 of the German Commercial Code (HGB), observing the principles of proper auditing laid down by the Institute of Auditors in Germany (IDW). These stipulate that the audit is to be planned and executed in such a way that inaccuracies and infringements which exercise a fundamental effect on the portrayal of the picture of the asset, finance and earnings situation by the annual financial statement, with due regard for the principles of proper accounting, and by the situation report can be recognized with sufficient certainty.

In determining the auditing activities, knowledge of the company's business activities and of its economic and legal environment,

and expectations of potential errors are taken into account. As part of the audit, the efficacy of internal control systems and the evidence of the values stated and information given in the accounts, the annual financial statement and the situation report are assessed mainly on the basis of random checks.

The audit includes an evaluation of the accounting principles employed and the fundamental assessments undertaken by the company's legal representatives, and forming an opinion on the overall picture presented by the corporate financial statement and the situation report. We are of the opinion that our audit forms a sufficiently sound basis for our judgment.

Our audit revealed no cause for objection.It is our conviction that the annual financial statement, with due regard for the principles of proper bookkeeping, conveys a true and accurate picture of the company's asset, finance and earnings situation. The situation report conveys overall an accurate picture of the company's situation and accurately describes the risks of future development.

Berlin March 19, 2001

Dr. Röver & Partner KG

Auditors

Tax Advisors

Helmut Schuhmann

Auditor

DVFA/SG RESULTS ACCORDING TO IAS

	▶ 1.1.- 31.12.00	▶ 1.1.- 31.12.99
	DM 1,000	DM 1,000
1. Net income / Net loss	855	-1,011
2. Adjustment according to DVFA/SG	143	1,388
3. group income accordings to DVFA/SG	**998**	**377**
4. Minority interests	202	76
5. Group income according to DVFA/SG for the shareholders of the *aap* Implantate AG	**1,200**	**453**
	DM	DM
DVFA/SG Income per share for the shareholders of the *aap* Implantate AG*	0.30	0.12

The adjustments according to DVFA/SG in the current year refer to the costs for a secondary offering, which was planned, taking into consideration its effects on taxation. In the previous year adjustments refered to the costs, resulting from the IPO.

* refer to the adjusted sum of 4,041,066 shares in 2000

DVFA/SG CASH EARNINGS ACCORDING TO IAS

	▶ 1.1.- 31.12.00	▶ 1.1.- 31.12.99
	DM 1,000	DM 1,000
1. Net income / Net loss	855	-1,011
2. Deprecation on fixed assets	2,379	1,156
3. Decrease in special reserves		
with an equity portion	-72	171
4. Adjustment according to DVFA/SG	143	1,388
5. Cash Earnings of the group		
according to DVFA/SG	3,305	1,704
6. Minority interests	202	76
7. Cash Earnings according to DVFA/SG for		
the shareholders of the *aap* Implantate AG	**3,507**	**1,780**
	DM	DM
Cash Earnings per share according to DVFA/SG		
for the shareholders of the *aap* Implantate AG*	0.87	0.47

The adjustments according to DVFA/SG in the current year refer to the costs for a secondary offering, which was planned, taking into consideration its effects on taxation. In the previous year adjustments refered to the costs, resulting from the IPO.

* refer to the adjusted sum of 4,041,066 shares in 2000

REPORT OF THE SUPERVISORY BOARD

▶ The Supervisory Board performed in the past financial year the statutory duties and tasks entrusted to it in the Articles of Association, monitoring the conduct of business by the company's Board of Directors, and advising the board. At six Supervisory Board meetings and by means of written reports and decision-making documents prepared by the Board of Directors, the Supervisory Board has constantly maintained a full watching brief on the situation and business development of the Group, on corporate planning, including financial, investment and personnel planning, and on other significant individual business transactions and measures. The Supervisory Board discussed these reports and documents with the Board of Directors and arrived at the decisions it is required to reach both by law and by the terms of the company's Articles of Association.

Other than at meetings of the Supervisory Board, its chairman has been briefed by the chairman of the Board of Directors and the financial director and has discussed important company and Group issues in one-to-one talks.

Topics discussed in the Supervisory Board's deliberations were, in particular, the acquisition of holdings in the Mebio-Coripharm group of companies by means of an increase in non-cash capital and issues arising therefrom. Opportunities and risks these companies involved were discussed in details, as were the group's strategic alignment and the proposed integration measures.

At all Supervisory Board meetings the company's activities in respect of corporate cooperation, mergers and acquisition were discussed at length.

Keynotes of discussions by the Supervisory Board also included the strategic alignment of U.S. business and the sales cooperation already agreed. Fundamental importance was attached in these discussions to the group's marketing and sales concept, partly in view of acquisitions.

Further subjects discussed at Supervisory Board meetings were the stock option program for staff, which was approved after detailed debate, and further corporate planning, especially earnings and financial planning.

Dr. Röver & Partner KG, auditors and tax accountants, Berlin, audited the financial statement and corporate situation report for fiscal 2000 drawn up by the Management Board and the situation report. They also audited the consolidated financial statement with exempting effect as per § 292 a HGB and the consolidated situation report, and gave them all their unqualified certification. The annual financial statement and situation report, the consolidated financial statement and consolidated situation report and the auditor's reports were all presented to the Supervisory Board in good time for deliberation. The auditor took part in the Supervisory Board's discussion of the statements and reports presented. He outlined the fundamental findings of the audit and was available to answer queries. The Supervisory Board approved the findings of the auditor's report.

The Supervisory Board checked the financial statement and corporate situation report drawn up by the Board of Management and the consolidated financial statement and consolidated situation report. The final result of its review did not lead to any objections being raised. The Supervisory Board approved the financial statement for the year ending December 31, 2000, which is thus final.

The Supervisory Board would like to thank the management and all members of staff for their greater personal input and the work done.

Berlin, March 23, 2001

The Supervisory Board

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