

# Geratherm®



Annual Report 2009

Innovative Medical Solutions

	12/31/2009	12/31/2008	Change
<b>Turnover</b>	14,385 TEUR	10,079 TEUR	42.7%
including export share	11,711 TEUR	8,006 TEUR	46.3%
Export rate	81 %	79 %	2.5%
Gross result (EBITDA)	2,607 TEUR	897 TEUR	190.6%
<b>EBITDA - Margin</b>	18.1 %	8.9 %	103.4%
Depreciation	-370 TEUR	-303 TEUR	21.9%
<b>Operating result (EBIT)</b>	2,237 TEUR	594 TEUR	276.6%
<b>EBIT-Margin</b>	15.6 %	5.9 %	164.4%
Financial result	560 TEUR	-3,499 TEUR	-
Result of the ordinary activities	2,797 TEUR	-2,905 TEUR	-
<b>Shareholder result</b>	2,679 TEUR	-2,920 TEUR	-
Long-term assets	5,982 TEUR	5,472 TEUR	9.3%
Short-term assets	16,670 TEUR	9,588 TEUR	73.9%
Balance sheet total	22,652 TEUR	15,060 TEUR	50.4%
Equity capital	17,670 TEUR	12,647 TEUR	39.7%
Equity return	15.2 %	-23.1 %	-
Equity ratio	78.0 %	84.0 %	-7.1%
Cash and securities	11,058 TEUR	4,365 TEUR	153.3%
<b>Result per share pursuant to IFRS (EPS)*</b>	0,60 EUR	-0,65 EUR	-
<b>Result per share pursuant to DVFA *</b>	0,60 EUR	-0,65 EUR	-
Staff Number (annual average) without boards	106	82	29.3%
No-par shares	4,500,000	4,500,000	
*relating to non-par shares in circulation	4,500,000	4,500,000	

## **Annual Report 2009**

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# Fiscal Year 2009

Sales volume EUR 14.4 million +43%

Gross profit (EBITDA) EUR 2.6 million +191%

Operating results (EBIT) EUR 2.2 million +277%

Profit attributable to shareholders (EAT) EUR 2.7 million

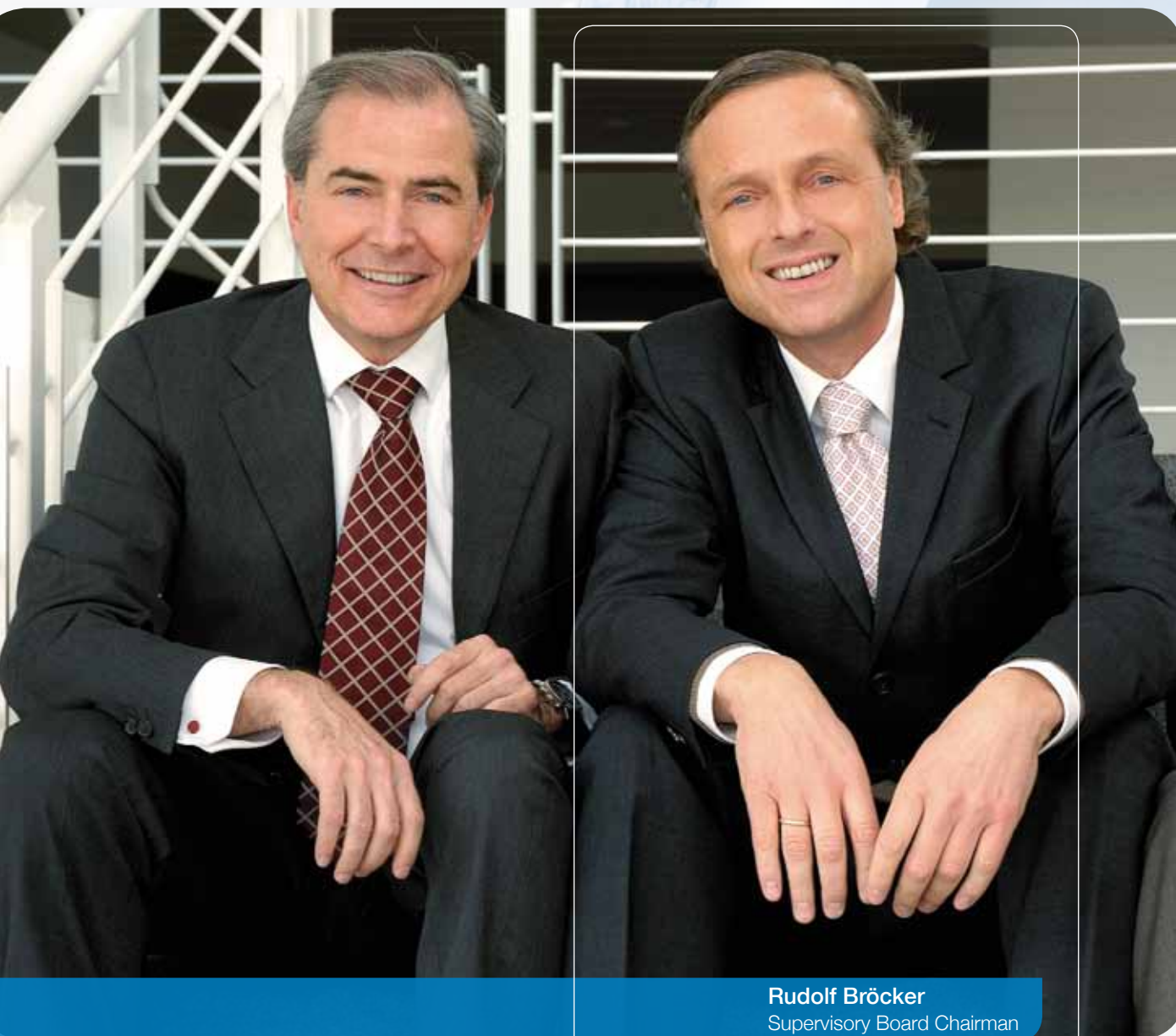
Earnings per share (EPS) 60 cents

Corporate growth in 2010 as well









**Rudolf Bröcker**  
Supervisory Board Chairman

## Supervisory Board's Annual Report

**The Supervisory Board of Geratherm Medical AG has monitored and advised the company's Executive Committee throughout the 2009 fiscal year in accordance with the laws and the company's articles of association. The Executive Committee regularly provides the Supervisory Board with detailed information about Geratherm Medical AG's ongoing business development, planning and risk management. That included in particular the order, sales and asset situation, the financial assets as well as the status of key development projects. The Supervisory Board convened four times in this regard during the 2009 fiscal year.**

In addition to the periodic exchange of information between the Supervisory Board and the Executive Committee, important current issues were regularly discussed on the phone and individual meetings.

The Executive Committee fulfilled its duties to inform and report as specified by the Supervisory Board.

The Supervisory Board was not aware of any conflict of interests on part of its members during 2009 such that every member was able to participate in all discussions and decisions.

The issues discussed during the supervisory board meetings involved the business policies of the parent company and the individual Group member companies.

The supervisory board meetings focused primarily on key issues such as: Formation of new business areas and their financing, the strong growth of the company with all associated structural changes, the current status of operational development, and customer satisfaction with newly developed products from Geratherm. The Supervisory Board was informed promptly about important issues. That involved in particular the

significant increase of the workforce and the company's medium to long-term flexibility for reacting to changing general conditions.

The year-end financial statements of Geratherm Medical AG, the consolidated financial accounts and the management report have been checked by the appointed auditor, KPMG AG Wirtschaftsprüfungsgesellschaft Leipzig, for the 2009 fiscal year and marked with their unqualified approval. The documents of financial statements and the audit reports were sent to the members of the Supervisory Board immediately upon completion. The auditor participated in the Supervisory Board's discussions about the presentation of the financial statements, reported the significant results of the audit and was available for answering questions.

The Supervisory Board approved the results of the audits.

The Supervisory Board approved the Executive Committee's proposal to use the distributable profit for the year, which envisages a dividend as part of a tax-free distribution of EUR 0.40 per share for the year of 2009.

We checked the year-end financial statements and the management report as well as the consolidated financial accounts and the group management report and have no objections to raise based on the conclusive results of our audit.

In our meeting on March 23, 2010, the Supervisory Board adopted the year-end financial statements as of December 31, 2009 and the consolidated financial accounts in accordance with International Financial Reporting Standards (IFRS).

The Supervisory Board approved the Executive Committee's proposal to use the distributable profit for the year, which envisages a dividend as part of a tax-free distribution of EUR 0.40 per share for the year of 2009.

KPMG AG Wirtschaftsprüfungsgesellschaft has examined the Executive Committee's report on the relations existing with associated companies. It confirmed that according to its dutiful audit and assessment the details of this report are accurate and that the performance of the company was adequate. Following the conclusion of the audit, there are no objections against the Executive Committee's report on the said relations. We agree with the results of the audit.

The Supervisory Board would like to express its gratitude to the Executive Committee and all employees who have made a significant contribution to Geratherm's corporate development in 2009 thanks to their commitment, know-how and creativity.



Geschwenda, this 23<sup>th</sup> day of March 2010







**Dr. Gert Frank**  
Chairman of the Board

## Dear Shareholders and Friends of Geratherm,

**When, in my letter last year, I talked about 2008 being a turbulent year and that the economy was still locked in an accelerating downward spiral. While many things did not turn out to be as bleak as forecasted, an improvement in the situation can only be described as marginal at the moment. Forecasts say that a return to the level prior to the economic crisis may be in sight in 2012 at the earliest.**

What does the new decade have in store for us? Will it be better than the past decade, which was a lost decade in the eyes of many people? Many are skeptical.

The largest economic crisis of the postwar period has resulted in much destabilization. Sales and corporate profits fell and are now recovering only slowly. Business activity had collapsed in 2009 at a rate that we have not seen since WW II. The gross domestic product in Germany alone decreased by 5% compared to 2008. The reason for the major recession was the slump in exports and investments. Exports nose-dived by 14.7%. The fallen sales and corporate profits are now recovering only slowly. Major overcapacities have resulted in increasing unemployment. Massive federal spending saved the economy on a whole from an even greater decline. The public sector budgets are deep in debt. Some states are on the brink of insolvency. One thing is certain: There has never been such a drastic global increase in national debt in times of peace. The associated long-term effects are not yet clear.

The market for medical technology was characterized by a relatively defensive state within the continuing global turmoil.

The long-term growth factors of this sector, such as increasing life expectancy and the rise in chronic diseases, run up the demand for healthcare services. Emerging countries are seeking better healthcare, which in turn leads to a high need for investment.

Medical technology continues to offer great growth potential to innovative companies with interesting products.

Besides attractive products that focus on solving problems or reducing costs, key success factors include the early identification of changes in general healthcare policies.

Geratherm Medical was able to profit from such changes in 2009. The EU's ban on mercury, which took effect in April of 2009, placed high demands on our management and employees as a result of the unexpected high demand for Geratherm products.

Investment plans, taken by Geratherm at the end of the first quarter of 2009, were already overtaken after just two months. All in all, we had to scale up our investment plans several times during the course of the year. This provided the basis for dynamic growth for 2009 and 2010.

The company's long-term liquidity has allowed us to respond very quickly for taking every chance that appeared in 2009.

Geratherm Medical experienced a very dynamic corporate growth of more than 40% over the past 12 months. The operating results also enjoyed an above-average increase. This is a positive development for Geratherm. The losses reported for 2008 were thus offset for the most part.

Geratherm Medical experienced a very dynamic corporate growth of more than 40% over the past 12 months.

Especially the not quite comprehensible strict interpretation of the IFRS Impairment Rules at the onset of 2009 proved to be a 'fire accelerant' and less appropriate one year later due to the prevailing mood of the financial crisis. At the end of the 2009 business year, the implemented depreciations were regained for the most part. These have been credited back to the equity capital. With the reversal of the write-downs and the reported earnings included, the company's equity capital could be increased by 5.073 kEUR.

We are one step closer to realizing our strategic goal of broadening Geratherm Medical's position and advancing into the high-end MedTech segment.

Geratherm develops, produces and markets medical products for measuring vital information with focus on *Cardio/Stroke*, *Temperature Management* and *Respiratory*. In the *Cardio/Stroke* segment, we concentrate on the atrial fibrillation market. Special interest here is the early detection of atrial fibrillation, one of the single major risks for suffering a stroke.

Geratherm's traditional core activities are focused in the Temperature Management segment, i.e., all products that are involved in the broadest sense in measuring or maintaining the body's temperature.

In the Respiratory segment we concentrate on products for measuring lung function.

Over the past few years, we have invested a great deal in the new areas and are expecting considerable impetus for growth for the 2010 business year.

The products offered by Geratherm are primarily aimed to address international niche markets. The majority of the products offered are based on basic innovations that are

protected with patents. All products are offered internationally. The export share of our products exceeds 80%. We are convinced that the development expenditure incurred over the last few years will increasingly have a visible effect on business development.

The 2009 business year was an exciting and intensive year. Liquidity and a solid balance sheet are indispensable success factors for a dynamically growing company. Still, the recovery of the overall economy is not set in stone. Therefore, the adage “cash is king” continues to hold true. Whoever is solvent, is more resistant. It is easier to hold one’s own through difficult periods, to act independently, enjoy trust and actively shape one’s own future, to get the chance of having a part in moving up and extending one’s competitive edge.

We accept the challenges we are facing and aim to leverage the chances for growth!

We would like to thank our shareholders, customers and employees for the trust they give us and their commitment to Geratherm.

Best regards,



Dr. Gert Frank



Geratherm®



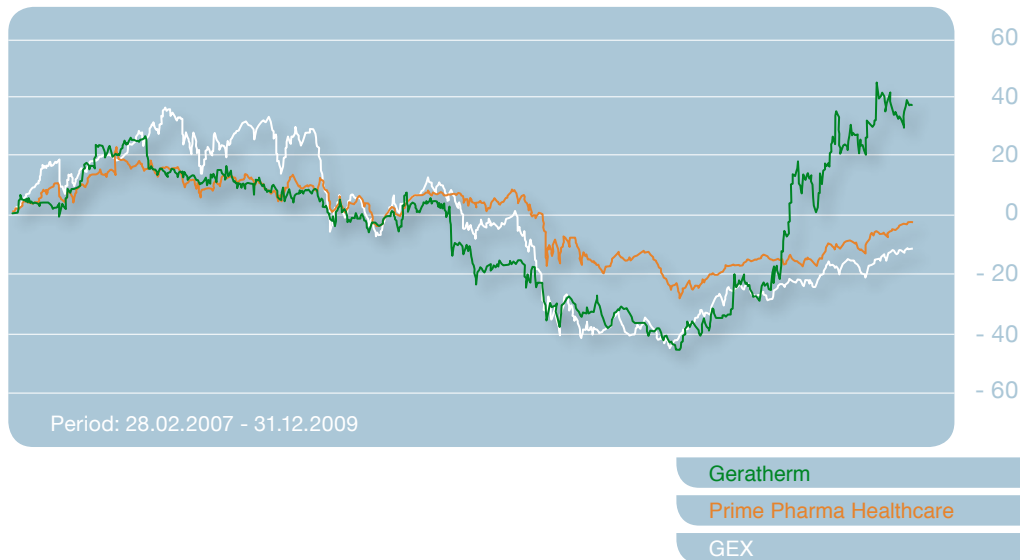
## The Geratherm Share

**2009 will be remembered as one of the most turbulent years in history. At the beginning of the year and some weeks after the US Bank Lehmann Brothers went bankrupt, the financial world staggered into the scenario of a great depression. The international stock markets inexorably continued the downward trend, and the problems in the financial system had a major impact on the economic climate. Thanks to the massive intervention of central banks, it was possible to prevent things from getting worse. By March of 2009 there was widespread panic in the stock exchanges. While diverse central banks adopted unconventional policy easing measures and opened up the liquidity floodgates, the mood followed along the lines of “The markets stop panicking when central banks start panicking“.**

After that, the stock markets only knew one direction, and that was up. From March 9 until the end of December 2009, the MSCI World Index had increased 70.8%. Based on the annual average, the stock market posted a respectable result in 2009. The DJ Euro Stoxx 50 Index increased by 21.3%. The DAX Index was in unison with the global indexes and also concluded with an increase of 23.8%. The shares of the health care sector did not recover to such an extent. The Prime Pharma Health Care Index increased by 12.6% during the course of 2009.

The shares of Geratherm Medical also benefited from the improving capital market conditions. Since the beginning of 2009 the share price increased from EUR 3.10 to EUR 7.20 by the end of the year. That is a respectable share price performance of 114% within the space of one year. As a result, Geratherm shares exhibited an above-average share price performance.

The market liquidity in Geratherm shares further increased compared to the previous year. The trade volume of Geratherm shares on the German stock exchanges amounted to 1,207,740 shares. The majority of the transactions, amounting to 797,123 shares, were conducted through the electronic platform (XETRA) of the German Stock Exchange. The average daily sales volume, standing at 4,755 shares, was considerably higher than in the previous year. The highest daily sales volume was reported at 61,287 shares.



The Geratherm share celebrates its tenth anniversary of being listed on the Frankfurt Stock Exchange in 2010. The shares of the company are listed in the so-called Prime Standard, the highest quality segment. Moreover, Geratherm Medical AG is also listed in the so-called German Entrepreneurial Index. The above diagram shows how Geratherm shares have developed over the last three years in comparison to the GEX and Health Care Index. The company possesses a stabile shareholder structure. Geratherm reported approx. 1,800 shareholders according to the findings of the last survey conducted in June 2009. The free float of the company amounts to 39.07%. As of December 31, 2009, there are 4.5 million shares of Geratherm Medical AG in circulation. Due to an increase in the capital stock on March 11, 2010, the number of shares increased to 4,949,999 pieces.

The market liquidity in Geratherm shares further increased compared to the previous year.

Geratherm Medical strives to ensure the most open and transparent financial reporting possible. That also relates to the product range, our customers and markets, which form the foundation for our business activities. We focus on maintaining a sound and continuous development of Geratherm Medical.

As part of our investor relations activities, we provide shareholders and anyone else interested in Geratherm with up-to-date topical information. All reports and publications are available in the „Investor Relations“ section of our corporate website ([www.geratherm.com](http://www.geratherm.com)).



## Operational Product Areas







## Cardio/Stroke

Cardiac arrhythmia screening



## Medical Warming Systems

Measuring and maintaining the body temperature



## Healthcare Diagnostic

Products for measuring vital data



## Respiratory

Pulmonary function diagnosis

## Cardio/Stroke



**The Cardio/Stroke product area forms the focus of our subsidiary apoplex medical technologies GmbH, Pirmasens. In the MedTech segment, apoplex has specialized in new and innovative technological products for preventing strokes. To this end, apoplex has developed a system for identifying atrial fibrillation in order to prevent a stroke. The solution offered by apoplex is a screening method for detecting atrial fibrillation.**

Atrial fibrillation is the most frequent cardiac arrhythmia. In Germany alone, it affects 800,000 people. About 4.5 million people are affected by atrial fibrillation in the European Union. Since the majority of cardiac arrhythmia occur only occasionally, it is vitally important to develop options that allow for a reliable detection of atrial fibrillation. The technology offered by apoplex focuses on solving this problem.

Many people do not know that they have atrial fibrillation. Atrial fibrillation occurs without any symptoms and is usually detected by the doctor by accident. Sometimes too late, namely after the atrial fibrillation has resulted in a stroke.

A normal ECG provides information about the electric activity of the heart and registers the heart's rhythm when the atrial fibrillation occurs. Things are getting difficult when atrial fibrillation is not identified at the time of testing, even though the patient is suffering from it. The technology offered by apoplex is geared to eliminate this deficit and specializes in detecting atrial fibrillation even if it is not evident at the time of the measurement (paroxysmal atrial fibrillation).

Atrial fibrillation may result in the formation of blood clots. Every year, many patients with atrial fibrillation suffer a stroke with serious consequences. Frequently, the strokes are fatal or result in a lifelong physical or mental disability. Due to the ever-increasing life expectancy of people, the number of patients suffering from atrial fibrillation is growing and thus the number of strokes as well.

It is essential that the atrial fibrillation is diagnosed early in order to be able to more accurately assess the risk of stroke. This form of stroke prevention can better eliminate serious consequences.





The technology offered by apoplex for detecting atrial fibrillation is gaining more and more recognition on the market. The installed test basis used by over 450 doctors has more than doubled itself within the last twelve months. Atrial fibrillation screening is becoming more and more important for compulsory health insurance funds. apoplex signed contracts with two major insurance companies. The application of apoplex' product SRAdoc is reimbursed by the associated health insurance funds.

The product solution SRAclinic was tested by a wide variety of stroke centers over the course of the past year. The results were very satisfactory such that we were able to gain a sales partner for German-speaking countries on the basis of these results. Our sales partner Draeger, which is one of the largest international suppliers of cardiologic solutions for acute treatment, will integrate our SRAclinic in its installed basis for German-speaking countries.

Currently, large studies are being conducted for the second product SRAdoc, which focuses on diagnosing atrial fibrillation in doctors' offices. Twenty cardiologic centers in Germany are participating in the validation study. We expect to receive the results at the middle of the second quarter of 2010. We are optimistic that with our apoplex product range it will be an exciting year for us.

With the product Cardio/Stroke is Geratherm has established a very secure position in the atrial fibrillation therapy segment. Atrial fibrillation is regarded as one of the growing future sub-markets within the Cardiology segment.

## Medical Warming Systems

**In our Medical Warming Systems segment we develop, manufacture and market products for the measurement and maintenance of body temperature. Our spectrum ranges from portable mini-computers for the documentation of body temperature to active patient warming systems with the trademarks UniqueTemp° and UniqueResc+ which are used in the operating theatre and in rescue situations. Geratherm Medical has a wealth of experience in the sphere of medical temperature measurement.**

The active warming systems technology used in our Medical Warming Systems segment marketed under the trademarks UniqueTemp° and UniqueResc+ are employed wherever it is necessary to maintain a patient's body temperature at a certain life-preserving level. In addition to the well-being of patients during operations, the use of warming systems also contributes significantly to reducing costs for medication during and after operations. As the patient's temperature is monitored, the readings can easily be viewed via modern touch screens.

Geratherm Warming Systems guarantee state-of-the-art fully automated hypothermia prevention.

Microchip technology in combination with ultra-fine conductive fabric permits optimum and direct heat transfer.

A variant of the system for use in the operating theatre is increasingly being employed in rescue missions. Geratherm provides low-cost products for sea and mountain rescue and for rescue helicopters. This product segment will increase in significance over the next few years.



## Healthcare Diagnostic

**In the Healthcare Diagnostics segment we are developing, manufacturing and marketing products for measuring vital data, especially body temperature and blood pressure. Our core competence in this connection lies with the manufacture of high-grade clinical thermometers. Geratherm Medical boasts a huge wealth of experience in the field of medical temperature measurement.**

Geratherm is internationally well-known for its wide range of high-quality clinical thermometers that have been marketed to pharmacies and hospitals around the world for many years. In the clinical thermometer segment, Geratherm enjoys competitive advantages that secure its solid market position.

In 2009 the company once again managed to extend its market share significantly for clinical thermometers. The volume sold also represented a double-digit increase to more than 4.9 million thermometers (2008: 3.7 million thermometers). The strong growth was encouraged by the increased demand resulting from the EU's ban on mercury and the H1N1 swine flu in individual regions. The clinical thermometer business proved to be a stable source of income for the company in 2009. Quality and environmental compatibility are of major importance when it comes to the development and the marketing of our products. Our classic product, a mercury-free clinical glass thermometer that is filled with gallium, is currently our best-selling product. We have supplemented our Eco line of products with our newly developed solar clinical thermometer and thus offer our customers another environmentally friendly product.

The increasing awareness among customers for environmentally friendly products should continue to ensure that Geratherm enjoys good market prospects.

Using the same sales channel of pharmacies and hospitals, we offer blood pressure monitors for various applications within the framework of a niche market policy. Geratherm also offers products for measuring upper arm and wrist blood pressure with integrated arrhythmia detection and computer interface. In 2009, the blood pressure monitor product group continued on the growth course embarked upon with a significant double-digit increase in sales.



The increasing awareness among customers for environmentally friendly products should continue to ensure that Geratherm enjoys good market prospects.



Geratherm®  
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## Respiratory

**Founded in 2007, Geratherm Respiratory focuses on the development, production and marketing of products designed for pulmonary function diagnostics and cardiopulmonary function diagnostics.**

For the pulmonary function test (spirometry), the so-called flow/volume measurement is used to evaluate the function of the lungs and respiratory system. Geratherm Respiratory recently developed *Spirostik*, which is the latest generation, small, innovative USB PC spirometer. The developed *Spirostik Complete* is a new innovative product among the desktop spirometers. All products rely on the company's own diagnostic software platform called Blue Cherry.

In addition to testing pulmonary function, Geratherm Respiratory also offers solutions - *Ergostik* and *Ergostik Complete* - for diagnosing cardiopulmonary function.

Geratherm Respiratory's new product developments have been embraced enthusiastically by the market. For instance, the BAD "Berufsgenossenschaftlicher Arbeitsmedizinischer und Sicherheitstechnischer Dienst" decided in favor of launching the *Spirostik* for testing pulmonary function in patients all over Germany.

Moreover, Geratherm Respiratory products submitted the winning bid with its desktop spirometer *Spirostik Complete* during a request for proposals in mid 2009 in northern Spain, succeeding against international competition. In this regard, more than 100 devices have already been delivered to hospitals and medical centers.

The *Ergostik*, which is used for ergospirometric testing in function diagnostics, was also able to successfully establish itself on the market. More than thirty systems have already been installed. In doing so, Geratherm Respiratory acquired prominent customers such as Universitätsklinik Mainz, Montpellier University Hospital and Liverpool University Hospital.

So far, customer response to Geratherm Respiratory's new products has been very positive such that the dynamic business development is also expected to continue in 2010.



# Management Report for 2009 Fiscal Year

## 1. General Course of Business

**2009 was marked from the outset by an altogether lagging economic performance. The deep recession was triggered mainly by an especially severe and abrupt slump in global trade at the beginning of 2009. The recession affected individual countries in very different ways. The Asian economies and Brazil, e.g., reported a certain upward trend. Other economic regions only managed to achieve a stabilization or a hesitant upturn. Global production declined by 1.1% in 2009.**

The industrialized countries were affected the most by the fall in demand. Exports decreased significantly between 20 and 30%. The capital goods industry, which registered an outright collapse, was affected the most. For the first time since 1993, Germany exported less goods and services compared to the year before.

The stabilization of the global economy over the course of the year can be attributed essentially to four aspects: the expansive financial policy of the central banks, the sharp increase in the demand as part of economic stimulus programs, the relative robustness of the emerging countries and the comparatively low oil price. The state of shock dissipated more and more and the willingness of market participants to take risks returned during the second half of 2009.

The situation continued to improve over the course of the year to the extent that it was possible to observe one of the greatest recessions of the past few decades bottoming out. A self-supporting long-term economic recovery is, however, still a long way off. Whether the ability of the markets to heal themselves will provide impetus for a new economic upswing or whether the massive state intervention mitigates the causes of the problems but does not yet resolve them ultimately remains to be seen.

After a -5% decline was registered with regard to Germany's real gross domestic product (GDP) in 2009, economists are expecting after a bumpy transition that the German economy gains more momentum and leaves the consequences of the crisis further and further behind. The economic growth forecasts range currently from 1.6 to 2.3% for 2010.

## Market Environment for Medical Products

In spite of the global recession over the past two years, the market for medical products has enjoyed a relatively stable development. While complex and premium medical products experienced a slight drop due to the financial component, the market for medical technology proved to be, on a whole, resistant to severe business downturns. All in all, the market for health services will continue to grow over the next few years and thus kindle demand for vendors of medical products.

The increasing life expectancy and the rise in chronic diseases run up the demand for healthcare services as well. Even emerging countries are increasingly seeking better healthcare which in turn leads to a high need for investment in the medium term. Health reforms are forcing the healthcare sector to become more efficient worldwide. Innovative companies, which contribute to solving the patients' problems, will benefit on a sustained basis.

Medical technology continues to offer innovative companies with sustainable business models great growth potential.

The focus on the emerging healthcare markets, such as Middle East and Far East, is gaining more and more priority. While efforts in the western countries mainly concentrate on reducing the costs in the system, the healthcare infrastructure in the emerging countries is currently being built. The fast-growing emerging countries are eager to invest in the healthcare system for the populace. The rapidly increasingly middle class is in the position of paying for health care services. And the number of people with heart problems and/or diabetes, which from experience elicits a high demand for medical products, also increases with prosperity, for instance.

Geratherm Medical is well positioned for leveraging the coming market developments in medical technology with its innovative products and increasing penetration into higher-priced market segments and its international focus.

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## 2. The Economic Situation of Geratherm Medical

### 2.1. General Overview

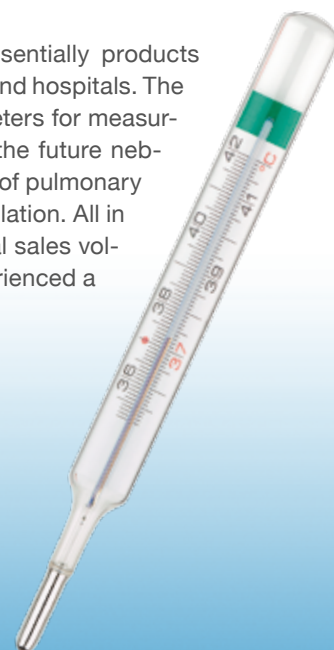
**Geratherm Medical did experience very positive development during the 2009 fiscal year in almost every area. Due to the fact that our innovative products were in high demand and that the EU had implemented its ban on mercury, the actual business transactions far exceeded our target estimates. Geratherm Medical reported a significant growth spurt in 2009 and concluded the fiscal year with a 42.7% increase in sales. Thus, the company is on a promising course for growth, which is expected to continue during the coming fiscal year. The market in Europe and in the Middle East posted above-average performance. Even the sales on the German market registered a solid +29.0% growth.**

The development of the gross profit paralleled the growth in sales volume and increased by +43.0% to EUR 8.7 million.

The consolidated operating result (EBIT) almost quadrupled compared to the figure of the same period last year due to the strong growth in sales, associated with a disproportionately small increase in costs. A positive result for the shareholders of the parent company in the amount of EUR 2.7 million could be reported, including a sound contribution from the financial result. This corresponds to an earnings of 60 EUR cents per share.

#### Healthcare Diagnostics

The Healthcare Diagnostics segment encompasses essentially products that are distributed internationally to pharmacies, clinics and hospitals. The range of products includes all types of clinical thermometers for measuring body temperature, blood pressure monitors and in the future nebulizers, used to inhale medications and remedies in case of pulmonary function illnesses as well as products for determining ovulation. All in all, the segment represents 90.2% of the company's total sales volume. Geratherm's Healthcare Diagnostics segment experienced a 40.8% growth in 2009.





Above-average impetus for growth came from the sales of clinical thermometers, which was favorably influenced by demand due to the H1N1 swine flu and the implementation of the EU's ban on mercury. The sales of clinical thermometers increased from 3.7 million units to 4.9 million units within the space of one year. The growth occurred for all product groups, from clinical glass thermometer that is filled with gallium and digital clinical thermometers through to ear thermometers and minicomputers for recording the body temperature. Geratherm has a good competitive position in the Thermometer business area. Here, we are focusing on the higher-quality segment. Geratherm clinical thermometers have been able to increase their market share successively over the past few years. In 2009, the sales of clinical thermometers represents altogether 72.6 % of the sales generated in the Healthcare Diagnostics segment. That corresponds to a sales volume of EUR 9.4 million.

In the Healthcare Diagnostics segment, Geratherm also offers its blood pressure monitors via pharmacies as sales channel. We concentrate on the higher-quality range of products in this submarket. In spite of the strong competition, Geratherm continues to post good growth rates with this product group. During the 2009 fiscal year, the share of blood pressure monitors sold had increased by 24.4% to EUR 2.6 million. That corresponds to 20.1% of the segment's sales volume. The main sales markets for Geratherm's blood pressure monitors were Europe with 12.8%, South America 59.3% and Middle East 14.5%.

We are proceeding on the assumption that if the general underlying conditions remain the same, the Healthcare Diagnostics segment will continue its positive development over the next two years.



Sales revenues based on segments	2009 kEUR	2008 kEUR	
Healthcare Diagnostics	12,969	9,211	+40.8%
Medical Warming Systems	448	408	+9.8%
Cardio/Stroke	359	117	+206.8%
Respiratory	609	343	+77.6%
<b>Total</b>	<b>14,385</b>	<b>10,079</b>	<b>+42.7%</b>

### Medical Warming Systems

In the Medical Warming Systems segment Geratherm offers products that are designed to maintain the body's temperature. The active warming systems offer a fast and effective supply of heat to patients in operating rooms or in emergency response situations. Geratherm's products are supplied to clinics and hospitals under the "UniqueTemp<sup>®</sup>" label and international rescue services organizations under the "UniqueResc<sup>+</sup>" label.

The products developed by Geratherm for both submarkets are currently in the market launch phase. The customer response has been positive and we continue to expect a good order situation for 2010. We were not able to achieve our original target estimate for 2009. The growth in sales was considerably below our expectations, posting a 9.8% increase to EUR 448,000. The intensive efforts to develop markets did result in initial sales for countries that had not yet purchased these products. For instance, sales were registered for the first time in the US, Italy and France. Even the market in Switzerland continued to evolve well.

The objective for 2010 and 2011 is to continue to expand our sales network for medical warming systems in addition to generating a significant growth in sales.



In the Medical Warming Systems segment Geratherm offers products that are designed to maintain the body's temperature. The active warming systems offer a fast and effective supply of heat to patients in operating rooms or in emergency response situations.

## Cardio/Stroke

Business activities involving atrial fibrillation and stroke prevention are concentrated in our subsidiary apoplex medical in Pirmasens, Germany. apoplex has specialized in innovative technological products that can be used all over the globe to prevent strokes. Particular attention is focused on easy-to-apply and efficient methods for the so-called patient screening for preventing strokes and vascular dementia. The product SRA (Stroke Risk Analyser) is an internet-based platform as an early warning system for strokes.

The product SRAdoc is developed as screening tool for doctors' offices, while the product SRAclinic is designed for use in stroke units.

We were not able to achieve the sales and earnings targets that we had originally planned for this business segment in 2009. As in the past, this business area concluded the 2009 fiscal year with a loss. Nevertheless, apoplex did manage to continue to expand the installed test base. On the whole, more than 7,600 analyses were performed to identify atrial fibrillation in patients in 2009. That is twice as many as in the year before. Even the number of doctors connected to our system more than doubled with 472 users during the year under review. For 2010 we are also anticipating continued dynamic development for the installed base of users of apoplex technology.

A number of milestones were attained in terms of product improvement and marketing during the course of 2009. The use of apoplex products is garnering more and more positive response from doctors, clinics and hospitals.

With regard to clinical applications, apoplex medical entered into a sales cooperation with the world's leading medical technology corporation Draeger/Siemens in July of 2009. The cooperation partner will offer apoplex medical's early warning system for strokes in clinics and hospitals in Germany, Austria and Switzerland. apoplex technology should be offered in the future in combination with patient monitoring systems in the acute medical treatment section, especially in acute care centers for stroke treatment, in emergency admissions or cardiac surgery intensive care units.

Regardless of that, a number of studies are also being conducted at German universities at the moment. In addition, a broader application study of apoplex products is currently being performed in 20 cardiology centers in Germany. We expect to receive the results at the middle of the second quarter of 2010.

We assume that the Cardio/Stroke segment will continue its dynamic development in 2010 and 2011 and that we will be able to make the SRA available to more users and patients in order to prevent strokes.

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## Respiratory

The Respiratory business area focuses on the development, production and marketing of products designed for pulmonary function diagnostics and cardiopulmonary function diagnostics.

For the pulmonary function test (spirometry), the so-called flow/volume measurement is used to evaluate the function of the lungs and respiratory system. Geratherm Respiratory recently developed **Spirostik**, which is the latest generation, small, innovative USB PC spirometer. The developed **Spirostik Complete** is a new innovative product among the desktop spirometers. All products rely on the company's own diagnostic software platform called Blue Cherry.

In addition to testing pulmonary function, Geratherm Respiratory also offers solutions - **Ergostik Complete** - for diagnosing cardiopulmonary function.

Geratherm Respiratory's new product developments have been embraced enthusiastically by the market. For instance, the BAD "Berufsgenossenschaftlicher Arbeitsmedizinischer und Sicherheitstechnischer Dienst" decided in favor of launching the Spirostik for testing pulmonary function in patients all over Germany.

Moreover, Geratherm Respiratory submitted the winning bid with its desktop spirometer **Spirostik Complete** during a request for proposals in 2009 in northern Spain, succeeding against international competition. In this regard, more than 100 devices have already been delivered to hospitals and medical centers.

The **Ergostik**, which is used for ergospirometric testing in function diagnostics, was also able to successfully establish itself on the market. More than thirty systems have already been installed. In doing so, Geratherm Respiratory acquired prominent customers such as Universitätsklinik Mainz, Montpellier University Hospital and Liverpool University Hospital.

So far, customer response to Geratherm's Respiratory's new products has been very good. We assume that the dynamic business development will continue in 2010 and 2011 as well, and as planned, will deliver a positive earnings contribution for the first time in 2010.





## Sales Developments Based on Regions

The customer base of Geratherm Medical is international. The sales structure of Geratherm products in the individual countries is basically the same. Altogether products in the amount of EUR 14.4 million are sold in more than 60 countries.

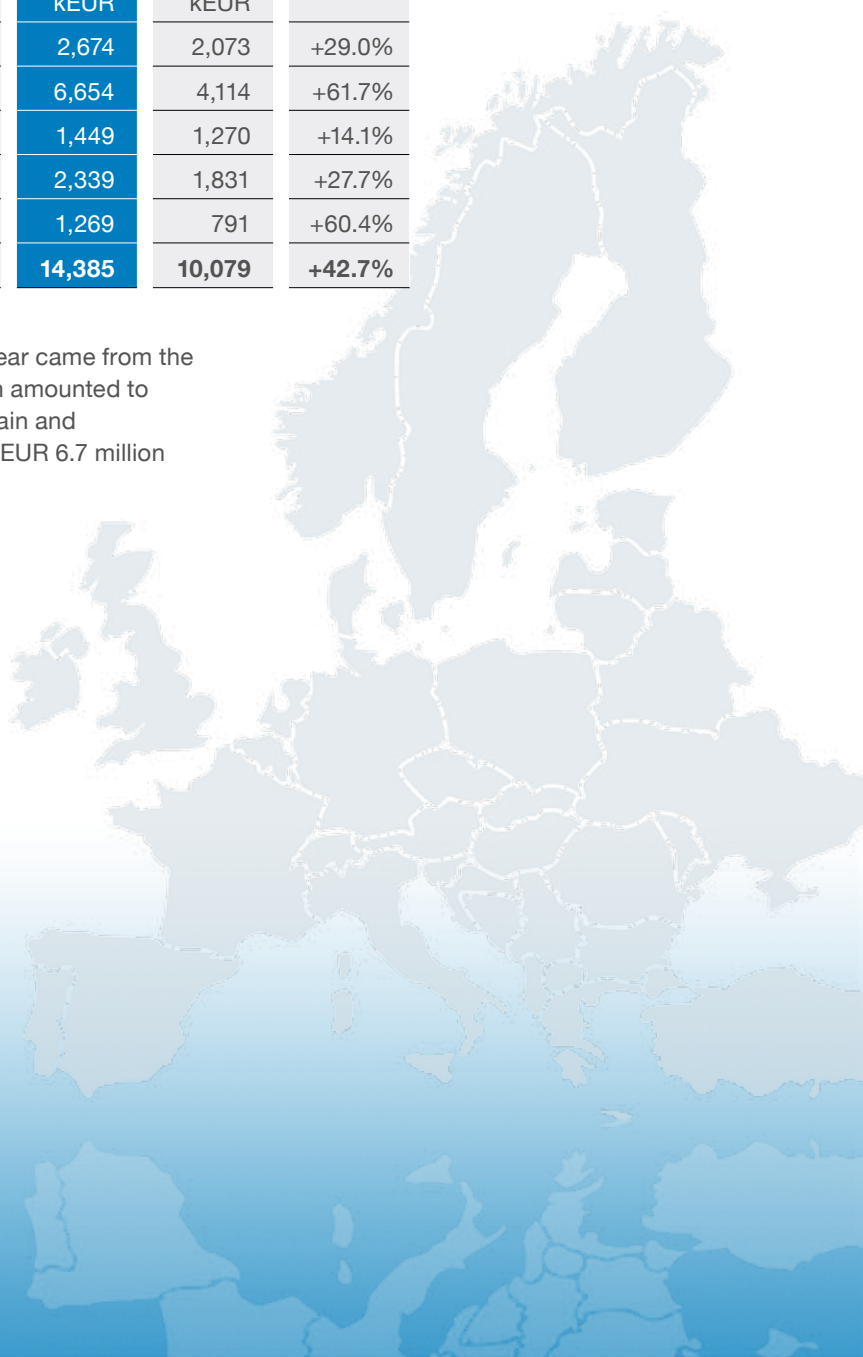
Geratherm Medical's export activities were, as in past years, the mainstay of the company for 2009. More than 80% of the sales volume amounting to EUR 14.4 million was sold internationally. We view the high and steady export share as a sign for the continued competitiveness of Geratherm's products on the international market.

Sales in Germany were considerably higher once again in 2009 than during the previous year (+29.0%). All in all the domestic market makes up 18.6% of the total sales registered by Geratherm. We consider the absolute share of sales for the German market to be still clearly too low and will work on expanding these significantly in the near future.

Sales revenues based on regions	2009 kEUR	2008 kEUR	
Germany	2,674	2,073	+29.0%
Europe	6,654	4,114	+61.7%
USA	1,449	1,270	+14.1%
South America	2,339	1,831	+27.7%
Other	1,269	791	+60.4%
<b>Total</b>	<b>14,385</b>	<b>10,079</b>	<b>+42.7%</b>

The strongest revenue driver for the 2009 fiscal year came from the European Economic Area. Here corporate growth amounted to plus 61.7%. The strongest markets were Italy, Spain and Great Britain. The European Market accounts for EUR 6.7 million which corresponds to 46.2% of the company's consolidated sales.

Europe +61.7%





The US market, which posted a 14.1% increase in sales in spite of the difficult underlying conditions in 2009, performed better than during the 2008 fiscal year. The share of the US market in Geratherm's total sales in 2009 was 10.1%. There our gallium thermometers are sold almost exclusively through US drugstore chains and warming systems for the military.

The activities of Geratherm Medical in so-called industrializing countries continues to gain importance, which can be seen in the considerably higher sales growth, e.g., in South America and other countries. The market in South America experienced once again a considerable double-digit increase of 27.7% for Geratherm products in 2009. The chief market is Brazil, which is successfully handled by our subsidiary Geratherm do Brasil from its offices in Sao Paulo. In the Other Countries group, the Middle Eastern and African markets exhibited the strongest development.

The distribution of sales based on regions will present a similar trend in 2010 as during the 2009 fiscal year. We moreover assume that the new business areas will clearly increase moreover their share of the sales volume of the company as a whole. The impact of the EU's ban on mercury shall also enable Geratherm to register a strong corporate growth once again in 2010. Basically, we are anticipating that the level of development remains positive for 2011 as well. Business development might be affected in this case by the legislation in individual countries, where a ban on mercury has not yet been adopted. The implementation of and compliance with such new environmental legislation and regulations are subject to planning uncertainties.

## 2.2. Earnings Situation

**The 2009 fiscal year was characterized by a strong growth in sales volume. The fact that we managed to maintain the quality of earnings in spite of the strong sales growth may be assessed positively. The gross profit essentially corresponds to the growth in sales with a 43.0% increase.**

The gross margin represents 60.6% of sales. The operating income (EBIT) increased significantly to 2,237 kEUR (2008: 594 kEUR). Start-up costs for new developments were less compared to the same period last year. The contribution to losses on part of the new business areas also decreased. The EBIT margin increased from 5.9 to 15.6% and thus fluctuated approximately on a level in line with the competitive situation involving technology-based MedTech companies. The objective is to achieve an EBIT margin of more than 20% over the long term.

The financial results, the balance of realized earnings from securities, depreciations and interest earnings made a positive contribution in the amount of 560 kEUR to the overall performance of the company compared to 2008. The income included directly in the equity capital and expenses for the reversal of an impairment loss amount to EUR 2.4 million such that the Group's total income amounts to EUR 5 million for the 2009 fiscal

year. The profit reported in the income statement for the 2009 fiscal year for shareholders of the parent company is 2,679 kEUR or .60 cents per share.

The consolidated operating results before interests, taxes, depreciation and amortization (EBITDA) for Geratherm Medical increased significantly to 2,607 kEUR (2008: 897 kEUR). The EBITDA margin in relation to the sales level increased considerably to 18.1% (2008: 8.9%).

Besides the good earning potential of the core business, the investments in the new business areas are increasingly paying off and are reducing the depressed revenues of past years. We assume that the positive development will continue and that the new business areas will generate stable returns for Geratherm Medical as a whole in the future.

For the 2009 fiscal year the reported operating result was negatively influenced by the consolidated start-up losses incurred by the new areas apoplex medical with the Cardio/Stroke activities, the Geratherm Respiratory and the warming systems. Our original plans were based on a neutral result, which we still did not attain in 2009, however. All in all, the loss of the Cardio/Stroke business area was -197 kEUR (2008: -301 kEUR). While the Respiratory business area was able to increase the sales volume considerably, it still concluded the year with a higher loss of -144 kEUR (2008: -55 kEUR). Even though the losses reported by the Warming Systems area at -57 kEUR (2008: -152 kEUR) were also reduced by more than half, they did not meet the objective of breaking even as set for the year. Appropriation of results from our Brazilian subsidiary in the amount of 253 kEUR (2008: 54 kEUR) did have a favorable effect.

The material costs showed a slight increase compared to the increases in sales. The costs of purchased services developed below average with a 26.5% increase. While the personnel expenses were considerably higher with 3,100 kEUR (+21.2%) than last year's level, they were below the increases in sales, since the personnel expenses for 2008 were already high due to the hiring of new personnel.

Amortization of intangible assets and depreciation of tangible assets were increased by 21.9 % to 370 kEUR as a result of investments. The other operating expenses exhibited a below-average increase of 13.9% to 3,006 kEUR.

In the 2009 fiscal year Geratherm Medical was able to build upon the positive results from financing activities. All in all, a financial result in the amount of 560 kEUR was posted due to the sale of securities and interest earnings. In this case, dividend income accounted for 59 kEUR. Interests and similar expenses in the amount of 140 kEUR are interest payments for short-term bank loans to Geratherm do Brasil Ltda. (31 kEUR), Geratherm Respiratory (5 kEUR) and apoplex medical (4 kEUR). The other interests paid in the amount of 80 kEUR are processing fees for the right entitling Geratherm Medical to early repayment of a loan that was taken out from the Commerzbank as part of its funding programs for company start-up and growth. Due to its very good credit rating, Geratherm was also able to secure financing in the amount of EUR 2 million for 1.45% annually (nominal interest rate) for six years.

The 2009 fiscal year was characterized by a strong growth in sales volume. The fact that we managed to maintain the quality of earnings in spite of the strong sales growth may be assessed positively. The gross profit essentially corresponds to the growth in sales with a 43% increase.

As of December 31, 2009, the cash, cash equivalents and securities of Geratherm Medical amounted to 11,058 kEUR (2008: 4,365 kEUR). Part of the aforementioned is invested in securities held in the healthcare industry. The proportion invested in shares was 48.4%. The resulting return on the invested capital from security investments amounted to +44.3% (2008: -38.7%). The remaining amount of 5,703 kEUR earned interest on a daily basis.

Together with the positive profit contribution from financing activity, Geratherm Medical was able to post profits from ordinary business activities in the amount of 2,797 kEUR for the 2009 fiscal year.

The reported tax expenditure on income and profit amounts to 194 kEUR (2008: 117 kEUR). The consolidated net income of Geratherm Medical for 2009 is 2,603 kEUR (2008: -3,022 kEUR).

The losses incurred by apoplex medical technologies are taken into account only to the extent of our participating interest in the amount of 60%. The same applies to the losses of Geratherm Respiratory, in which Geratherm Medical has a 55% participating interest. Within the framework of the consolidation there is a profit contribution of Geratherm do Brasil, in which Geratherm Medical has a 51% participating interest. Full consolidation produced a result in the amount of -75 kEUR, which is apportionable to other shareholders.

For the 2009 fiscal year, Geratherm Medical is able to report a shareholder value for the parent company in the amount of 2,679 kEUR (2008: -2,920 kEUR). This corresponds to a net profit of EUR 0.60 per share (2008: EUR -0.65).

The 2009 fiscal year was able to follow Geratherm's previous profitable business development. We did manage to put the extreme 2008 fiscal year behind us, during which we were forced to cope with a loss due to the write-downs on the securities and the lagging operating result. We are looking forward with optimism to the opportunities we have to push the company's continuing successful development.

The Executive Committee and Supervisory Board of Geratherm Medical AG recommend that the general meeting reinstate the dividend payout and distribute a tax-free dividend of EUR 0.40 per share for the 2009 fiscal year. The dividend is disbursed from the so-called tax-free deposit account in accordance with Art. 27 of KStG (Corporation Tax Law). This type of dividend payments are regarded as a refund on investment by shareholders and thus are not viewed as dividends within the meaning of Art. 20 Para. 1 of KStG. According to Art. 43 of EStG, no capital gains taxes must be withheld for these amounts.

## 2.3. Assets Situation

**Geratherm Medical does have a considerably higher equity capital available in 2009 compared to last year as a result of the profits reported and the income and expenses included directly in the equity capital.**

With a total consolidated income of EUR 5.0 million in 2009 the losses and depreciations from 2008 have almost been offset in full again. Consequently, the worst economic collapse in over 80 years left behind no traces on Geratherm's balance sheets.

With a balance sheet total of EUR 22.7 million, the reported equity capital is EUR 17.7 million (2008: EUR 12.6 million). The company's equity capital accounts for 78.0% of the balance sheet total or EUR 3.93 per share. The capital base allows the company to act very independently and pursue long-term corporate objectives. Its high level of liquidity permits the company to make investments at any time in developing capacities and innovative products and offers the opportunity to expand the company's market position in times of crisis.

The assets side of the balance sheet, which totals 22,652 kEUR, contains long-term assets amounting to 5,982 kEUR (2008: 5,472 kEUR) and short-term assets amounting to 16,670 kEUR (2008: 9,588 kEUR) as at December 31, 2009.

The long-term assets consist of intangible assets, such as development costs, software and goodwill, in the amount of 1,037 kEUR (2009: 1,044 kEUR) and tangible assets in the amount of 2,319 kEUR (2009: 1,764 kEUR). The considerably higher presentation of fixed assets is due in essence to the investment program pursued in an effort to increase the capacities at the Geschwenda location in the amount of 762 kEUR. Moreover, the land, similar rights and buildings are capitalized with 1,200 kEUR (2008: 1,274 kEUR) in the fixed assets item.

The deferred taxation is 2,626 kEUR (2008: 2,664 kEUR). These are assets from the tax losses carried forward less the deferred tax liabilities on capitalized developments.

The inventory as at Dec. 31, 2009 was 2,823 kEUR (2008: 3,080 kEUR). A significantly lower inventory was reported in spite of the strong growth in sales. This is mainly due to the almost complete reduction of inventories resulting from the high level of demand and back orders. In 2009 the raw materials and consumables increased by 18.0% to 991 kEUR, whereas the finished goods and products declined by 25.1% to 1,322 kEUR.

The accounts receivable and other assets increased by 30.2% to 2,789 kEUR. The trade accounts receivable and other assets posted a below-average increase by 19.5 % to 2,365 kEUR compared to the increase in sales volume. The reason for this is the reduction of payment targets and the increased delivery of products against prepayment. The expenses for valuation allowances from trade receivables were extremely low with 18 kEUR when compared to the sales posted.

The reported book value of the securities held by Geratherm increased by 79.0% from 2,991 kEUR to 5,355 kEUR as a result of amounts written up and restructuring measures.

The cash and cash equivalents available as at December 31, 2009 amounted to 5,703 kEUR (2008: 1,373 kEUR).

The equity and liabilities side of the balance sheet in the amount of 22,652 kEUR shows Geratherm Medical's strong equity capital base. Consequently, the equity capital in the amount of 17,670 kEUR (2008: 12,647 kEUR) is offset by debts totalling 4,982 kEUR (2008: 2,413 kEUR).

The long-term debts in the amount of 3,073 kEUR (2008: 922 kEUR) include liabilities to banks in the amount of 2,000 kEUR (2008: 0 kEUR). The increase is due to credit amounting to EUR 2 million at 1.45 % nominal p. a., which Geratherm can pay back at any time. Furthermore, they include received and deferred investment subsidies from previous years and other long-term liabilities. The investment subsidies will be dissolved over the useful life of the underlying assets in a way affecting the net income, the bulk of this balance sheet item being real estate. The other long-term liabilities in the amount of 465 kEUR (2008: 405 kEUR) are resulting from loans provided by other shareholders.

The trade accounts payable increased from 363 kEUR to 708 kEUR as a result of the higher business volume during 2009. The other liabilities went up from 423 kEUR to 532 kEUR. These essentially include accruals for employees and accrued liabilities.





## 2.4. Financial Situation

**Geratherm enjoyed a sound financial position throughout the entire 2009 fiscal year. The cash and cash equivalents amounted to 5,703 kEUR (2008: 1,373 kEUR) as at Dec. 31, 2009. In the past, particular emphasis was placed on a sound liquidity position. The financial situation provided Geratherm Medical with freedom to take action and thus take any chances that occur even within a recessionary environment without any restrictions.**

The cashflow from operations went up considerably to 2,710 kEUR (2008: 473 kEUR) at the end of the fiscal year. The increased cashflow can be attributed essentially to the significantly higher net profit for the year, the decrease in inventories and the increase in current liabilities.

The cash flow from investment activities amounted to -191 kEUR (2008: -716 kEUR) and thus was significantly lower compared to the same period last year. This item in essence reflects, among other things, the purchase and sale of securities. The cash outflow totalled -2,091 kEUR, the monies received based on financial assets equaled 2,729 kEUR. The cash outflow for investments in fixed assets increased to 829 kEUR (2008: 724 kEUR). The investments mainly concerned the expansion of the production capacities at the Geschwenda location.

The cash flow from financing activities was positive with 1,811 kEUR (2008: -469 kEUR). This was influenced by the increase in loan liabilities in the amount of 1,771 kEUR (2008: 670 kEUR).

As in past years, Geratherm Medical was always capable of fulfilling its payment obligations throughout the entire year under review. Cash discounts were utilized as agreed upon. The payment targets that were granted so far have been checked and adapted in individual cases such that certain risks were minimized. The very low level of bad debts amounting to 42 kEUR confirms the company's functioning risk management system with regard to granted payment targets. The company possesses a good financial structure with an above-average equity-to-assets ratio. We do not foresee any situations, which could jeopardize the continued existence of the company.

In our opinion, Geratherm Medical is in the position of financing product developments, market entries and growth on its own for the most part thanks to its solid, assets, financial and earnings situation.



## 2.5. Research and Development

**In the process of ensuring that Geratherm has a broad base, more and more importance is attached to research and development tasks. That involves the so-called efforts to upgrade the current range of products in the Healthcare Diagnostics area and the new Cardio/Stroke, Respiratory and Warming Systems business areas.**

In the **Warming Systems** area we focus our research and development activities on expanding our product portfolio and transferring the Geratherm warming technology to the emergency response segment. Customer-specific demands are satisfied in part through the niche market. A majority of research and development expenses incurred in this product segment has occurred in the last three years and is no longer expected to continue on this level. The 2010 and 2011 fiscal years are planned as start-up years during which the activities on the market side should be strengthened considerably.

Market launch efforts and market expansion plans form the focus of the **Cardio/Stroke** business area, which is part of our subsidiary apoplex medical. These mainly include studies, which are jointly conducted with third parties on the basis of technology for detecting atrial fibrillation at various university hospitals and cardiologic centers.

The research and development activities in the **Respiratory** business area are still on a high level. The majority of employees work on developing new products. That includes products for the Spirometry and Cardiology area. The research and development expenditure will remain on the same high level in 2010 and 2011. The products for monitoring pulmonary function, which were produced at the beginning of last year, are currently in the commercial launch phase. The same is true for the Ergostik and Ergostik Complete products, which offer cardiopulmonary function diagnostics and performance diagnostics.

In the **Healthcare Diagnostics** business area our development activities focus on product improvements and addition of expanded areas of application that we can address via our sales channels of hospitals, clinics and pharmacies. Preparatory developments are in the process for the new product field of inhalers for treating asthma, bronchitis and other chronic or acute respiratory diseases as well as products for measuring the oxygen level in blood. These new products will be released during the course of the 2010 fiscal year.

### 3. Opportunities and Risks of Future Developments

#### 3.1. Chances and Risk Management

**Geratherm Medical is active in the demanding medical technology sector, where innovations and product reliability have a tremendous importance. Before products can be released, they must undergo very strict approval procedures and necessary broad studies or trials to ensure the safety of patients.**

The company's positive development depends on a wide variety of success factors. For instance, patents that protect the development expenditure and the unique position of products on the market over the long term play a major role. At the same time, products must be approved by various authorities in different countries. This involves, of course, risks that are foreseeable only to a certain extent. That relates both to scheduling and financial resource planning.

One of the most important criteria besides the product itself is access to and maintenance of a sales network for medical products.

This situation gives rise to opportunities and risks that may have a long-term impact on the assets, financial and earnings situation of Geratherm Medical.

As part of the group-wide risk management system, the Executive Committee and Supervisory Board of Geratherm Medical have established goals and methods for enabling the company to take controlled risks when there are prospects of successful growth in terms of operations with the requisite financial earnings.

The Executive Committee and Supervisory Board are pursuing the goal of operating in various MedTech markets within the framework of its platform strategy in order to improve the risk structure. For the development of the new business fields, expenses are incurred initially without there being any guarantee that the anticipated success will indeed be achieved. We have defined the maximum risks for the individual projects and have managed the expenses in such a way that the security and independence of Geratherm Medical is not seriously affected in the event of a worst-case scenario occurring. The objective is to reduce our dependence on the current core business in the medium term. We aim to achieve that by investing in new business fields in order to leverage additional sales and earnings potential.

The risk management and control system monitors the operative and strategic risks in a systematic manner. That includes, among other things, monthly analyses of operating figures such as sales, order situation, gross margin and currency risk exposure. The operating figures are recorded and analyzed with regard to the individual product groups, business areas and subsidiaries. The management of Geratherm Medical is convinced that the established internal controls and risk management systems are capable of meeting the existing requirements in a suitable manner.

On the market side, we strive to stay in touch with the latest trends and our custom-

ers' demands by attending the most important medical trade fairs and conventions in order to be able to minimize developing undesirable products. We are endeavoring to combine different risk profiles through a variety of products and our international focus. This applies both to our customer base and suppliers. We view risk management as a long-term obligation. The monitoring system in place at Geratherm is based on corporate performance figures and also includes the roles and responsibilities that help fulfill the statutory demands and operating requirements.

### **Internal Control System for Financial Reporting Process**

The objective of the internal control system for our financial reporting process is to ensure that the financial information is correct.

In this regard, Geratherm Medical is obligated, on the one hand, to prepare financial reports as part of the consolidated financial statements and the individual financial statements. The processes for preparing both financial statements are monitored by the internal control system, which identifies key risks for depicting business transactions.

Such risks include the evaluation of securities, financial assets, capitalized developments and correct allocation of sales revenues.

Significant regulations and instruments of the internal control system are: guidelines both at the group level and in the individual companies, division of tasks and clear assignment of responsibilities, structured reporting system for the individual companies, which permits the group's accounting system to gain insight down to the individual cost level.

To monitor the control system and its effectiveness, detailed monthly analyses, which are based on operating figures, are prepared in Group Controlling. Doing so ensures the possibility of following the individual companies and their development with regard to one another even on a month-to-month basis.

### **Credit Default Risk**

The process that is implemented in the Group for minimizing the credit risks encompasses, in particular, the daily monitoring of due dates and the prompt initiation of steps to collect debts when necessary. In case of new customers, advance payments and letters of credit are required for the most part. For existing customers, we arrange customer-specific payment targets. Thanks to the combination of instruments used to minimize risks, we currently regard the bad debt risk as low.

### **Liquidity Risk**

The company has a good to excellent liquidity position. Consequently, short-term debts are covered by freely available means of payment. Maintaining the solvency of the group companies is monitored with respect to risk management both in the short term as well as in the medium to long term.

### **Market Price Risk - Foreign Currency**

Geratherm is internationally active and thus receives income in dollars as well. We have not secured the currency risk, since we strive to use most of this dollar income to cover payments for contract production and purchasing the raw material gallium in the same currency (natural hedge) such that we expect the dollar income and expenditure to be balanced out for the most part.

#### **Market Price Risk - Interest**

Geratherm constantly monitors the interest rate trends on the financial markets. The free liquid funds are primarily short-term investments on a day-to-day basis. We are not subjected to any significant risk of fluctuating interest rates. The credits have a fixed interest rate for the entire term. The financing of Geratherm Medical so far has been conducted largely out of its own funds such that dependence on liabilities and any negative interest effects that can result from that are not discernible at the moment.

#### **Market Price Risk - Share Price**

When it comes to financial investments, we only invest in securities in the healthcare sector, to which we are particularly attached. We believe that financial investments in the healthcare sector offer an attractive risk-return ratio. However, it is not possible to rule out that the current turmoil on the financial markets may have negative effects on the assets, financial and earnings situation. Our investments are based on medium-term and long-term goals. We are aware of the short-term price swings of shares.

#### **Market Price Risk - Raw Materials**

It is essential that there is a continuous supply of specific raw materials to maintain ongoing production. The procurement market risks involve shortages in supplies or increases in the prices of the raw materials necessary for production as well as devaluation risks in case of decreasing raw material prices of products in our own inventory. We are constantly monitoring the key items.

### **3.2. Final Conclusion**

Geratherm Medical has filed for or been granted patent protection for various products in a wide variety of countries. Industrial and intellectual property rights may become the target of attacks and violations. By systematically monitoring the market and our customers, we have taken the necessary precautions to identify any such threats and to defend our rights, if necessary.

The markets that are served by Geratherm have a defensive character. The product markets are marked by medium to long-term cycles. Short-term turmoil in the financial sector or a severe market setback due to the current economic recession are only expected to have a limited impact on Geratherm Medical's business model.



## 4. Other information

### 4.1. Reporting in Compliance with Article 315 Para. 4 of HGB (German Commercial Code)

The subscribed capital of Geratherm Medical AG amounts to EUR 4,500,000 as of December 31, 2009 and is divided into 4,500,000 share certificates issued to the bearers.

The ownership of shares entitles a shareholder to vote during the annual general meeting and to share in the company's profits in case of endorsement of a dividend payment.

Amendments to the bylaws can be passed in accordance with the provisions of Art. 133 of AktG (German Stock Companies Act).

The supervisory board appoints members of the Executive Committee for a maximum 3 years. The executive committee members may be reappointed or their term of office extended for no more than 3 years at a time. Board members are appointed and dismissed in accordance with Art. 84 of AktG.

The company is authorized to purchase own shares up to a portion of the capital stock not exceeding 10% through to December 7, 2010. The purchase price paid by the company may not be more than 10% above or below the arithmetic mean of the prices determined for the company's share in the opening auction in Xetra trading (or a comparable successor system of the Deutsche Börse AG) during the last 5 trading days prior to acquisition.

The Executive Committee is authorized to resell own shares purchased on the basis of the authorization as per Art. 71 Para. 1 (8) of AktG with the approval of the Supervisory Board while observing the principle of equal treatment (Art. 53a of AktG) for other purposes than trading in its own shares. The acquired own shares may be sold via the stock exchange. In this regard, the buying option of shareholders is excluded.

The Executive Committee is authorized to redeem own shares of the company that were purchased based on this authorization without having the general meeting convene to pass another resolution for the performance of this redemption.

The Executive Committee is authorized up until December 7, 2010 to purchase shares of the company in order to be able to offer own shares to third parties as part of a merger with companies or the purchase of companies or holdings thereof, whereby the buying option of shareholders to own shares is excluded.

This authorization is limited to the purchase of a portion of the capital stock, which may not exceed 10%. The authorization may be exercised in full or in part.

Geratherm Medical AG has not yet made use of such authorizations.

The Executive Committee has issued a separate report on the relations with affiliated companies in accordance with Art. 312 Para. 3 of AktG. The company received or paid a suitable consideration for every legal transaction cited in the report on the relations with affiliated companies and has not been placed at a disadvantage.

The GMF Beteiligungsberatung GmbH, Frankfurt am Main holds a direct share of 60.93% in Geratherm Medical AG.

The annual general meeting of Geratherm Medical AG convened on June 08, 2009 in Frankfurt am Main. The attendance at the annual general meeting represented 65.86% of the capital stock.

The expenses for the stock exchange listing in 2009 was 62 kEUR (2008: 67 kEUR).

## 4.2. Principles of the Remuneration System

The compensation of the Executive Committee is made up of various components, a fixed salary and a variable bonus during the 2009 fiscal year. The variable bonus is awarded on the basis of the company's achievement of objectives, operating profit and overall development.

## 5. Anticipated Development

We anticipate a positive development of the company as a whole for 2010 and 2011. We are currently unable to identify any imminent risks to Geratherm due to changing underlying conditions.

According to the currently available information, we anticipate that corporate development and revenue growth will continue in all likelihood with the same dynamics if the underlying conditions do not change in 2010 and thus lead to a further increase in sales compared to the 2009 fiscal year. The new business areas Cardio/Stroke, Respiratory and Warming Systems should make an above-average contribution to the sales revenue for the corporate growth. The high demand for products from our core business as a result of the EU's ban on mercury is expected to deliver an additional boost to our sales with considerably larger capacity in 2010 and 2011.

An increase in the raw material prices is not foreseeable currently. Also in the future, the quality of the earnings from operating activities should develop parallel to the sales growth. Für die Geschäftsbereiche Respiratory und Wärmesysteme planen wir für die Folgejahre einen positiven Ergebnisbeitrag. We are planning on a positive profit contribution for the Respiratory and Warming Systems business areas for the years ahead. The quality of the earnings from the Cardio/Stroke business area will continue to improve in 2010. Whether the segment's current loss situation will continue in 2010, depends on the probability of losses occurring and the successful formation of various partnerships.

All in all, 2010 should once again be a good and successful business year for Geratherm Medical. We are expecting a positive report of the financial results due to a noticeable improvement of the capital markets. Based on the current state, we are optimistic that business will develop positively also in 2010. Due to the tangible improvement of the situation in the capital markets we also expect a positive financial result.

In case of forward-looking statements, it is necessary to point out that the actual results can deviate significantly from the expectations with regard to the foreseeable development, if any of the uncertainties specified above should occur or the assumptions which serve as a basis for the statements prove to be incorrect.

## 6. Main Events After the Reporting Date

Geratherm Medical has made a good start in 2010. The increase in capacity at the Geschwenda location should reach the target production volume by the end of the first quarter. The incoming order situation as well as the development of sales and earnings correspond so far with our expectations.

On March 11, 2010, Geratherm Medical AG successfully concluded a capital increase using the capital authorized for this purpose in the amount of up to 10% of the existing equity capital while excluding the subscription right of the shareholders. As part of the accelerated bookbuilding process, 449,999 new shares were successfully placed with qualified institutional investors in Germany and in other countries at a price of EUR 8.00 per share. The gross proceeds from the capital increase thus amount to approx. EUR 3.6 million. The company's equity capital has increased to reach EUR 4,949,999 after entering the capital increase in the commercial register on March 15, 2010.

In the opinion of the Executive Committee, no other main events occurred during the first weeks of the 2010 fiscal year.

Geschwenda, March 23, 2010



Dr. Gert Frank  
Chairman of the Board



Thomas Robst  
Head of Marketing/Sales

## **Group annual financial statement for the year 2009**

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**Consolidated Financial Statements**

according to IFRS as of December 31, 2009

<b>ASSETS</b>	Annex No.	12/31/2009 EUR	12/31/2008 EUR
<b>A. LONG-TERM ASSETS</b>			
<b>I. Intangible Assets</b>	1.		
1. Development costs		916,792	923,601
2. Software		44,604	45,115
3. Goodwill		75,750	75,750
		<b>1,037,146</b>	<b>1,044,466</b>
<b>II. Tangible assets</b>	2.		
1. Land, land rights and buildings		1,199,867	1,274,431
2. Technical equipment and machinery		734,082	299,297
3. Other equipment, factory and office equipment		150,462	151,131
4. Construction in process		234,940	38,773
		<b>2,319,351</b>	<b>1,763,632</b>
<b>III. Deferred Taxes</b>	3.	2,625,639	2,664,208
		<b>5,982,136</b>	<b>5,472,306</b>
<b>B. SHORT-TERM ASSETS</b>			
<b>I. Inventories</b>	4.		
1. Raw materials and supplies		990,887	839,951
2. Unfinished goods		510,274	475,214
3. Finished goods and merchandise		1,321,896	1,765,298
		<b>2,823,057</b>	<b>3,080,463</b>
<b>II. Receivables and other assets</b>			
1. Trade receivables	5.	2,364,659	1,978,498
2. Tax receivables	6.	103,705	64,009
3. Other assets	7.	320,683	100,387
		<b>2,789,047</b>	<b>2,142,894</b>
<b>III. Securities</b>	8.	5,355,347	2,991,346
<b>IV. Cash and cash equivalents</b>	9.	5,702,573	1,373,438
		<b>16,670,024</b>	<b>9,588,141</b>
		<b>22,652,160</b>	<b>15,060,447</b>



[illegible]

**Consolidated Income Statement based on IFRS**

for the period from January 1 to December 31, 2009

	Annex No.	1/1 - 12/31/2009 EUR	1/1 - 12/31/2008 EUR
Sales revenue	21.	14,384,854	10,079,487
Change in inventory of semi-finished and finished products		64,123	-391,086
Other capitalized own work		62,429	326,169
Other operating income	22.	529,582	328,908
		15,040,988	10,343,478
Cost of materials	23.		
Cost of raw materials, consumables and goods for resale		-6,089,257	-4,060,549
Costs of purchased services		-239,312	-189,183
		-6,328,569	-4,249,732
<b>Gross profit or loss</b>		<b>8,712,419</b>	<b>6,093,746</b>
Personnel expenses	24.		
Wages and salaries		-2,533,888	-2,105,836
Social security, pension and other benefits		-565,832	-450,773
		-3,099,720	-2,556,609
Amortization of intangible assets and depreciation of tangible assets	25.	-369,614	-303,262
Other operating expenses	26.	-3,005,643	-2,639,772
<b>Operating results</b>		<b>2,237,442</b>	<b>594,103</b>
Dividend income		58,880	48,026
Income from securities trading		1,160,358	490,200
Losses from securities		-504,486	-4,017,793
Securities-related expenses		-27,512	-16,967
Other interest and similar income		12,621	32,509
Interests and similar expenses		-139,914	-35,195
Financial results	27.	559,947	-3,499,220
<b>Result of ordinary activities</b>		<b>2,797,389</b>	<b>-2,905,117</b>
Income taxes	28.	-194,070	-117,120
<b>Consolidated net income (2008: consolidated net loss)</b>		<b>2,603,319</b>	<b>-3,022,237</b>
Results of the minority interests		-75,226	-101,620
<b>Results of the shareholders of the parent company</b>		<b>2,678,545</b>	<b>-2,920,617</b>
Earnings per share undiluted	29.	0,60	-0,65
Earnings per share diluted	29.	0,60	-0,65

## Consolidated cash flow statement for the fiscal year

from January 1 to December 31, 2009 (IFRS)

	Annex No.	1/1 - 12/31/2009 kEUR	1/1 - 12/31/2008 kEUR
Consolidated net income (2008: consolidated net loss)		2,603	-3,022
Other costs affecting income/expenses		94	-65
Dividend income	27.	-59	-48
Interest earnings	27.	-13	-33
Interest expenses		140	35
Decrease in deferred taxes		39	97
Income tax expenditure		156	20
Depreciation of fixed assets		370	303
Income from securities trading	27.	-1,160	-490
Loss from securities trading		0	1
Loss from valuation of securities		504	4,017
Amortization of public grants and subsidies	15.	-46	-45
Loss from disposal of fixed assets		4	5
<b>Gross cash flow</b>	<b>31.</b>	<b>2,632</b>	<b>775</b>
Increase/decrease in inventories		257	-148
Increase/decrease in trade receivables and other assets		-634	-28
Increase/decrease in current liabilities and other liabilities		589	-150
Monies received from dividends		59	48
Monies received from interest		13	33
Cash outflow from interest		-140	-35
Cash outflow for income taxes		-66	-22
<b>Cash flow from operations</b>	<b>32.</b>	<b>2,710</b>	<b>473</b>
Cash outflow for investments in fixed assets		-829	-724
Monies received based on financial assets	8.	2,729	1,002
Cash outflow based on financial assets	8.	-2,091	-994
<b>Cash flow from investments</b>	<b>33.</b>	<b>-191</b>	<b>-716</b>
Cash inflow from minority interests		0	67
Dividend payout to minority interests		-20	-6
Dividend payments	12.	0	-1,350
Increase in loan liabilities	14.	1,771	670
Inflow from long-term liabilities		60	150
<b>Cash flow from financing activities</b>	<b>34.</b>	<b>1,811</b>	<b>-469</b>
<b>Change in cash and cash equivalents</b>		<b>4,330</b>	<b>-712</b>
<b>Cash and cash equivalents at beginning of fiscal year</b>		<b>1,373</b>	<b>2,085</b>
<b>Cash and cash equivalents at end of fiscal year</b>		<b>5,703</b>	<b>1,373</b>

## Consolidated Statement of Shareholders' Equity (IFRS)

As of December 31, 2009

	Subscribed capital 10. EUR	Capital reserves 11. EUR
<b>As of January 1, 2008</b>	<b>4,500,000</b>	<b>7,570,000</b>
Increase in share capital of the subsidiary Geratherm Respiratory GmbH	0	0
Purchase of own shares	-2,000	-7,000
Sale of own shares	2,000	7,000
Dividend paid to shareholders	0	0
<b>Transactions with shareholders</b>	<b>0</b>	<b>0</b>
Consolidated net loss	0	0
Unrealized profits and losses from valuation of securities	0	0
Currency translation in group	0	0
<b>Total consolidated income</b>	<b>0</b>	<b>0</b>
<b>As of December 31, 2008</b>	<b>4,500,000</b>	<b>7,570,000</b>
<b>As of January 1, 2009</b>	<b>4,500,000</b>	<b>7,570,000</b>
Dividend paid to shareholders	0	0
<b>Transactions with shareholders</b>	<b>0</b>	<b>0</b>
Consolidated net income	0	0
Unrealized profits and losses from valuation of securities	0	0
Currency translation in group	0	0
<b>Total consolidated income</b>	<b>0</b>	<b>0</b>
<b>As of December 31, 2009</b>	<b>4,500,000</b>	<b>7,570,000</b>

	Market valuation reserve	Other reserves Currency conver- sion reserve 12.	Accumulated earnings	Assignable to shareholders of parent company	Minority interests 13.	Equity capital
	EUR	EUR	EUR	EUR	EUR	EUR
	-717,064	10,268	4,890,131	16,253,335	124,808	16,378,143
	0	0	0	0	67,500	67,500
	0	0	0	-9,000	0	-9,000
	0	0	0	9,000	0	9,000
	0	0	-1,350,000	-1,350,000	-6,399	-1,356,399
	0	0	-1,350,000	-1,350,000	61,101	-1,288,899
	0	0	-2,920,617	-2,920,617	-101,620	-3,022,237
	645,179	0	0	645,179	0	645,179
	0	-33,205	0	-33,205	-31,903	-65,108
	645,179	-33,205	-2,920,617	-2,308,643	-133,523	-2,442,166
	-71,885	-22,937	619,514	12,594,692	52,386	12,647,078
	-71,885	-22,937	619,514	12,594,692	52,386	12,647,078
	0	0	0	0	-20,107	-20,107
	0	0	0	0	-20,107	-20,107
	0	0	2,678,545	2,678,545	-75,226	2,603,319
	2,346,304	0	0	2,346,304	0	2,346,304
	0	47,855	0	47,855	45,977	93,832
	2,346,304	47,855	2,678,545	5,072,704	-29,249	5,043,455
	2,274,419	24,918	3,298,059	17,667,396	3,030	17,670,426



**Consolidated Statement of Earnings as per IFRS**

for the period from January 1 to December 31, 2009

	1/1-12/31/2009 EUR	1/1-12/31/2008 EUR
<b>Profits of the shareholders of the parent company</b>	<b>2,678,545</b>	<b>-2,920,617</b>
Results of the minority interests	-75,226	-101,620
<b>Consolidated net income (2008: consolidated net loss)</b>	<b>2,603,319</b>	<b>-3,022,237</b>
Profits and losses from revaluation of securities	2,346,304	645,179
Difference resulting from currency translation	93,832	-65,108
<b>Income and expenses directly included in equity capital</b>	<b>2,440,136</b>	<b>580,071</b>
<b>Total consolidated income</b>	<b>5,043,455</b>	<b>-2,442,166</b>
of which assignable to minority interests	-29,249	-133,523
of which assignable to shareholders of parent company	5,072,704	-2,308,643

## Notes to Consolidated Financial Statements for 2009 Fiscal Year

### Application of International Financial Reporting Standards

The consolidated financial statements of Geratherm Medical AG were prepared for the 2009 fiscal year in accordance with the rules of the International Financial Reporting Standards (IFRS) valid on the date of the financial statements and in consideration of the guidance provided by the International Financial Reporting Interpretations Committee (IFRIC), as is mandatory in the European Union.

The following amendments to the existing standards and interpretations or amendments to interpretations took effect for the first time in 2009 and had an impact on the consolidated financial statements of Geratherm Medical AG:

- IFRS 8 "Business segments"

The standard in particular calls for the application of the "management approach" with regard to segment identification and valuation. The application of IFRS 8 has resulted in a reorganization of the company's business segments.

- Revised version of IAS 1 "Presentation of financial statements"

The initial application of the revised version of the IAS 1 standards should facilitate the analysis and comparison of financial statements for users. The first-time implementation of the standard has resulted in the inclusion of a consolidated statement of earnings. In addition to that, there was no other significant impact on the presentation of the consolidated financial statements.

The following amendments to the existing standards and interpretations or amendments to interpretations took effect for the first time in 2009 and had no impact on the consolidated financial statements of Geratherm Medical AG: We do not expect that they will have an impact on future consolidated financial statements of Geratherm Medical AG:

- Revised version of IAS 23 "Borrowing Costs"
- Amendment of IAS 32 and IAS 1: "Puttable financial instruments and obligations arising during liquidation"
- Amendment of IAS 39 and IFRS 7: "Reorganization of financial assets - Date of entry into force and transitional provisions"
- Amendment of IFRS 1 and IAS 27: "Historical costs of shares in subsidiaries, jointly-controlled companies or associated companies"
- Amendment of IFRS 2 "Share-based payment: conditions of implementation and cancellations"
- Amendment of IFRS 4 "Insurance contracts" and IFRS 7 "Financial instruments: Disclosures"
- Amendment of IFRIC 9 "Reassessment of embedded derivatives" and IAS 39 "Financial instruments: Recognition and measurement"
- Improvements to International Financial Reporting Standards
- IFRIC 13 "Customer loyalty programs"
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

The following standards, amendments to existing standards and interpretations will take effect for the first time during the 2010 fiscal year and will not be applied in advance:

- Amendment of IAS 27 "Consolidated and Separate Financial Statements"
- Revised version of IFRS 3 "Business Combinations"
- Amendment of IAS 32 "Financial Instruments: Presentation – Classification of Subscription Rights"
- Amendment of IAS 39 "Financial Instruments: Recognition and Measurement: Appropriate Basic Transactions"
- Amendment of IFRS 1 "First-time Adoption of International Financial Reporting Standards"
- IFRIC 12 "Service Concession Arrangements"
- IFRIC 15 "Agreements for the Construction of Real Estate"
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
- IFRIC 17 "Distributions of Non-cash Assets to Owners"
- IFRIC 18 "Transfer of Assets from Customers"

Moreover, we would like to add that the following standards from International Accounting Standards Board (IASB) and the following interpretation from International Financial Reporting Interpretations Committee (IFRIC) have been published but have not yet been accepted by the EU.

- IFRS 9 "Financial Instruments"
- Revised version of IAS 24 "Related Party Disclosures"
- Amendment of IFRS 2 "Group Cash-settled Share-based Payment Transactions"
- Revised version of IFRS 1 "First-time Adoption of International Financial Reporting Standards"
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
- Amendment of IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

We do not expect that the aforementioned standards - with the exception of IFRS 9 - will have any significant impact on the future consolidated financial statements of Geratherm Medical AG. With regard to the impact of IFRS 9, it is currently envisaged that all financial instruments that currently fall under the scope of IAS 39, will be divided in the future into two classification categories – the financial instruments, which are valued at the amortized costs, and those that are measured at fair value. We are currently examining the possible impacts of IFRS 9 which is expected to be binding as of 2013.

### Layout and Preparation of Financial Statements

The layout of the financial statements is based on IAS 1.

The income statement was prepared according to the "total cost" type of short-term results accounting.

The consolidated financial statements are prepared in full EUR. Various figures have been indicated in kEUR in the Notes to provide better clarity.

The parent company is Geratherm Medical AG, which is established according to German law and has headquarters in Geschwenda. The shares of the company are admitted to dealings on the official market and are listed in the Prime Standard exchange segment of the Frankfurt Stock Exchange (FWB).

The management of Geratherm Medical AG has released the consolidated financial statements based on IFRS on March 23, 2010 for presentation to the supervisory board. The supervisory board must check the financial statements and state whether it approves the financial statements.

## Legal and Economic Matters

Geratherm Medical AG is registered as a legal entity in Germany and is entered under the number HR B 111272 in the Commercial Register B of the Amtsgericht Jena (Local Court). The company has its headquarters in Geschwenda, Fahrenheitstr. 1.

Geratherm Medical AG focuses on the “development, production and marketing of medical products especially in the area of temperature management and vital data as well as investments in the health care sector” in accordance with Art. 2 of its Articles of Association.

## Consolidation Principles

The principles of the IAS 27 standard have been applied to the consolidated financial statements.

As part of capital consolidation, the valuation of the shares owned by the parent company in a subsidiary included in the consolidated financial statements was offset by the amount of the equity capital of the subsidiary pertaining to these shares.

Receivables and liabilities between the companies taken into consideration are eliminated during debt consolidation.

The effects of transactions within the group are eliminated during the intercompany profit elimination and consolidation of expenses and receipts.

## Consolidated Group

The consolidated group includes Geratherm Medical AG, GME Rechte und Beteiligungen GmbH, Geratherm Medical do Brasil Ltda., apoplex medical technologies GmbH and Geratherm Respiratory GmbH. The following share quotas apply in detail.

Company	Percentage of shares held
GME Rechte und Beteiligungen GmbH, Geschwenda, Germany	100 %
apoplex medical technologies GmbH, Pirmasens / Germany	60 %
Geratherm Respiratory GmbH, Bad Kissingen / Germany	55 %
Geratherm Medical do Brasil Ltda., Sao Paulo / Brazil	51 %

## Foreign Currency Translation

We used the concept of functional currency when converting the financial statements of Geratherm Medical do Brasil Ltda., which include figures in a foreign currency. Since this company operates its business independently, it is treated as an independent foreign entity in accordance with IAS 21. Based on that, the assets and liabilities of the foreign subsidiary are translated at the exchange rate prevailing on the reporting date, while the expenses and receipts are translated at the annual mean exchange rate as permissible simplification according to IAS 21.40. The equity capital is valued using the historical exchange rates (the rates prevailing on the date of

payment and the respective mean exchange rate of the yield generated). The difference resulting from this currency translation is reported as a separate item in the group's equity capital.

Accountable events in a foreign currency will be shown at the rate prevailing on the date of the accountable event in the individual financial statements of the consolidated companies prepared in the local currency. The monetary items (cash, receivables and liabilities) contained in the balance sheets of individual financial statements are valued at the exchange rate prevailing on the reporting date. The foreign currency translation differences are entered with effect on the income.

### Principles of Accounting and Valuation

All accounting and valuation methods were applied uniformly.

The individual assets and liabilities are valued with consideration to the rules of the International Financial Reporting Standards.

### Intangible Assets

The acquired intangible assets have a limited useful life and are valued at the historical costs less regular accumulated amortization on a straight-line basis after the operating life expectancy of the assets. The useful life for software is set at 3 to 4 years, while the useful life for industrial property rights is 10 years.

The goodwill is not written off according to schedule. An impairment test is to be conducted annually or additionally to determine recoverability, if there are new events or changed circumstances which would indicate that a decrease in value could have occurred. As part of the impairment tests, the attainable amount is compared to book value for the unit generating cash or cash equivalents to which the goodwill is to be assigned.

The development costs are capitalized in accordance with IAS 38 as intangible assets for such product developments, where there is sufficient probability of future inflow of funds that will cover the incurred development costs in full. Further prerequisites include assuring technical completion and the capability of utilization and marketing.

The capitalized development costs include the expenditure for development contracts awarded to third parties, the direct material costs and the proportionate personnel costs relating to the time expenditure of the employees involved in the development of the relevant projects, including mandatory social security contributions that are paid by the employer.

The development of electronic products is written off linearly over a period of 4 years, whereas the write-off period for the development of gallium clinical thermometers is 15 years.

### Tangible Assets

The accounting and valuation of tangible assets is implemented at their historical costs as per IAS 16.30. All tangible assets such as buildings, technical equipment and machines as well as other equipment, factory and office equipment, are valued at historical costs and manufacturing costs and decreased by regular depreciation.



Buildings are depreciated linearly over a useful life of 30 years. The useful life for technical equipment and machinery is 5 to 13 years. Depreciation is linear. The useful life for other equipment, factory and office equipment is set at 3 to 13 years, whereas depreciation is also linear.

Assets are retired at the residual book value at the time of their retirement.

Public grants or subsidies received for the procurement of tangible assets were reported as accrued investment subsidies in the balance sheet and are released to income according to the useful life of the assets they financed.

### **Decline in Value of Intangible and Tangible Assets**

Tangible and intangible assets that are no longer usable or are only usable to a limited extent are written off irregularly at the remaining utility value, however no more than the attainable disposal proceeds, in accordance with IAS 36.

There were no indications of a decrease in the value of tangible and intangible assets on the reporting date.

### **Leasing**

There are no assets which may be classified as finance leasing in accordance with IAS 17.

Lease payments from operating leasing relationships were reported linearly as income for the period of the relevant lease relationship. Moreover, we refer to the statements under "Other financial obligations".

### **Financial Assets and Liabilities**

The financial assets and liabilities are classified and valued with consideration to IAS 32 and IAS 39 standards. The initial entry is made with the historical costs including incidental acquisition costs (transaction costs) on the day of performance.

The cash in hand and cash in banks are valued at their nominal value. Bank balances in a foreign currency are valued at the exchange rate prevailing on the reporting date.

Securities are to be assigned to the category "available for sale" and valued at the current market value that is to be included. All securities (shares) are valued at the market price prevailing on the reporting date and marketable. The valuation changes as of the reporting date are shown in the equity capital under the "Market valuation reserve" item in accordance with IAS 39.55(b). In case of sale of securities or occurrence of long-term decrease in value, accumulated profits and losses taken in the market valuation reserve into account until then are reported in the income statement of the current period. Revenue resulting from interests and dividends from these securities is entered in the income statement.

The trade accounts receivable and other assets belong to the category "Receivables of the company". They are valued at net book value or the lower value based on a value decrease. Foreign currency receivables are valued at the exchange rate prevailing on the reporting date. These assigned values correspond to the market values.

The short-term financial liabilities are valued at the net book values (repayment value). Changes in the repayment value due to the exchange rates prevailing on the reporting date were also taken into account. The values applied in the consolidated financial statements essentially correspond with the market values, in as far as these can be determined.

### Deferred Taxes

The accounting and valuation of deferred taxes is implemented according to IAS 12. Based on the accounting and valuation method, they are applied to time-limited differences between valuations in the commercial balance sheet and tax balance sheet and to losses carried forward and chargeable taxes.

The tax rates of future years are used to calculate deferred taxes, provided the legislative procedure governing the tax rate has been concluded.

Deferred taxes representing assets and liabilities are offset against each other, if there is an identity of the tax creditors and matching maturities and only then or applied to the extent that a realizability of these tax advantages is probable.

### Inventories

The raw materials and consumables shown under the Inventories item as well as goods are valued with their historical costs while taking their usability on the reporting date into account.

Unfinished and finished clinical thermometers, medical warming systems and spirometry products are valued with the manufacturing costs in the individual stages. These include the material costs, labor costs and percentage of indirect production costs. The inventories of technical thermometers are valued according to the retro-grade valuation method. The marketing costs, profit mark-up and the associated manufacturing costs, taking the degree of processing into consideration, are decreased based on the sales price.

### Listing of Sales Revenue

The company generated sales from delivery transactions at the time when the essential risk for the delivery passes over to the purchaser. The net amount of sales based on cost units (product groups) is recorded separately from domestic and export proceeds while deducting the cash discounts paid, customer bonuses and discounts. Expenses resulting from sales such as transport costs, insurance and/or commissions, are shown as sales expenditure.

### Interests Paid and Interests Earned

Interests earned are time-proportional, accruing payable interests are reported time-proportional depending on the contractual commitment or by applying the effective interest method.

### Estimates and Assumptions

The valuation of assets and liabilities is based in part on estimates and/or assumptions about future developments. For instance, the statements on economic useful life for long-term assets are based on estimates and assumptions. In addition, the assessment of recoverability of deferred taxation allocated to the losses carried forward in the amount of 2,476 kEUR (2008: 2,423 kEUR) and the capitalized development costs in the amount of 917 kEUR (2008: 924 kEUR) is based on the corporate planning, which of course involves uncertainties such that the actual values deviate from the made assumptions and estimates in individual cases. Estimates and the underlying assumptions are regularly checked and evaluated with regard to possible impact on accounting.

## Notes to the Consolidated Financial Statements

## ASSETS

## 1. Intangible Assets

Intangible assets totalling 1,037 kEUR (2008: 1,044 kEUR) are reported as of December 31, 2009. The development of the intangible assets is shown in the following table:

Intangible assets	Development costs	Software	Goodwill	Total
<b>Acquisition and manufacturing costs</b>				
<b>in EUR</b>				
1/1/2008	1,388,019	126,222	90,000	1,604,241
Additions	469,001	19,785	0	488,786
Disposals	0	1,380	0	1,380
Rebookings	0	0	0	0
12/31/2008	1,857,020	144,627	90,000	2,091,647
1/1/2009	1,857,020	144,627	90,000	2,091,647
Additions	105,150	18,292	0	123,442
Disposals	0	0	0	0
Rebookings	0	0	0	0
12/31/2009	1,962,170	162,919	90,000	2,215,089
<b>Amortization and depreciation</b>				
<b>in EUR</b>				
1/1/2008	834,681	84,987	14,250	933,918
Additions	98,738	15,904	0	114,642
Disposals	0	1,379	0	1,379
12/31/2008	933,419	99,512	14,250	1,047,181
1/1/2009	933,419	99,512	14,250	1,047,181
Additions	111,959	18,803	0	130,762
Disposals	0	0	0	0
12/31/2009	1,045,378	118,315	14,250	1,177,943
<b>Book values</b>				
<b>in EUR</b>				
1/1/2008	553,338	41,235	75,750	670,323
12/31/2008	923,601	45,115	75,750	1,044,466
1/1/2009	923,601	45,115	75,750	1,044,466
12/31/2009	916,792	44,604	75,750	1,037,146

The development costs for intangible assets created internally during the 2009 fiscal year are capitalized in the amount of 105 kEUR (2008: 469 kEUR). Non-capitalizable research and development costs were posted as expenses in the amount of 287 kEUR (2008: 21 kEUR). These essentially involve research and development activities conducted in our subsidiary Geratherm Respiratory GmbH.

62 kEUR (2008: 61 kEUR) of the development costs capitalized in 2009 went to the auxiliary development of the new Stroke Risk Analyser SRA IV for preventing strokes, 43 kEUR (2008: 143 kEUR) went to the development of the new generation of warming systems.

The goodwill contained in the fixed assets relates to the production of medical warming systems. In connection with the takeover of the medical warming systems segment, 90 kEUR was capitalized in 2003. The goodwill was written off with a useful life of 10 years by December 31, 2004. As of January 1, 2005 no other write-offs were implemented in accordance with the amended IAS 38.

An impairment test is conducted once a year for the cash-generating unit in order to determine if there is any impairment loss possibly existing. The annual impairment test is based on the expected cash flows of the smallest cash-generating unit over a planning horizon from 2010 to 2013. The Medical Warming Systems segment was identified as the smallest cash-generating unit. This segment possesses a goodwill of 76 kEUR (2008: 76 kEUR) and an additional net worth of 284 kEUR as per balance sheet date. The attainable amount which is used for comparison as part of the impairment test of the cash-generating unit, is determined by the value in use. To calculate the value in use, the cash flows derived from the planning were discounted with a risk-adjusted, fair market interest rate in the amount of 16.7% before taxes. There were no points of reference for an impairment. A sensitivity analysis was used to gauge how the value in use responds to a change in the interest rate. A one percent increase in the interest rate results in a 12 kEUR change to the present value.



## 2. Tangible Assets

The development of tangible assets is shown in the following table.

Tangible assets	Land, land rights and buildings	Technical equipment and machinery	Other equipment, factory and office equipment	Construction in process	Total
<b>Acquisition and manufacturing costs</b>					
<b>in EUR</b>					
1/1/2008	2,244,407	3,773,043	471,478	0	6,488,928
Additions	0	125,490	70,863	38,773	235,126
Disposals	0	125,322	63,514	0	188,836
Rebookings	0	0	0	0	0
12/31/2008	2,244,407	3,773,211	478,827	38,773	6,535,218
1/1/2009	2,244,407	3,773,211	478,827	38,773	6,535,218
Additions	0	516,593	61,873	220,202	798,668
Disposals	0	183,577	29,635	0	213,212
Rebookings	0	24,035	0	-24,035	0
12/31/2009	2,244,407	4,130,262	511,065	234,940	7,120,674
<b>Amortization and depreciation</b>					
<b>in EUR</b>					
1/1/2008	895,412	3,548,040	323,293	0	4,766,745
Additions	74,564	51,136	62,920	0	188,620
Disposals	0	125,262	58,517	0	183,779
12/31/2008	969,976	3,473,914	327,696	0	4,771,586
1/1/2009	969,976	3,473,914	327,696	0	4,771,586
Additions	74,564	105,833	58,455	0	238,852
Disposals	0	183,567	25,548	0	209,115
12/31/2009	1,044,540	3,396,180	360,603	0	4,801,323
<b>Book values</b>					
<b>in EUR</b>					
1/1/2008	1,348,995	225,003	148,185	0	1,722,183
12/31/2008	1,274,431	299,297	151,131	38,773	1,763,632
1/1/2009	1,274,431	299,297	151,131	38,773	1,763,632
12/31/2009	1,199,867	734,082	150,462	234,940	2,319,351

The additions in the area of tangible assets mainly involve the acquisition of additional machinery and systems for expanding the production of gallium thermometers. The high demand made an increase in the production capacities necessary.

Irregular depreciation of fixed assets was not necessary.

### 3. Deferred Taxes

The deferred taxes representing assets and liabilities, which are balanced in the consolidated financial statements can be attributed to temporary differences between the book value in the IFRS-based consolidated financial statements and the tax book values in the following assets and to the tax losses carried forward.

	12/31/2009	12/31/2008	12/31/2009	12/31/2008	12/31/2009	12/31/2008
	Deferred tax assets	Deferred tax assets	Deferred tax liabilities	Deferred tax liabilities	Deferred tax balance	Deferred tax balance
	EUR	EUR	EUR	EUR	EUR	EUR
Capitalized development costs/patents	426,971	523,659	264,309	262,789	162,662	260,870
Goodwill	0	0	7,089	5,405	-7,089	-5,405
Foreign currency valuation	0	0	6,379	14,624	-6,379	-14,624
Losses carried forward	2,476,445	2,423,367	0	0	2,476,445	2,423,367
<b>Total</b>	<b>2,903,416</b>	<b>2,947,026</b>	<b>277,777</b>	<b>282,818</b>	<b>2,625,639</b>	<b>2,664,208</b>

The changes to the deferred taxes representing assets and liabilities, which are balanced in the consolidated financial statements, are shown as follows:

Change in the balance of deferred taxes	1/1/2009	Change with effect on income	Change without effect on income	12/31/2009
	EUR	EUR	EUR	EUR
Capitalized development costs/patents	260,870	-98,208	0	162,662
Goodwill	-5,405	-1,684	0	-7,089
Foreign currency valuation	-14,624	8,245	0	-6,379
Losses carried forward	2,423,367	53,078	0	2,476,445
<b>Total</b>	<b>2,664,208</b>	<b>-38,569</b>	<b>0</b>	<b>2,625,639</b>

Change in the balance of deferred taxes	1/1/2008	Change with effect on income	Change without effect on income	12/31/2008
	EUR	EUR	EUR	EUR
Capitalized development costs/patents	468,015	-207,145	0	260,870
Goodwill	-3,720	-1,685	0	-5,405
Foreign currency valuation	0	-14,624	0	-14,624
Losses carried forward	2,297,085	126,282	0	2,423,367
<b>Total</b>	<b>2,761,380</b>	<b>-97,172</b>	<b>0</b>	<b>2,664,208</b>

An income tax rate ranging between 28.08% and 29.83% (2008: between 28.08% and 29.83%) was established as basis for calculating the deferred taxation. It also includes the trade tax in addition to the corporate income tax together with the solidarity surcharge.

The deferred taxes on the assets side take into consideration the sustainable positive results reported by Geratherm Medical AG during the past fiscal years. To calculate the recoverability of the tax allocation on the assets side, which affects the losses carried forward by Geratherm Medical, the tax-related income that is planned for the core business (without financial results) for a period of five years is applied, whereas the losses carried forward of Geratherm Medical AG can presumably be implemented over the next four years according to the current planning. Since the subsidiaries that are incorporated in the consolidated financial statements are still in part under construction and their revenue planning is still subject to the corresponding uncertainty, their losses carried forward were not taken into account for calculating the deferred tax assets.

#### Presentation of Deferred Taxes on Assets Side for the Tax Loss Carried Forward

	2009 kEUR	2008 kEUR
Tax loss carried forward as of 12/31	10,982	12,110
Valued	9,679	8,622
<b>Deferred taxation</b>	<b>2,476</b>	<b>2,423</b>

#### 4. Inventories

	12/31/2009 EUR	12/31/2008 EUR
Inventories		
Raw materials and supplies	990,887	839,951
Unfinished goods	510,274	475,214
Finished goods	426,738	370,106
Goods	895,158	1,395,192
<b>Total</b>	<b>2,823,057</b>	<b>3,080,463</b>

The raw materials and supplies primarily include glass tubes, capillaries, shells, control units and chemical materials.

The unfinished goods as of Dec. 31, 2009 primarily include clinical thermometers in various stages of production.

The finished goods item mainly includes thermometers and warming systems as of Dec. 31, 2009. The goods essentially include digital thermometers and blood pressure meters that are earmarked for sales and produced for contracts.

If retrograde valuations are applied, these involve exclusively technical thermometers, which are included in the inventories with a valuation basis of 25 kEUR (2008: 51 kEUR).

## 5. Trade Receivables

The trade receivables are structured as follows:

	12/31/2009 EUR	12/31/2008 EUR
Gross sum of trade receivables	2,407,227	2,034,235
Devaluations	-42,568	-55,737
<b>Total</b>	<b>2,364,659</b>	<b>1,978,498</b>

The shown trade receivables are due within one year and result primarily from deliveries of products and goods. The devaluations relate to receivables subject to a risk of non-payment.

## 6. Tax Receivables

The tax receivables essentially comprise the reclaim of paid withholding tax on specific interest income plus solidarity surcharge in the amount of 10 kEUR (2008: 12 kEUR), the receivable from sales tax refunds in the amount of 81 kEUR (2008: 35 kEUR) and other taxes in the amount of 12 kEUR (2008: 17 kEUR).

## 7. Other Assets

The other assets essentially relate to the receivables from advances paid (110 kEUR; 2008: 63 kEUR), from expenses paid in advance (34 kEUR; 2008: 24 kEUR) and receivables from investment subsidies and grants (137 kEUR; 2008: 0 kEUR).

## 8. Securities

2009	Number/ nominal	Acquisition price EUR	Acquisition costs EUR	Gains from sales EUR	Valuation allowance Income statement EUR	Market assessment reserve EUR	Book value as of 12/31 EUR	Rate as of 12/31 EUR
Draegerwerk AG & Co KGaA	20,000	18.85	376,980	0	0	212,020	589,000	29.45
Pfizer Inc.	20,000	11.81	236,250	0	0	16,283	252,533	12.63
Evotec AG ADR 2	25,024	4.80	120,122	30,816	-1,942	63,935	97,970	3.92
Evotec AG	140,000	3.47	485,600	325,240	0	196,000	296,800	2.12
Adolor Corp.	460,000	2.96	1,362,052	0	-33,293	0	466,195	1.01
Epigenomics AG	292,593	2.73	798,149	0	-84,852	517,890	1,003,594	3.43
Agfa-Gevaert N.V.	274,078	6.57	1,801,017	0	-78,400	787,174	1,227,869	4.48
Cardionet Inc.	100,000	3.72	371,597	0	0	21,989	393,586	3.94
Eckert & Ziegler AG	60,000	11.10	666,267	33,322	-50,959	459,128	1,027,800	17.13
	Sale of securities			770,980	-255,040			
<b>Total</b>			<b>6,218,034</b>	<b>1,160,358</b>	<b>-504,486</b>	<b>2,274,419</b>	<b>5,355,347</b>	

2008	Number/ nominal	Acquisition price EUR	Acquisition costs EUR	Gains from sales EUR	Valuation allowance Income statement EUR	Market assessment reserve EUR	Book value as of 12/31 EUR	Rate as of 12/31 EUR
Anadys Pharmaceuticals Inc.	88,214	1.89	166,964	0	0	-71,885	95,079	1.08
Evotec AG ADR 2	35,024	4.80	168,125	0	-118,547	0	49,578	1.42
Evotec AG	350,000	3.47	1,214,000	0	-962,000	0	252,000	0.72
Adolor Corp.	230,000	4.89	1,123,683	0	-862,564	0	261,119	1.14
Epigenomics AG	292,593	2.73	798,149	0	-227,592	0	570,557	1.95
Agfa-Gevaert N.V.	140,000	10.98	1,536,721	0	-1,281,921	0	254,800	1.82
Eckert & Ziegler AG	29,460	10.22	301,057	0	-51,531	0	249,526	8.47
Sanofi-Aventis S.A.	20,000	56.43	1,128,500	0	-221,900	0	906,600	45.33
Novavax Inc.	280,000	2.30	642,959	0	-290,872	0	352,087	1.26
	Sale of securities			490,200	0			
<b>Total</b>			<b>7,080,158</b>	<b>490,200</b>	<b>-4,016,927</b>	<b>-71,885</b>	<b>2,991,346</b>	

During the 2009 fiscal year the level of securities was increased by means of acquisitions in the amount of 2,091 kEUR (2008: 994 kEUR). The level also decreased by means of sales in the amount of 2,729 kEUR (2008: 1,002 kEUR). As a result, it was possible to realize a profit contribution of 1,160 kEUR (2008: 490 kEUR). The level of acquisition costs amounts to 6,218 kEUR as of December 31, 2009 (2008: 7,080 kEUR) and was valued based on the rate indicated in the table on the reporting date.



The held securities were regularly audited as of the quarterly financial statements in accordance with IAS 39.58 and IAS 39.61 for any possible significant decrease in value that may persist for an extended period of time. The necessary valuation adjustments were included in the result in the amount of 504 kEUR (2008: 4,017 kEUR) in accordance with IAS 39.67. The revaluations necessitated due to recovery of share prices in the amount of 2,274 kEUR were reported in the market assessment reserve in the equity capital as of the balance sheet date December 31, 2009.

## 9. Cash and Cash Equivalents

	12/31/2009 kEUR	12/31/2008 kEUR
Cash on hand	6	5
Credit balances with banks	5,697	1,368
<b>Cash and cash equivalents</b>	<b>5,703</b>	<b>1,373</b>

The credit balances with banks, amounting to 5,664 kEUR (2008: 1,314 kEUR), are invested at the prevailing market rates and are available daily.

## EQUITY AND LIABILITIES

### 10. Subscribed Capital

The subscribed capital of Geratherm Medical AG amounts to EUR 4,500,000 as of December 31, 2009 and is divided into 4,500,000 share certificates issued to the bearers.

The subscribed capital has been paid in full. As of the reporting date there were no shares held by the company. The number of shares in circulation was 4,500,000 during the 2009 fiscal year.

### Authorized Capital

On June 12, 2006 the Executive Committee was authorized to increase the capital stock of Geratherm Medical AG up to a maximum EUR 2,250,000 subject to the approval of the Supervisory Board by issuing new share certificates made out in the name of the holder through individual or multiple cash or non-cash contributions not exceeding EUR 2,250,000 by June 11, 2011.

### Purchase of Own Shares

The Executive Committee was also authorized on June 8, 2009 to purchase own shares up to a portion of the capital stock, not exceeding 10%, by December 7, 2010. The purchase price paid by the company may not be more than 10 % above or below the arithmetic mean of the prices determined for the company's share in the opening auction in Xetra trading (or a comparable successor system of the Deutsche Börse AG) during the last 5 trading days prior to acquisition. The Executive Committee is authorized to resell own shares purchased on the basis of the authorization as per Art. 71 Para. 1 (8) of AktG with the approval of the Supervisory Board while observing the principle of equal treatment (Art. 53a of AktG) for other purposes than trading in its own shares.

The acquired own shares may be sold via the stock exchange. The buying option of shareholders is excluded.

The Executive Committee is authorized to redeem own shares of the company that were purchased based on this authorization without having the general meeting convene to pass another resolution for the performance of this redemption.

The Executive Committee is authorized up until December 7, 2010 to purchase shares of the company in order to be able to offer own shares to third parties as part of a merger with companies or the purchase of companies or holdings thereof, whereby the buying option of shareholders to own shares is excluded. Authorization is limited to the purchase of a portion of the capital stock, which may not exceed 10%. The authorization may be exercised in full or in part.

The authorization of the general meeting of shareholders on June 9, 2008 to purchase own shares was cancelled with the new authorization resolution coming into force.

## **11. Capital Reserve**

The capital reserve shows the amount that was realized, exceeding the nominal amount, with the issuance of the shares.

## **12. Other Reserves**

The development of the other reserves is shown in the calculation of changes in the group's equity capital.

### **Market Valuation Reserve**

The change in price of the securities adjusted by the valuation allowances entered with effect on the income was reported in the market valuation reserve item shown in the equity capital as of the reporting date in accordance with the provisions of IAS 39. The market assessment reserve amounted to 2,274 kEUR (2008: 72 kEUR) as of December 31, 2009.

### **Currency Conversion Reserve**

The currency conversion reserve in the amount of 25 kEUR (2008: -23 kEUR) is based on the consolidation of the financial statements of Geratherm do Brasil Ltda, which are prepared in a foreign currency.

### **Accumulated Earnings**

The accumulated earnings are calculated based on the results brought forward as of the reporting date (619 kEUR; 2008: 4,890 kEUR), the current net income of the shareholders of the parent company (2,679 kEUR; 2008: -2,920 kEUR) less the distributed dividend (0 kEUR; 2008: 1,350 kEUR).

The Executive Committee and Supervisory Board will propose to the general meeting in June 2010 to distribute a dividend of EUR 0.40 per share for the 2009 fiscal year. The disbursement is paid out from the shareholders' contribution account with neutral tax effect in accordance with Art. 27 of KStG (Corporation Tax Law).

### 13. Minority Interests

	Total kEUR
Minority interests as of 1/1/2009	52
Currency translation in group	46
Dividend payout by Geratherm do Brasil	-20
Result allotted to minorities	-75
<b>Minority interests as of 12/31/2009</b>	<b>3</b>

### 14. Long-term Liabilities to Banks

Geratherm Medical AG received on September 4/11, 2009 a loan in the amount of 2,000 kEUR from the refinancing funds of the aid program "GuW Plus – Gründungs- und Wachstumsfinanzierung" (start-up and growth financing) of Thüringer Aufbaubank (TAB), which was granted through Commerzbank AG. The loan bears 1.45% interest p. a. The interest rate was fixed for the entire term through September 30, 2015. The amortization rate is quarterly 100 kEUR, which will first be due on December 30, 2010. An addendum to the loan agreement was concluded with the Commerzbank AG on September 18/22, 2009, which envisages the transfer of the warehouse of Geratherm Medical AG in Geschwenda as security.

### 15. Accrued Investment Subsidies

The item shown with the amount 607 kEUR (2008: 516 kEUR) relates to the investment grants and subsidies that have been received or are to be released and which are released to income in accordance with the useful life of the assets they financed. This item basically has long-term character.

### 16. Other Long-term Liabilities

In the group, the liabilities from the loans from the minority shareholders of apoplex medical technologies GmbH in the amount of 420 kEUR (2008: 360 kEUR) and Geratherm Respiratory GmbH in the amount of 45 kEUR (2008: 45 kEUR) are reported here. The loans have a two-year term.

### 17. Short-term Liabilities to Banks

As of the balance sheet date there were in the group short-term liabilities to banks in the amount of 441 kEUR (2008: 670 kEUR). 165 kEUR (2008: 24 kEUR) of these are based on the avilment of open credit lines by our subsidiaries apoplex medical technologies GmbH and Geratherm Respiratory GmbH as well as short-term loans of Geratherm do Brasil in the amount of 276 kEUR (2008: 240 kEUR).

### 18. Trade Accounts Payables

The trade payables are included at their repayment value. Corresponding accrued liabilities have been formed for outstanding invoices for deliveries and services on the reporting date. The liabilities fall due within one year. The usual rights to retention of title from the delivery of raw materials and consumables and goods are applicable.

**19. Tax Liabilities**

The tax liabilities shown here relate to liabilities from income tax 95 kEUR (2008: 0 kEUR), wage tax 32 kEUR (2008: 21 kEUR), and sales tax 20 kEUR (2008: 15 kEUR).

**20. Other Liabilities**

	12/31/2009 kEUR	12/31/2008 kEUR
Accrued liabilities	353	272
Other liabilities	179	151
<b>Other liabilities</b>	<b>532</b>	<b>423</b>

**Accrued Liabilities**

The accrued liabilities include the following:

	12/31/2008 kEUR	Consumption kEUR	Dissolution kEUR	Addition kEUR	12/31/2009 kEUR
Outstanding invoices	34	-33	-1	29	29
Bonuses, commissions, credits	81	-81	0	111	111
Costs of financial statements	17	-17	0	20	20
Vacation entitlements	42	-42	0	67	67
Guarantees	14	-3	-5	7	13
Worker's compensation association	7	-7	0	31	31
Remuneration of inventors	24	-5	-19	10	10
Staff bonuses	30	-30	0	50	50
Supervisory board compensation	12	-12	0	12	12
Tax consulting	5	-4	-1	4	4
Archiving	6	0	0	0	6
<b>Total</b>	<b>272</b>	<b>-234</b>	<b>-26</b>	<b>341</b>	<b>353</b>

The accrued liabilities for vacation not yet taken are valued on the basis of the salary plus social security contributions.

The other liabilities primarily include liabilities from wage payments in the amount of 129 kEUR (2008: 114 kEUR).

All other liabilities shown here fall due within one year.

## Notes to Consolidated Income Statement

### 21. Sales Revenues

Sales revenues by segments:

	2009 kEUR	2008 kEUR	Change
Health Care Diagnostics	12,969	9,211	+40.8%
Medical Warming Systems	448	408	+9.8%
Cardio/Stroke	359	117	+206.8%
Respiratory	609	343	+77.6%
<b>Total</b>	<b>14,385</b>	<b>10,079</b>	<b>+42.7%</b>

Sales revenues by regions:

	2009 kEUR	2008 kEUR	Change
Germany	2,674	2,073	+29.0%
Rest of Europe	6,654	4,114	+61.7%
USA	1,449	1,270	+14.1%
South America	2,339	1,831	+27.7%
Other	1,269	791	+60.4%
<b>Total</b>	<b>14,385</b>	<b>10,079</b>	<b>+42.7%</b>

The "Other" item mainly encompasses sales in Middle East over 634 kEUR (2008: 393 kEUR) and Asia over 367 kEUR (2008: 270 kEUR).

### 22. Other Operating Income

The other operating income includes amortization of capitalized grants and subsidies in the amount of 46 kEUR (2008: 45 kEUR).

The remaining other operating income is essentially based on the differences in exchange rates (2009: 362 kEUR; 2008: 192 kEUR). The revenue from the release of accrued liabilities (2009: 26 kEUR; 2008: 10 kEUR) are to be regarded as income unrelated to an accounting period.

### 23. Cost of Materials

The costs of materials primarily relate to raw materials and consumables, trade goods, heating expenses, energy costs and external services.

## 24. Personnel Expenses

The personnel expenses in the 2009 fiscal year were 3,100 kEUR (2008: 2,557 kEUR). The accounts for this fiscal year included contributions of 217 kEUR (2008: 180 kEUR) made by the employer to the statutory pension scheme. The statutory pension scheme is a contribution-oriented pension scheme within the meaning of IAS 19.

## 25. Amortization and Depreciation

Amortization and depreciation increased by 21.9% to 370 kEUR due to the investments made in tangible assets.

## 26. Other Operating Expenses

Other operating expenses primarily comprise the costs for sales, advertising and marketing (1,380 kEUR; 2008: 1,104 kEUR), administrative expenses (1,271 kEUR; 2008: 1,131 kEUR), including those in connection with the stock exchange listing (62 kEUR; 2008: 67 kEUR), external services (432 kEUR; 2008: 444 kEUR), consulting and auditing costs (111 kEUR; 2008: 118 kEUR) and expenses for operating leasing (100 kEUR; 2008: 109 kEUR). The expenses occurring in connection with exchange rate fluctuations decreased to 276 kEUR (2009: 337 kEUR).

## 27. Financial Results

The company posted financial results in the amount of 560 kEUR (2008: -3,499 kEUR) during the year under review. These included dividend income (59 kEUR; 2008: 48 kEUR), gains from sales of securities (1,160 kEUR; 2008: 490 kEUR); devaluation of the securities with effect on the income (504 kEUR; 2008: 4,017 kEUR), expenses occurring in connection with the securities (28 kEUR; 2008: 17 kEUR), interests earned (13 kEUR; 2008: 33 kEUR) and interests paid (140 kEUR; 2008: 35 kEUR).

## 28. Income Taxes

The earnings from taxes encompass both the actual income taxes to be paid as well as the deferred taxes and may be broken down as follows:

	2009 kEUR	2008 kEUR
Current taxes	-155	-20
Deferred Taxes	-39	-97
<b>Income tax according to IFRS</b>	<b>-194</b>	<b>-117</b>

The nominal tax rate which is valid for the concluded fiscal year of the parent company Geratherm Medical AG of 28.08% (2008: 28.08%) is applied as the applicable tax rate for offsetting and reconciliation. The relevant tax rate for domestic companies in the concluded fiscal year fluctuated between 28.08% and 29.83% depending on the location.



	2009 kEUR	2008 kEUR
<b>Results before income taxes</b>	<b>2,797</b>	<b>-2,905</b>
Tax expenses to be expected	-785	816
Effects from valuation variances (change of permanent differences)	125	87
Effects due to tax-free income	242	158
Effects due to expenses nondeductible	-108	-1,131
Change in valuation of tax losses carried forward	369	-59
Other	-37	12
<b>Income tax according to IFRS</b>	<b>-194</b>	<b>-117</b>

## 29. Earnings per Share

The undiluted earnings per share are based on the profits of the shareholders of the parent company (EAT) divided by the weighted average number of outstanding shares.

	2009	2008
Results of the shareholders of the parent company (kEUR)	2,679	-2,920
Weighted average number of outstanding shares (k shares)	4,500	4,500
<b>Undiluted earnings per share (EUR)</b>	<b>0.60</b>	<b>-0.65</b>
<b>Diluted earnings per share (EUR)</b>	<b>0.60</b>	<b>-0.65</b>

	2009 k shares	2008 k shares
Nominal capital in no-par shares	4,500	4,500
Weighted average number of own shares held by the company	0	0
<b>Weighted number of outstanding shares</b>	<b>4,500</b>	<b>4,500</b>

The diluted earnings per share correspond to the undiluted earnings per share.

## Relationships with Related Parties and Persons

Relationships with related parties as defined by IAS 24 exist with GMF Beteiligungsberatung GmbH, Frankfurt am Main (GMF), which charged 96 kEUR (2008: 71 kEUR) for the services performed by the chairman of the board Dr. Frank during the 2009 fiscal year. The amounts invoiced are appropriate and comprise the remuneration of the board for 2009 and an accrued liability as of December 31, 2008.

As of December 31, 2009 there were no outstanding accounts owed to or by GMF. An accrued liability vis-a-vis GMF in the amount of 15 kEUR was allocated as of the reporting date.

There were no accounts receivable from supervisory board members as of the balance sheet date (2008: accounts receivable from Bruno Schoch in the amount of 1 kEUR).

The following voting right percentages have been reported to Geratherm Medical AG in accordance with Art. 21 Para. 1 of WpHG (Securities Trading Act):

As of December 31, 2009	Votes	Percentage
GMF Beteiligungsberatung GmbH, Frankfurt am Main	2,741,737	60.93 %

### Other Financial Obligations

As of December 31, 2008	Total	< 1 year	1 - 5 years	> 5 years
Other financial commitments from lease agreements kEUR	124	107	17	0
Other financial commitments from obligation to accept kEUR	0	0	0	0
Other financial commitments from obligation to accept kUSD	131	131	0	0
As of December 31, 2009	Total	< 1 year	1 - 5 years	> 5 years
Other financial commitments from lease agreements kEUR	101	88	13	0
Other financial commitments from obligation to accept kEUR	475	431	44	0
Other financial commitments from obligation to accept kUSD	946	946	0	0

Main commitment in this regard is the gallium and indium deliveries with the main suppliers. That results in purchase commitments in the amount of 925 kUSD (2008: 131 kUSD).

The group has entered various rental and leasing agreements with regard to administrative and business premises, vehicles and a phone system as well as for software service agreements. The financial obligations amount to 101 kEUR (2008: 124 kEUR) for 2010 and subsequent years.

### Auditor Fees

In 2009, 44 kEUR (2008: 44 kEUR) was entered as expenditure for the audit of the financial statements and 4 kEUR (2008: 7 kEUR) as expenditure for tax consulting services.

### 30. Segment Report

The business segments were presented in accordance with IFRS 8, as it must be applied as of January 1, 2009, in the foregoing financial statements. The business segments were defined on the basis of the internal group report to the key decision-makers. The following reportable group's segments were identified:

#### Health Care Diagnostics

- Analog and digital products for measuring the body's temperature
- Blood pressure monitors
- Other products for measuring temperature and accessories

#### Medical Warming Systems

- Products for maintaining the body's temperature during operations and in rescue situations

#### Cardio/Stroke

- Technological products for preventing strokes

#### Respiratory

- Products designed for pulmonary function diagnostics.

The present segment report shows the segment's sales volume, the operating results and write-offs. The figures indicated correspond to the company's internal reports. The effects based on the consolidation of income, expenses, assets and debts between the segments are eliminated. The consolidation mainly involves the Health Care Diagnostics segment and is due to the internal revenue with our subsidiary in Brazil. The reconciliation statement shows the income and expenses or assets which cannot be directly assigned to the segments. The segment assets and debts are not part of our internal reports. The values were directly assigned to the segments or distributed on the basis of sales.

Segmentation according to regions was maintained in accordance with the previous year and is arranged according to the sales markets of the group. The geographical information was provided for Germany, Europe, USA, South America and other countries. Internal sales are reported.

The figures from the previous year were adjusted according to the requirements of IFRS 8.

Group Segment Report for the business year from 1<sup>st</sup> January 2009 to 31<sup>st</sup> December 2009

According to product segments	Healthcare Diagnostics	Medical warming systems	Cardio/Stroke	Respiratory	Consolidation	Transition	Total
2009	January - December KEUR	January - December KEUR	January - December KEUR	January - December KEUR	January - December KEUR	January - December KEUR	January - December KEUR
Segment sales	13,640	448	352	610	-665	0	14,385
Operating results	2,663	-57	-223	-114	9	-41	2,237
of which: Amortization of intangible assets and depreciation of tangible assets	139	29	10	9	89	94	370
Segment assets	7,129	932	385	554	0	11,026	20,026
Segment liabilities	4,137	53	614	178	0	0	4,982

According to product segments	Healthcare Diagnostics	Medical warming systems	Cardio/Stroke	Respiratory	Consolidation	Transition	Total
2008	January - December KEUR	January - December KEUR	January - December KEUR	January - December KEUR	January - December KEUR	January - December KEUR	January - December KEUR
Segment sales	9,848	408	119	343	-639	0	10,079
Operating results	1,207	-152	-317	-333	481	-292	594
of which: Amortization of intangible assets and depreciation of tangible assets	94	14	21	7	47	120	303
Segment assets	6,212	865	380	608	0	4,331	12,396
Segment liabilities	1,713	62	516	122	0	0	2,413

According to regions	Germany	Europe	USA	South America	Others	Total
2009	January - December KEUR	January - December KEUR	January - December KEUR	January - December KEUR	January - December KEUR	January - December KEUR
<b>Sales revenue</b>	<b>3,106</b>	<b>6,654</b>	<b>1,449</b>	<b>3,004</b>	<b>1,269</b>	<b>15,482</b>
Elimination of sales within the group	-432	0	0	-665	0	-1,097
<b>Sales revenue to third parties</b>	<b>2,674</b>	<b>6,654</b>	<b>1,449</b>	<b>2,339</b>	<b>1,269</b>	<b>14,385</b>
<b>Gross profit or loss</b>	<b>1,618</b>	<b>3,936</b>	<b>857</b>	<b>1,550</b>	<b>751</b>	<b>8,712</b>
<b>Operating results</b>	<b>404</b>	<b>983</b>	<b>214</b>	<b>449</b>	<b>187</b>	<b>2,237</b>
of which: Amortization of intangible assets and depreciation of tangible assets	78	191	42	22	36	369
Amortization of grants and allowances	10	25	5	0	6	46
<b>Acquisition costs Fixed assets of the period</b>	<b>764</b>	<b>0</b>	<b>0</b>	<b>35</b>	<b>0</b>	<b>799</b>
<b>Segment assets</b>	<b>18,922</b>	<b>0</b>	<b>0</b>	<b>1,104</b>	<b>0</b>	<b>20,026</b>

According to regions	Germany	Europe	USA	South America	Others	Total
2008	January - December KEUR	January - December KEUR	January - December KEUR	January - December KEUR	January - December KEUR	January - December KEUR
<b>Sales revenue</b>	<b>2,505</b>	<b>4,114</b>	<b>1,270</b>	<b>2,470</b>	<b>791</b>	<b>11,150</b>
Elimination of sales within the group	-432	0	0	-639	0	-1,071
<b>Sales revenue to third parties</b>	<b>2,073</b>	<b>4,114</b>	<b>1,270</b>	<b>1,831</b>	<b>791</b>	<b>10,079</b>
<b>Gross profit or loss</b>	<b>1,478</b>	<b>2,241</b>	<b>692</b>	<b>1,252</b>	<b>431</b>	<b>6,094</b>
<b>Operating results</b>	<b>95</b>	<b>145</b>	<b>45</b>	<b>281</b>	<b>28</b>	<b>594</b>
of which: Amortization of intangible assets and depreciation of tangible assets	77	139	43	17	27	303
Amortization of grants and allowances	11	22	7	0	5	45
<b>Acquisition costs Fixed assets of the period</b>	<b>696</b>	<b>0</b>	<b>0</b>	<b>28</b>	<b>0</b>	<b>724</b>
<b>Segment assets</b>	<b>11,583</b>	<b>0</b>	<b>0</b>	<b>813</b>	<b>0</b>	<b>12,396</b>

## Notes on Cash Flow Statement

### 31. Gross Cash Flow

The gross cash flow is determined according to the indirect method. It is calculated by adding the consolidated profits before taxes and dividends received to depreciations of fixed assets, minus profits (losses) from the sales of securities, amortization of grants and subsidies on the liabilities side and the change in long-term accruals.

### 32. Cash Flow from Operations

The cash flow before any change in commitment of funds in the amount of 2,632 kEUR (2008: 775 kEUR) is set against changes in the operating funds.

Altogether, the net income for the year and the funds commitment in current assets result in an inflow of funds from operations in the amount of 2,710 kEUR (2008: 473 kEUR).

The capital flow statement for 2009 includes in detail the payments received from interests (13 kEUR; 2008: 33 kEUR) and dividends (59 kEUR; 2008: 48 kEUR) and outgoing payments from interests (140 kEUR; 2008: 35 kEUR) and income taxes (66 kEUR; 2008: 22 kEUR).

### 33. Cash Flow from Investments

The purchase of fixed assets, financial assets and intangible assets, including development costs, result in expenses in the amount of 829 kEUR (2008: 724 kEUR). Cash inflow and outflow based on financial assets are explained under Item 8 of these Notes.

### 34. Cash Flow from Financing Activities

The cash flow from financing activities comprises an outflow of funds from the dividend payments in the amount of 20 kEUR (2008: 1,356 kEUR) and the provision of loans to apoplex medical technologies GmbH in the amount of 60 kEUR (2008: 150 kEUR). The increase in loan liabilities is based on the availment of a long-term loan of Geratherm Medical AG in the amount of 2,000 kEUR and the reduced availment of open credit lines (explanation under Para. 14 of these notes).

## Capital Management

Primary objective of the company is to sustainably ensure the financial equilibrium, while efficiently allocating the capital resources available to the group (equity capital) to the business areas at the same time. In this case an internal capital allocation rate is applicable, which allows for monitoring the operating efficiency of the individual areas. Financing is implemented for the most part using own funds. The operative and strategic capital management is an integral part of the company's internal reporting system.



## Financial Instruments

### a) Financial instruments in the balance sheet

The financial instruments being used in the group can be broken down as follows:

	Classification	Valuation methods	Book value 12/31/2009 kEUR	Book value 12/31/2008 kEUR
<b>I.</b>	<b>Securities - „Financial assets available for sale“</b>		<b>5,355</b>	<b>2,991</b>
	Securities - „Financial assets available for sale“	Valuation not affecting net income at the current market value	466	95
	Securities - „Financial assets available for sale“	Valuation adjustment with effect on the income at the current market value	4,889	2,896
<b>II.</b>	<b>Credits and accounts receivable</b>	<b>Net book value</b>	<b>4,119</b>	<b>1,619</b>
	1. Trade receivables		2,365	1,979
	2. Tax receivables and other assets		424	164
	3. Cash in hand and cash in banks		5,703	1,373
	4. Long-term debts		-465	-405
	5. Liabilities to banks		-2,441	-670
	6. Liabilities on payments received		-80	0
	7. Trade payables		-708	-363
	8. Tax liabilities and other liabilities		-679	-459

Hedging activities within the meaning of IAS 39 were not made this year nor in the past.

The financial assets are not used to secure liabilities nor contingent liabilities. Decline in values, provided such is to be implemented, is reported directly in the respective balance sheet item.

Since the book value of the financial instruments according to IFRS 7.29 (a) represents a reasonable approach to the current market value, there is no indication of the current market value.

### b) Profits and losses from financial instruments

The profits and losses, which have occurred in connection with financial assets/debts, are made up as follows:

	available - for - sale		Accounts receivable and credits	
	2009 kEUR	2008 kEUR	2009 kEUR	2008 kEUR
Interest earnings			13	33
Interests paid			-140	-35
<b>Interest income</b>			<b>-127</b>	<b>-2</b>
Exchange gains			362	192
Exchange losses			-276	-337
<b>Income from currency differences</b>			<b>86</b>	<b>-145</b>
Exchange gains from sales of securities	1,160	490		
Exchange losses from sales of securities	0	-1		
Losses from valuation of securities	-504	-4,017		
Dividend income	59	48		
Securities-related expenses	-28	-17		
<b>Securities-related income</b>	<b>687</b>	<b>-3,497</b>		
<b>Allowance for uncollectible accounts</b>			<b>-18</b>	<b>-14</b>
<b>Net profits and losses entered in the income statement</b>	<b>687</b>	<b>-3,497</b>	<b>-59</b>	<b>-161</b>
Change in market valuation reserve due to sale	72	-777		
Change in market valuation reserve due to change in current net book value	2,274	1,422		
<b>Overall change in market valuation reserve</b>	<b>2,346</b>	<b>645</b>		
<b>Overall results from financial instruments</b>	<b>3,033</b>	<b>-2,852</b>	<b>-59</b>	<b>-161</b>

Fiduciary activities are not performed in regard to financial assets.

#### c) Type and degree of risks resulting from financial instruments

The systematic analysis and monitoring of potential risks associated with financial instruments is an integral part of the group-wide risk management process. Risk sources with regard to the financial instruments available in the group exist in the following aspect:

The financial instruments classified as “financial assets available for sale” are subjected essentially to market risks in the form of fluctuations in stock exchange prices. Accordingly, the respective part of risk management system includes the daily monitoring of the stock performance, the securities in the portfolio, and the evaluation of price-related market information and is supported by a company-specific investment strategy that envisages, among other things, maximum amounts for individual values and defines investment focal points. A near-current exchange of information between the Executive Committee and the monitoring committee represents in this case an obvious characteristic of risk management.

With regard to financial instruments assigned to the “Credits and accounts receivables” category, it is possible to cite credit risks and foreign exchange risks as potential sources of risks.

## Credit / Bad Debt Risk

A credit risk entails the possibility of a non-payment or default of payment for accounts receivable, which result from the possible non-fulfillment of a contractual party and thus exists at most in the amount of the positive current market value of the respective accounts receivable. The process that is implemented in the group for minimizing the credit risks encompasses, in particular, the daily monitoring of due dates and the swift initiation of steps to collect debts when necessary. Other instruments leveraged to minimize risks with new customers include requests for advance payments, credit agency queries, event-driven customer-specific credit lines or letters of credit such that the risk of non-payment can be regarded as minimal. Moreover, this risk is adequately taken into account with valuation adjustments formed for bad debt losses.

The maximum credit risk for accounts receivable and other assets can be broken down as follows:

	2009 kEUR	2008 kEUR
Domestic	582	212
Abroad	2,207	1,931
	<b>2,789</b>	<b>2,143</b>

The age structure of accounts receivable and other assets is as follows:

	2009		2008	
	Gross kEUR	valuation adjustment kEUR	Gross kEUR	valuation adjustment kEUR
Not overdue	2,256	0	1,699	0
0 - 30 days overdue	466	0	220	0
31 - 60 days overdue	34	0	194	0
More than 60 days overdue	75	-42	86	-56
	<b>2,831</b>	<b>-42</b>	<b>2,199</b>	<b>-56</b>

The valuation adjustments have developed in this regard as follows:

	2009 kEUR	2008 kEUR
As of January 1	56	102
Addition	18	14
Utilization	-32	-43
Dissolution	0	-17
<b>As of December 31</b>	<b>42</b>	<b>56</b>

## Liquidity Risk

One aspect of the risk management element that focuses on financial instruments encompasses the monitoring and regulation of the liquidity risk, i.e., maintaining the solvency of the group companies both over the short-term as well as the medium to long-term planning interval.

The central instrument for this is a continuous liquidity planning that is supplemented with liquidity-related operating figures. The liquidity situation as of the reporting date is as follows and illustrates that there is currently no significant liquidity risk.

	2009 kEUR	2008 kEUR
Short-term liabilities to banks	-441	-670
Trade accounts payables	-708	-363
Tax liabilities	-147	-36
Other liabilities (without advance payments received)	-532	-423
<b>Short-term financial resources required</b>	<b>-1,828</b>	<b>-1,492</b>
<b>Liquid assets</b>	<b>5,703</b>	<b>1,373</b>
<b>Liquidity 1</b>	<b>3,875</b>	<b>-119</b>
Trade receivables	2,365	1,979
Tax receivables	104	64
Other receivables (without prepayments)	210	100
<b>Liquidity 2</b>	<b>6,554</b>	<b>2,024</b>
Securities held as short-term investments	5,355	2,991
<b>Liquidity 3</b>	<b>11,909</b>	<b>5,015</b>

## Market Price Risk - Foreign Currency

Foreign currency risks exist for the group insofar as deliveries are made and ordered in part outside of the euro zone. From the group's point of view, the key foreign currency, in which there is an exchange of services, is the US dollar. Consequently, Geratherm Medical is subjected to the following foreign exchange risk as at reporting date.

	12/31/2009 kUSD	12/31/2009 kEUR	12/31/2008 kUSD	12/31/2008 kEUR
Trade receivables	993	689	1,435	1,031
Bank loans / cash in banks	264	183	-565	-406
Trade accounts payables	-367	-255	-122	-87
<b>Balance sheet items</b>	<b>890</b>	<b>617</b>	<b>748</b>	<b>538</b>
Order balance	913	634	73	52
Financial obligations	-946	-657	-131	-94
Purchase commitments	-1,754	-1,218	-320	-230
<b>Pending transactions</b>	<b>-1,787</b>	<b>-1,241</b>	<b>-378</b>	<b>-272</b>
<b>Net item</b>	<b>-897</b>	<b>-624</b>	<b>370</b>	<b>266</b>

The following currency translations were applied.

	12/31/2009	Average 2009	12/31/2008	Average 2008
<b>US-Dollar</b>	<b>1.441</b>	<b>1.392</b>	<b>1.392</b>	<b>1.471</b>

To reduce the resulting value fluctuations there is an effort within the group to maintain a balanced ratio of foreign currency receivables and payables (natural hedge). Nevertheless, there are risks which we identify in the following significance analysis based on a further weakening of the US dollar by 10%. All other variables, which could affect the financial instruments, are regarded as non-varying.

	12/31/2009		12/31/2008	
	Equity capital	Performance	Equity capital	Performance
<b>US-Dollar</b>	<b>0</b>	<b>58</b>	<b>0</b>	<b>-24</b>

A 10% increase in the US dollar over the euro as at the reporting date would have a similar effect but in the opposite direction provided that all other variables remain constant.

#### Market Price Risk - Interest

Interest rate risks, i.e. possible variations of a financial instrument due to changes in the market interest rates, are pending especially for long-term, fixed-interest receivables and payables. Here opportunity effects could arise in such a way that advantages and disadvantages from the change in market interest rates could not be utilized.

If we have available liquidity, we aim to use these funds to improve the financial results. We also view the interest rate trend in this context. Since our free funds are invested at short notice, we are not subjected to any significant risk of interest rate changes.

With regard to long-term debts in the amount of 2,465 kEUR (2008: 405 kEUR) opportunity cost effects could occur that we do not view as significant.

Since other inflow from foreign capital is not planned, we do not expect a negative effect on income as a result of the increase in interest rates.

#### Market Price Risk - Share Price

There are other risks for the group to the extent that changes on the capital markets could have a pervasive influence on the group's investments in securities listed on different capital markets of this world. In our security investments, we only have highly fungible securities which are currently tradeable according to the current state of knowledge such that no long-term, significant risks can be derived. Below we provide a brief overview of the key security investments and highlight the basis for our assessment of a further positive development of the respective involvement. In this case we consider the items that have a book value or historic costs of more than 500 kEUR as at the reporting date as important. With regard to the valuation of the individual items, we refer to item 8 in these notes.

### **Draegerwerk AG & Co KGaA**

Drägerwerk AG & Co. KGaA develops, produces and markets equipment and systems in the medical and safety technology fields. Almost two-thirds of the group's business of approx. EUR 2 billion is made up by the medical technology segment, whereas safety technology accounts for one-third. A global network of its own sales and service companies in 40 countries and representatives in a total 190 countries allow the group to generate about 80% of its sales volume outside of Germany.

### **Adolor Corp.**

Adolor Corp. USA is a biotech company that developed and is currently marketing the pain relieving agent ENTEREG for post-operative application. We are of the opinion that there is no other comparable agent available yet. The U.S. Food and Drug Administration (FDA) gave its approval for ENTEREG in May 2008. In spite of the approval, the stock market price has fallen further compared to the price as at the reporting date December 31, 2008. We have reported the decrease in value as of December 31, 2009 with effect on the bottom line.

### **Epigenomics AG**

Epigenomics AG is a biotech company that is active in the field of identifying colon cancer on the basis of tumor markers. We see a great market potential for this type of cancer diagnosis, which should experience greater acceptance than previously used invasive procedures while offering the same high quality results. In addition to that, it is not possible to rule out that the tumor marker procedure may also be used to improve the quality of results of the invasive procedures used in the past. As a result, we are expecting that our involvement will have a positive development in the future. After the stock market price fell once again on March 31, 2009, which resulted in another valuation adjustment with effect on the income, the value recovered by 25.6% as of the reporting date December 31, 2009 compared to our purchase price. The write-up was posted in the market assessment reserve.

### **Agfa-Gevaert N.V.**

Agfa-Gevaert is a worldwide leader in image technology with a sales volume of EUR 3 billion. With 42% of total sales, the health care division is an international prominent IT supplier for hospitals. Hospital IT represents a long-term growth market. Due to the fallen stock market price as of March 31, 2009, value adjustments were implemented with effect on the income. The stock market price had recovered by December 31, 2009. The resulting write-ups were posted in the market assessment reserve.

### **Eckert & Ziegler AG**

Eckert & Ziegler Strahlen- und Medizintechnik AG is an internationally active company in the isotope technology field and holding company for a number of subsidiaries, specializing in the processing of radioisotopes as well as the development, production and sales of isotope technology components and medical equipment. The company registered a sales volume in excess of EUR 100 million in 2009. Here additional write-offs were reported on March 31, 2009 with effect on income due to the stock market price as of the reporting date. As of December 31, 2009 the stock market price had increased by 54.3% compared to our purchase price. The resulting write-up was posted in the market assessment reserve.



The following table shows the highest and lowest prices respectively on the German and US capital markets for shares included in the Securities balance sheet item at the end of the 2009 fiscal year.

	2009		2008	
	Highest price EUR	Lowest price EUR	Highest price EUR	Lowest price EUR
Draegerwerk AG & Co KGaA	31.80	13.28	-	-
Pfizer Inc.	13.60	9.53	-	-
Evotec ADRs 2	4.66	1.04	2.91	1.25
Evotec AG	2.36	0.55	2.29	0.66
Adolor Corp.	1.94	0.92	3.80	1.14
Epigenomics AG	3.87	1.57	2.73	1.50
Agfa-Gevaert N.V.	4.52	1.24	10.45	1.72
Cardionet Inc.	22.24	2.96	-	-
Eckert & Ziegler AG	21.10	5.51	10.30	7.30

### Market Price Risk - Raw Material Prices

Certain raw materials are important for the continuous supply of our production processes. The procurement market risks involve the shortage or rising costs of production-essential raw materials or the products acquired during contract manufacturing. The key items are monitored by us constantly such that we currently do not see any significant risks here.

### Other Information

#### Information about Executive Committee

The Executive Committee of Geratherm Medical AG included during the year under review:

#### Chairman

Dr. Gert Michael Frank, Dipl. Wirtschaftsingenieur, Frankfurt am Main  
Managing director of GMF Beteiligungsberatung GmbH, Frankfurt am Main  
Managing director of GME Rechte und Beteiligungen GmbH, Geschwenda  
Managing director of Geratherm Respiratory GmbH, Bad Kissingen  
Executive board of Biomics Biotec AG, Dänischenhagen

#### Board member

Thomas Robst, Dipl.- Ing., Geraberg  
Board member for Marketing and Sales

The company is legally represented by two members of Executive Committee or by one member of Executive Committee in conjunction with one authorized officer (Prokurist). If the Executive Committee has only one member, this person represents the company exclusively. Dr. Frank is authorized to represent the company on his own.

Fixed payments in the amount of 168 kEUR (2008: 137 kEUR) and variable payments in the amount of 29 kEUR (2008: 20 kEUR) for the activities of the Executive Committee were reported during the 2009 fiscal year. The remuneration received by the managing directors in the amount of 9 kEUR (2008: 9 kEUR) represents contributions to the contribution-oriented pension schemes. As in the previous year, no variable payments were accrued in 2009 for management services based on financial results. On June 12, 2006 the annual general meeting decided that the information required for five years according to Art. 285 Para. 1(9)a Clause 5 to 9 and Art. 314 Para. 1(6)1 Clause 5 to 9 of the HGB (German Commercial Code) be omitted.

As of the reporting date, the Executive Committee held directly and indirectly 2,741,987 shares.

### Information about Supervisory Board

In accordance with the Articles of Association, the supervisory board comprises 3 members.

#### Members of the supervisory board are:

Rudolf Bröcker, Bensheim (Chairman of the supervisory board)  
Dipl.-Kaufmann  
Member of the supervisory board of Biomix Biotec AG, Dänischenhagen

Bruno Schoch, Suresnes, France  
Deputy general director of Fromageries Bel SA, Paris  
Member of the executive board of Unibel SA, Paris  
Member of the executive board of SICOPA SA, Paris  
Member of the supervisory board of Société des Domaines SAS, Wattwiller, France

Firus Mettler, Frankfurt am Main  
Dipl. Jurist, MBA  
Chairman of the supervisory board of Biomix Biotec AG, Dänischenhagen

A payment in the amount of 12 kEUR (2008: 12 kEUR) is included in the accrued liabilities for the activities of the supervisory board in 2009.

The members of the supervisory board hold 3,769 shares.

### Staff Trends

		Employees	Technical employees	Trainees	Total
Number of employees (annual average) - excluding managing	2009	37	66	1	104
	2008	36	45	1	82

### Corporate Governance Report

The declaration as prescribed in Art. 161 Aktiengesetz (German Stock Corporation Act) was issued by the Executive Committee and Supervisory Board of Geratherm Medical AG and made available to the shareholders on the company's homepage.

Geschwenda, March 23, 2010

Geratherm Medical AG



Dr. Gert Michael Frank



Thomas Robst

### Oath concerning the Group Management Report for the business year 2009

We hereby affirm that to the best of our knowledge the Consolidated Financial Statement drawn up in accordance with the applicable accounting standards truthfully reflects the assets, financial and earnings situation of the Group and that in the Group Management Report the course of business, including the business results and the situation of the Group, are presented in such a way as to convey a true picture of the real circumstances and to describe the main opportunities and risks arising from the Group's anticipated development.

Geschwenda, March 23, 2010

Geratherm Medical AG



Dr. Gert Frank  
Vorstandsvorsitzender



Thomas Robst  
Vorstand Marketing/Vertrieb

## Auditor's Report

We have examined the consolidated financial statement prepared by Geratherm Medical AG, Geschwenda, comprised of consolidated balance sheet, consolidated profit and loss account, consolidated cash flow statement, consolidated statement of income and accumulated earnings, consolidated statement of changes in equity capital and the notes to the consolidated financial statements as well as the consolidated annual report for the fiscal year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Leipzig, March 23, 2010

KPMG  
Wirtschaftsprüfungsgesellschaft

## **Imprint**

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## Financial calendar 2010

Analyst Conference/ EuroMedTech 2010  
6/01/2010, Westin Hotel in Leipzig

Annual General Meeting  
06/07/2010, Hotel Pullman in Erfurt

Quarterly Reports 1. Quarter  
05/20/2010

Quarterly Reports 2. Quarter  
08/19/2010

Quarterly Reports 3. Quarter  
11/18/2010

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