

# Geratherm<sup>®</sup>

Medical Diagnostic Systems



**1<sup>st</sup> Quarter 2006**  
Interim Report

## Business Development from 1<sup>st</sup> January to 31<sup>st</sup> March 2006

- Turnover + 5%
- EAT + 53%
- FDA approval for warming systems

### **Dear shareholders and those interested in Geratherm Medical,**

Geratherm Medical AG has made a good start to the year 2006. Developments in the first quarter largely matched our expectations. Turnover at the company increased by 5.2% during the first quarter of 2006. The growth in turnover was particularly strong in the new markets of Brazil and the Middle East. Business in Germany was somewhat lower with a drop of 7%. Sales within Europe were satisfactory and showed growth of 11%. There was a temporary drop in turnover on the US market of 24% due to the postponement of an order by our American partner. The fall in turnover on the US market will be balanced out again in the second quarter.

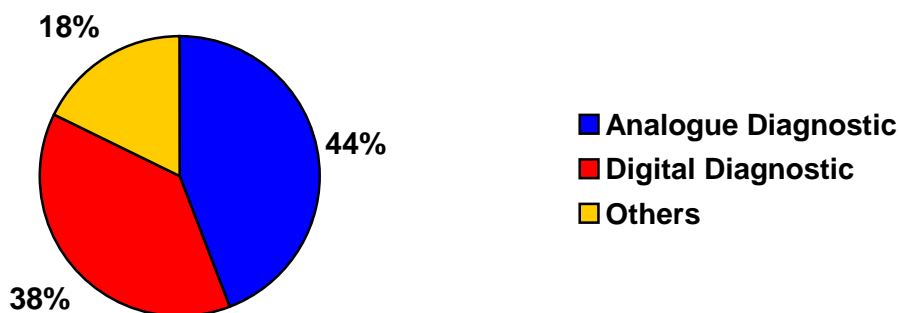
Earnings in the first quarter of 2006 are significantly higher than levels in the previous year. Although expenditure by our subsidiary company “apoplex medical technologies GmbH” still reduced the quality of earnings (minus € 27,000) for the whole group in the first quarter, the expenditure caused by approval procedures, which we had in the warming systems sector last year, no longer occurred with the result that the company has been able to more than double its operating results (EBIT) at € 205,000 (previous year: € 98,000) with a relatively stable core business.

The reported financial results amounted to € 31,000 (€ 42,000 in the previous year). Because of the positive stock market situation, the non-realised financial income of € 761,000 was valued much higher and this was not accounted for in the profit and loss accounts, but in the equity capital – in the so-called market assessment reserves. The results of ordinary business activities increased overall by 69% to € 236,000 (€ 140,000 in the previous year). The company periodic results (EAT) increased by 53% to € 230,000 (€ 151,000 in the previous year). The operating profits increased to 5 cents per share (3 cents in the previous year).

Equity capital amounting to € 18.1 million accounts for 93% of the balance sheet total or € 4 per share. The return on capital used amounted to 5.1% (3.6% in the previous year) in the first quarter of 2006. As at 31<sup>st</sup> March the company's liquid assets and securities amounted to € 10.3 million (€ 8.0 million in the previous year). The liquid assets amounting to € 6.0 million are invested at banks at normal commercial interest rates.

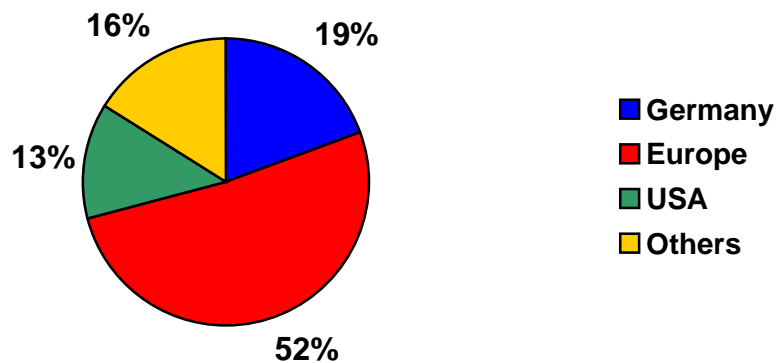
The main contributors to turnover at 44.3% (49.5% in the previous year) were once again analogue diagnostic products based on gallium. Because of the weaker sales of these products in the USA and the increase in digital products, the share in absolute terms was reduced by a total of 5.9%. The digital diagnostics sector was able to continue previous growth and it showed an increase in turnover of 9% in the first quarter.

#### Turnover by segments 01.01.-31.03.2006



The share of turnover in the other products sector improved significantly with an increase of 35%. This growth was achieved by a doubling of sales in the warming systems sector. Based on current requests for proposals, we assume that the warming systems sector will develop positively in the course of 2006. Our subsidiary company "apoplex medical technologies GmbH" was not able to account for any noteworthy turnover for the overall results. But we assume that this company will experience a significant upturn in business during the next few months.

#### Turnover by regions 01.01.-31.03.2006



81% of the turnover of € 2.2 million achieved in the first quarter of 2006 came from exports. It was possible to compensate for the fairly weak domestic demand by a significant increase in business abroad. Apart from individual postponements in placing orders, the distribution of turnover in the individual regions remained largely unchanged. Turnover by the Geratherm do Brasil subsidiary increased to € 132,000 in the first quarter of 2006 (€ 41,000 in the previous year).

**Data and facts**  
(kEUR)

|           | I/06   | IV/05 | III/05 | II/05  | I/05  |
|-----------|--------|-------|--------|--------|-------|
| Turnover  | 2,182  | 2,062 | 2,088  | 1,968  | 2,073 |
| EBITDA    | 12.8 % | 6.6 % | 17.3 % | 15.1 % | 9.2 % |
| EBIT      | 205    | 46    | 268    | 205    | 98    |
| EPS (EUR) | 0.05   | 0.07  | 0.15   | 0.08   | 0.03  |
| Cashflow  | 262    | 158   | 338    | 273    | 161   |

We have been carrying out many tests in the warming systems sector in conjunction with our American partner since the beginning of last year and have been preparing the groundwork for approval procedures. Geratherm Medical received approval for the SOS Rescue Blanket warming system product from the FDA for the US market on 24<sup>th</sup> February 2006. The tests for approval in airborne rescue systems in the USA are still being prepared.

Our research and development work connected with the “stroke monitor” has provided positive results. After the research documents had been submitted and checked, the stroke risk analysis system (SRA IV) developed by “apoplex medical technologies GmbH” was presented to visitors to the EUROPREVENT 2006 in Athens. EUROPREVENT 2006 is the first European congress on prevention, organised by the European Society of Cardiology.

We look forward to welcoming our shareholders to this year’s annual meeting on 12<sup>th</sup> June 2006 at 2 p.m. in the “Hessischer Hof” hotel in Frankfurt. We will be happy to answer any questions that you may have on this occasion.

Geschwenda, May 2006



Dr. Gert Frank  
Chairman of the Board



Thomas Robst  
Director of Sales & Marketing

## GERATHERM

## AT A GLANCE

| Group financial ratio                        | Jan.-March 2006 | Jan.-March 2005 | Change  |
|----------------------------------------------|-----------------|-----------------|---------|
| <b>Sales</b>                                 | 2,182 kEUR      | 2,073 kEUR      | 5.2%    |
| Export share                                 | 1,758 kEUR      | 1,617 kEUR      | 8.7%    |
| Export ratio                                 | 81 %            | 78 %            | 3.8%    |
| EBITDA                                       | 280 kEUR        | 190 kEUR        | 47.7%   |
| <b>EBITDA - Margin</b>                       | 12.8 %          | 9.2 %           | 39.1%   |
| Depreciation                                 | -75 kEUR        | -92 kEUR        | -18.5%  |
| <b>EBIT</b>                                  | 205 kEUR        | 98 kEUR         | >100.0% |
| Result of ordinary operation                 | 236 kEUR        | 140 kEUR        | 68.9%   |
| <b>Group period result (EAT)</b>             | 230 kEUR        | 151 kEUR        | 53.0%   |
| Long term assets                             | 5,230 kEUR      | 6,709 kEUR      | -22.0%  |
| Short term assets                            | 14,299 kEUR     | 12,550 kEUR     | 13.9%   |
| Total Assets                                 | 19,529 kEUR     | 19,259 kEUR     | 1.4%    |
| Shareholders equity                          | 18,104 kEUR     | 17,009 kEUR     | 6.4%    |
| Return on equity                             | 5.1 %           | 3.6 %           | 43.1%   |
| Equity ratio                                 | 92.7 %          | 88.3 %          | 5.0%    |
| Liquid funds and securities                  | 10,278 kEUR     | 8,024 kEUR      | 28.1%   |
| <b>Earnings per share according to IFRS*</b> | 0.05 EUR        | 0.03 EUR        | 66.7%   |
| Earnings per Share according to DVFA*        | 0.05 EUR        | 0.03 EUR        | 66.7%   |
| Number of employees at end of the period     | 69              | 70              | -1.4%   |
| Total amount of issued share                 | 4,500,000       | 4,500,000       |         |
| * there of out standing                      | 4,500,000       | 4,500,000       |         |

## Consolidated profit and loss statement of 1 January 2006 to 31 March 2006

|                                                          | Jan.-March<br>2006<br>EUR | Jan.-March<br>2005<br>EUR | Change            |
|----------------------------------------------------------|---------------------------|---------------------------|-------------------|
| Sales                                                    | 2,181,526                 | 2,072,950                 | 5.2%              |
| Increase/decrease of finished goods and work in progress | 16,317                    | -42,989                   | >100.0%           |
| Other capitalized company work                           | 27,770                    | 0                         | 100.0%            |
| Other operating income                                   | 37,626                    | 91,794                    | -59.0%            |
|                                                          | 2,263,239                 | 2,121,755                 | 6.7%              |
| Materials                                                |                           |                           |                   |
| Raw materials, supplies and<br>purchased goods           | -997,588                  | -972,476                  | 2.6%              |
| Expenses for services                                    | -45,083                   | -36,069                   | 25.0%             |
|                                                          | -1,042,671                | -1,008,545                | 3.4%              |
| <b>Gross profit</b>                                      | <b>1,220,568</b>          | <b>1,113,210</b>          | <b>9.6%</b>       |
| Personnel costs                                          |                           |                           |                   |
| Wages and salaries                                       | -421,230                  | -436,918                  | -3.6%             |
| Social security and pension costs                        | -95,637                   | -93,591                   | 2.2%              |
|                                                          | -516,867                  | -530,509                  | -2.6%             |
| Depreciation on tangible and intangible assets           | -74,845                   | -91,815                   | -18.5%            |
| Other operating expenses                                 | -423,747                  | -393,218                  | 7.8%              |
|                                                          |                           |                           |                   |
| <b>Operating result</b>                                  | <b>205,109</b>            | <b>97,668</b>             | <b>&gt;100.0%</b> |
| Income from accrued dividend                             | 3,605                     | 0                         | 100.0%            |
| Other interest and similar income                        | 34,732                    | 34,136                    | 1.7%              |
| Income from securities trading                           | 28,500                    | 18,042                    | 58.0%             |
| Interest and other expenses                              | -478                      | -9,869                    | -95.2%            |
| Loss from securities trading                             | -35,069                   | 0                         | 100.0%            |
|                                                          |                           |                           |                   |
| <b>Financial result</b>                                  | <b>31,290</b>             | <b>42,309</b>             | <b>-26.0%</b>     |
|                                                          |                           |                           |                   |
| <b>Result of ordinary operation</b>                      | <b>236,399</b>            | <b>139,977</b>            | <b>68.9%</b>      |
| Income Taxes                                             | -17,235                   | -10,784                   | 59.8%             |
|                                                          |                           |                           |                   |
| <b>Result of ordinary operation</b>                      | <b>219,164</b>            | <b>129,193</b>            | <b>69.6%</b>      |
| Minority interests                                       | -11,073                   | -21,307                   | -48.0%            |
|                                                          |                           |                           |                   |
| <b>Group period result</b>                               | <b>230,237</b>            | <b>150,500</b>            | <b>53.0%</b>      |
| <b>EBITDA</b>                                            | 279,954                   | 189,483                   | 47.7%             |
| <b>Result per share basic</b>                            | 0.05                      | 0.03                      | 66.7%             |

**Consolidated balance sheet 31 March 2006**

| Assets                                           | 31. March 2006<br>EUR | 31. December 2005<br>EUR | Change       |
|--------------------------------------------------|-----------------------|--------------------------|--------------|
| <b>A. Long term assets</b>                       |                       |                          |              |
| <b>I. Intangible assets</b>                      |                       |                          |              |
| 1. Development costs                             | 377,789               | 369,128                  | 2.3%         |
| 2. Other intangible assets                       | 20,012                | 22,769                   | -12.1%       |
| 3. Goodwill                                      | 75,750                | 75,750                   | 0.0%         |
|                                                  | 473,551               | 467,647                  | 1.3%         |
| <b>II. Tangible assets</b>                       |                       |                          |              |
| 1. Property and plants                           | 1,479,953             | 1,498,886                | -1.3%        |
| 2. Technical facilities and machinery            | 236,682               | 258,098                  | -8.3%        |
| 3. Other equipment, factory and office equipment | 84,599                | 77,453                   | 9.2%         |
| 4. Payments in advance                           | 9,186                 | 6,110                    | 50.3%        |
|                                                  | 1,810,420             | 1,840,547                | -1.6%        |
| <b>III. Deferred taxes</b>                       | 2,946,200             | 2,963,435                | -0.6%        |
|                                                  | <b>5,230,171</b>      | <b>5,271,629</b>         | <b>-0.8%</b> |
| <b>B. Short term assets</b>                      |                       |                          |              |
| <b>I. Inventories</b>                            |                       |                          |              |
| 1. Raw materials                                 | 632,853               | 550,347                  | 15.0%        |
| 2. Unfinished goods                              | 624,341               | 591,459                  | 5.6%         |
| 3. Finished goods                                | 963,672               | 1,154,414                | -16.5%       |
|                                                  | 2,220,866             | 2,296,220                | -3.3%        |
| <b>II. Receivables and other assets</b>          |                       |                          |              |
| 1. Trade receivables                             | 1,646,051             | 1,686,104                | -2.4%        |
| 2. Tax receivables                               | 124,806               | 80,287                   | 55.4%        |
| 3. Other assets                                  | 29,567                | 35,839                   | -17.5%       |
|                                                  | 1,800,424             | 1,802,230                | -0.1%        |
| <b>III. Securities</b>                           | 4,189,200             | 3,218,121                | 30.2%        |
| <b>IV. Cash and cash equivalents</b>             | 6,088,624             | 5,965,441                | 2.1%         |
|                                                  | <b>14,299,114</b>     | <b>13,282,012</b>        | <b>7.7%</b>  |
|                                                  | <b>19,529,285</b>     | <b>18,553,641</b>        | <b>5.3%</b>  |
| <b>Liabilities</b>                               |                       |                          |              |
| <b>A. Equity</b>                                 |                       |                          |              |
| I. Subscribed capital                            | 4,500,000             | 4,500,000                | 0.0%         |
| II. capital reserves                             | 7,570,000             | 7,570,000                | 0.0%         |
| III. Other reserves                              | 5,981,840             | 4,989,766                | 19.9%        |
| IV. Minority interest                            | 52,444                | 62,522                   | -16.1%       |
|                                                  | <b>18,104,284</b>     | <b>17,122,288</b>        | <b>5.7%</b>  |
| <b>B. Special reserve for investments</b>        | <b>662,775</b>        | <b>682,709</b>           | <b>-2.9%</b> |
| <b>C. Short Term liabilities</b>                 |                       |                          |              |
| 1. Received payments                             | 66,543                | 2,454                    | >100.0%      |
| 2. Trade accounts payable                        | 128,404               | 198,921                  | -35.4%       |
| 3. Tax liabilities                               | 32,905                | 18,301                   | 79.8%        |
| 4. Other Liabilities                             | 534,374               | 528,968                  | 1.0%         |
|                                                  | <b>762,226</b>        | <b>748,644</b>           | <b>1.8%</b>  |
|                                                  | <b>19,529,285</b>     | <b>18,553,641</b>        | <b>5.3%</b>  |

## Group cash flow statement of 01 January 2006 to 31 March 2006

|                                                                       | Jan.-March 2006<br>kEUR | Jan.- March 2005<br>kEUR |
|-----------------------------------------------------------------------|-------------------------|--------------------------|
| Group period result                                                   | 230                     | 151                      |
| Earnings Minority interests                                           | -11                     | -22                      |
| Other costs affecting income/expenses                                 | 2                       | 0                        |
| Dividend income                                                       | -4                      | 0                        |
| Interest income                                                       | -34                     | -34                      |
| Interest costs                                                        | 0                       | 10                       |
| Decrease of deferred taxes                                            | 17                      | 11                       |
| Depreciation on tangible assets                                       | 75                      | 92                       |
| Income from securities trading                                        | -28                     | -18                      |
| Loss from securities trading                                          | 35                      | 0                        |
| Amortisation of subsidies and grant                                   | -20                     | -29                      |
| <b>Brutto-Cashflow</b>                                                | <b>262</b>              | <b>161</b>               |
| Decrease / increase of inventories                                    | 75                      | -328                     |
| Decrease / increase of trade receivables                              | 2                       | -472                     |
| Increase of short term liabilities                                    | 14                      | 205                      |
| Incoming payments from dividends                                      | 4                       | 0                        |
| Incoming payments from interest                                       | 34                      | 34                       |
| Outgoing payments from interest                                       | 0                       | -10                      |
| <b>Cashflow from operating activity</b>                               | <b>391</b>              | <b>-410</b>              |
| Payments for capital investments to fixed assets                      | -51                     | -13                      |
| Incoming payment from financial assets                                | 944                     | 153                      |
| Outgoing payments from financial assets                               | -1,160                  | -327                     |
| <b>Cashflow from investing activities</b>                             | <b>-267</b>             | <b>-187</b>              |
| Cash inflow from minority interest                                    | 0                       | 0                        |
| Dividend payments                                                     | 0                       | 0                        |
| Increase / decrease short term liabilities to bank                    | 0                       | -28                      |
| <b>Cashflow from financial activities</b>                             | <b>0</b>                | <b>-28</b>               |
| <b>Change in cash and cash equivalents</b>                            | <b>124</b>              | <b>-625</b>              |
| <b>Cash and cash equivalents at beginning of the reporting period</b> | <b>5,965</b>            | <b>6,382</b>             |
| <b>Cash and cash equivalents at the end of the reporting period</b>   | <b>6,089</b>            | <b>5,757</b>             |



## Group equity change calculation by 31.March 2006

|                                                           | Subscribed capital | Capital reserve  | Other reserves            |                            |                              | Minority interests | Equity            |
|-----------------------------------------------------------|--------------------|------------------|---------------------------|----------------------------|------------------------------|--------------------|-------------------|
|                                                           |                    |                  | Market evaluation reserve | Currency conversion reserv | Result achieved in the group |                    |                   |
|                                                           | EUR                | EUR              | EUR                       | EUR                        | EUR                          | EUR                | EUR               |
| <b>1. January 2005</b>                                    | <b>4,500,000</b>   | <b>7,528,332</b> | <b>96,774</b>             | <b>1,004</b>               | <b>4,615,507</b>             | <b>31,104</b>      | <b>16,772,721</b> |
| Not realized profit/ losses from evaluation of securities |                    |                  | 85,371                    |                            | 21,481                       |                    | 106,852           |
| Currency conversion in the Group                          |                    |                  |                           | 335                        |                              | 322                | 657               |
| Group period result                                       |                    |                  |                           |                            | 150,500                      | -21,307            | 129,193           |
| <b>31. March 2005</b>                                     | <b>4,500,000</b>   | <b>7,528,332</b> | <b>182,145</b>            | <b>1,339</b>               | <b>4,787,488</b>             | <b>10,119</b>      | <b>17,009,423</b> |
| <b>1. January 2006</b>                                    | <b>4,500,000</b>   | <b>7,570,000</b> | <b>150,816</b>            | <b>4,542</b>               | <b>4,834,408</b>             | <b>62,522</b>      | <b>17,122,288</b> |
| Not realized profit/ losses from evaluation of securities |                    |                  | 760,801                   |                            |                              |                    | 760,801           |
| Currency conversion in the Group                          |                    |                  |                           | 1,036                      |                              | 995                | 2,031             |
| Group period result                                       |                    |                  |                           |                            | 230,237                      | -11,073            | 219,164           |
| <b>31. March 2006</b>                                     | <b>4,500,000</b>   | <b>7,570,000</b> | <b>911,617</b>            | <b>5,578</b>               | <b>5,064,645</b>             | <b>52,444</b>      | <b>18,104,284</b> |

## Segment reporting of 1 January 2006 to 31 March 2006

| By Region                                      | Germany          |                  | Europe           |                  | USA              |                  | Others           |                  | Total            |                  |
|------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                                | Jan.- March 2006 | Jan.- March 2005 | Jan.- March 2006 | Jan.- March 2005 | Jan.- March 2006 | Jan.- March 2005 | Jan.- March 2006 | Jan.- March 2005 | Jan.- March 2006 | Jan.- March 2005 |
|                                                | TEUR             | TEUR             | TEUR             | TEUR             | TEUR             | TEUR             | TEUR             | TEUR             | TEUR             | TEUR             |
| <b>Sales</b>                                   | <b>424</b>       | <b>455</b>       | <b>1,124</b>     | <b>1,014</b>     | <b>281</b>       | <b>369</b>       | <b>353</b>       | <b>235</b>       | <b>2,182</b>     | <b>2,073</b>     |
| <b>Gross Profit</b>                            | <b>265</b>       | <b>282</b>       | <b>611</b>       | <b>521</b>       | <b>153</b>       | <b>189</b>       | <b>192</b>       | <b>121</b>       | <b>1,221</b>     | <b>1,113</b>     |
| <b>Operating results</b>                       | <b>45</b>        | <b>25</b>        | <b>102</b>       | <b>46</b>        | <b>26</b>        | <b>17</b>        | <b>32</b>        | <b>10</b>        | <b>205</b>       | <b>98</b>        |
| Including:                                     |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Depreciation of tangible and fixed assets      | 16               | 23               | 38               | 43               | 9                | 16               | 12               | 10               | 75               | 92               |
| Amortisation of grants and subsidies and bonus | 4                | 7                | 10               | 14               | 3                | 5                | 3                | 3                | 20               | 29               |
| <b>Asset cost for the period</b>               | <b>50</b>        | <b>13</b>        | <b>0</b>         | <b>0</b>         | <b>0</b>         | <b>0</b>         | <b>1</b>         | <b>0</b>         | <b>51</b>        | <b>13</b>        |
| <b>Book values assets</b>                      | <b>2,277</b>     | <b>3,739</b>     | <b>0</b>         | <b>0</b>         | <b>0</b>         | <b>0</b>         | <b>7</b>         | <b>1</b>         | <b>2,284</b>     | <b>3,740</b>     |

| According to areas of activity                  | Analogue Diagnostic Products |                | Digital Diagnostic Products |                | Others         |                | Total          |                |
|-------------------------------------------------|------------------------------|----------------|-----------------------------|----------------|----------------|----------------|----------------|----------------|
|                                                 | Jan.-Mar. 2006               | Jan.-Mar. 2005 | Jan.-Mar. 2006              | Jan.-Mar. 2005 | Jan.-Mar. 2006 | Jan.-Mar. 2005 | Jan.-Mar. 2006 | Jan.-Mar. 2005 |
|                                                 | TEUR                         | TEUR           | TEUR                        | TEUR           | TEUR           | TEUR           | TEUR           | TEUR           |
| <b>Sales</b>                                    | <b>966</b>                   | <b>1,026</b>   | <b>830</b>                  | <b>762</b>     | <b>386</b>     | <b>285</b>     | <b>2,182</b>   | <b>2,073</b>   |
| <b>Gross Profit</b>                             | <b>661</b>                   | <b>633</b>     | <b>316</b>                  | <b>239</b>     | <b>244</b>     | <b>241</b>     | <b>1,221</b>   | <b>1,113</b>   |
| <b>Operating result</b>                         | <b>178</b>                   | <b>143</b>     | <b>58</b>                   | <b>77</b>      | <b>-31</b>     | <b>-122</b>    | <b>205</b>     | <b>98</b>      |
| Financial result                                |                              |                |                             |                |                |                | 31             | 43             |
| Taxes                                           |                              |                |                             |                |                |                | -17            | -11            |
| Minority share in result                        |                              |                |                             |                |                |                | 11             | 21             |
| <b>Group period result</b>                      |                              |                |                             |                |                |                | <b>230</b>     | <b>151</b>     |
| including:                                      |                              |                |                             |                |                |                |                |                |
| Depreciation of tangible and fixed assets       | 27                           | 49             | 14                          | 22             | 34             | 21             | 75             | 92             |
| Amortisation of grants and subsidies and bonus  | 9                            | 14             | 8                           | 11             | 4              | 4              | 21             | 29             |
| <b>Asset cost for the period</b>                | <b>3</b>                     | <b>0</b>       | <b>1</b>                    | <b>1</b>       | <b>47</b>      | <b>12</b>      | <b>51</b>      | <b>13</b>      |
| <b>Book values assets</b>                       | <b>853</b>                   | <b>852</b>     | <b>298</b>                  | <b>175</b>     | <b>1,133</b>   | <b>2,713</b>   | <b>2,284</b>   | <b>3,740</b>   |
| <b>Deferred taxes</b>                           |                              |                |                             |                | <b>2,946</b>   | <b>2,969</b>   | <b>2,946</b>   | <b>2,969</b>   |
| <b>Short term assets</b>                        | <b>1,973</b>                 | <b>2,016</b>   | <b>1,200</b>                | <b>1,516</b>   | <b>11,126</b>  | <b>9,018</b>   | <b>14,299</b>  | <b>12,550</b>  |
| <b>Total assets</b>                             | <b>2,826</b>                 | <b>2,868</b>   | <b>1,498</b>                | <b>1,692</b>   | <b>15,205</b>  | <b>14,699</b>  | <b>19,529</b>  | <b>19,259</b>  |
| <b>Short term liabilities</b>                   | <b>86</b>                    | <b>73</b>      | <b>74</b>                   | <b>54</b>      | <b>602</b>     | <b>1,447</b>   | <b>762</b>     | <b>1,574</b>   |
| <b>Special reserve for received investments</b> |                              |                |                             |                | <b>663</b>     | <b>675</b>     | <b>663</b>     | <b>675</b>     |

## Explanatory notes on the group's interim financial statement for the period 1<sup>st</sup> January – 31<sup>st</sup> March 2006

### Accounting and Assessment Methods

The group interim financial statement for Geratherm Medical AG has been prepared in accordance with the International Financial Reporting Standards (IFRS) valid at the balance sheet date and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), such as it is compulsory to apply them within the European Union.

All the accounting, assessment and consolidation principles have been adhered to, as is described in the attached annual group accounts for 2005.

### Consolidated Group

No changes were made to the consolidated group during the first quarter of 2006.

## **Explanatory Notes on the Assets, Financial and Earnings Situation**

### **Long-term Assets**

As per 31st March 2006 development costs for intangible assets provided by ourselves and amounting to € 28,000 (€ 0 in the previous year) were entered on the assets side; these cover the development of the new SRA IV stroke risk analyser for preventing strokes.

Other additions to the long-term assets amounting to € 23,000 (€ 13,000 in the previous year) largely involve replacement investments in production machinery and other business equipment.

### **Short-term Assets**

There are more significant changes to the short-term assets, mainly in the securities item. Additions as a result of purchasing amounted to € 1,160,000 (€ 327,000 in the previous year) as at 31<sup>st</sup> March 2006. Decreases in assets took place as a result of sales amounting to € 944,000 (€ 153,000 in the previous year). This generated a profit of € 28,000 (€ 18,000 in the previous year) and a loss amounting to € 35,000 (€ 0 in the previous year). Holdings assessed to be worth € 4,189,000 (€ 2,266,000 in the previous year) in line with the market prices on the reporting date on 31<sup>st</sup> March 2006 must be viewed in the light of the purchasing costs amounting to € 3,277,000 (€ 2,084,000 in the previous year). This has created profits of € 912,000 (€ 182,000 in the previous year), which have not been converted into cash. These are shown in the market assessment reserves item in the equity capital section.

### **Equity Capital**

The subscribed capital at Geratherm Medical AG amounted to a total of € 4,500,000 as at 31<sup>st</sup> March 2006 and is divided up into 4,500,000 individual share certificates made out to the owners. The subscribed capital has been fully paid. The company did not own any of its own shares as at 31<sup>st</sup> March 2006.

The market assessment reserve item, listed under equity capital for the first time in 2005, increased by € 761,000 in the first quarter of 2006 (€ 85,000 in the previous year) to € 912,000 (€ 182,000 in the previous year). As a result of the binding commitment dated 31<sup>st</sup> December 2005 to make adjustments required by the change to IAS 39 in the previous year's figures by using IAS 39.107 starting from 1<sup>st</sup> January 2004, we have adjusted the comparison period for the 1<sup>st</sup> quarter of 2005. The adjustment involves a reclassification amounting to € 58,000 from the market assessment reserve item to accumulated profits.

The board and the supervisory board will suggest at the main shareholders' meeting on 12th June 2006 that a tax-free dividend of 32 cents per share should again be paid out using the existing capital reserves.

**Dates for further reporting**

|            |                                                |
|------------|------------------------------------------------|
| 12/06/2006 | Main Shareholders` Meeting                     |
| 23/08/2006 | Interim report 2 <sup>nd</sup> Quarter of 2006 |
| 23/11/2006 | Interim report 3 <sup>rd</sup> Quarter of 2006 |