

Geratherm[®]

SOLUTIONS FOR A HEALTHY WORLD

Annual Report 2010



FACTS AND FIGURES

	12/31/2010	12/31/2009	Change
Sales revenues	16,978 kEUR	14,385 kEUR	18.0 %
Export share	14,646 kEUR	11,711 kEUR	25.1 %
Export ratio	86 %	81 %	6.2 %
Gross profit (EBITDA)*	2,948 kEUR	2,607 kEUR	13.1 %
EBITDA - Margin	17.4 %	18.1 %	-3.9 %
Amortization or depreciation	-598 kEUR	-370 kEUR	61.8 %
Operating results (EBIT)	2,350 kEUR	2,237 kEUR	5.0 %
EBIT margin	13.8 %	15.6 %	-11.5 %
Financial results	983 kEUR	560 kEUR	75.6 %
Result of ordinary activities	3,333 kEUR	2,797 kEUR	19.2 %
Profits of the shareholders of the parent company	2,712 kEUR	2,679 kEUR	1.2 %
Long-term assets	6,076 kEUR	5,982 kEUR	1.6 %
Short-term assets	20,885 kEUR	16,670 kEUR	25.3 %
Total assets	26,961 kEUR	22,652 kEUR	19.0 %
Equity capital	20,517 kEUR	17,670 kEUR	16.1 %
Return on equity	13.2 %	15.2 %	-12.8 %
Equity ratio	76.1 %	78.0 %	-2.4 %
Cash, cash equivalents and securities	12,022 kEUR	11,058 kEUR	8.7 %
Earnings per share according to IFRS (EPS)**	0.56 EUR	0.60 EUR	-6.7 %
Earnings per share according to DVFA**	0.56 EUR	0.60 EUR	-6.7 %
Proposed dividend	0.40 EUR	0.40 EUR	-
Number of employees at end of period	133	106	25.5 %
Total shares issued	4,949,999	4,500,000	10.0 %
**based on total shares issued	4,863,698	4,500,000	8.1 %

* EBITDA = profits from ordinary business activities adjusted by financial results and write-offs.

OVERVIEW OF HIGHLIGHTS

2008

In spite of the serious slump in the economy, Geratherm managed to post a 15 % growth and achieved for the first time sales of over EUR 10 million with an operating result (EBIT) of kEUR 594. Research and development activities were stepped up in the areas of pulmonary function testing and early detection of strokes.

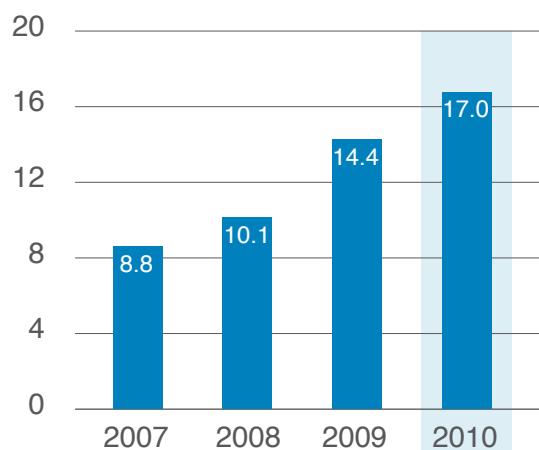
2009

The EU's ban on mercury went into effect on April 3, 2009. Geratherm recorded a strong demand for its environmentally friendly mercury substitute, Galinstan, which is used in clinical thermometers, among other things. Production at the plant in Thuringia was expanded considerably. The company posted a sales growth of 43 %. More than 80 % of the products are marketed internationally in approx. 60 countries.

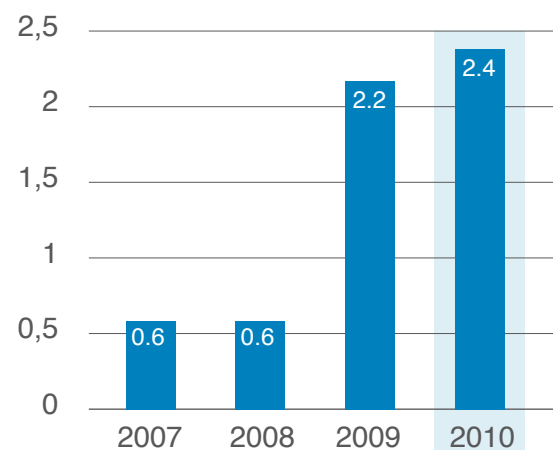
2010

The company experienced once again an 18 % growth. Geratherm's warming systems received FDA approval and were selected as one of the ten best products in Germany, offering the greatest savings potential in the health care industry. The cardio division apoplex in Pirmasens received the Innovation Award that is presented by the German federal state Rhineland-Palatinate. Geratherm Medical currently has 133 employees. The sales volume increased to EUR 17 million with operating results (EBIT) amounting to EUR 2.4 million.

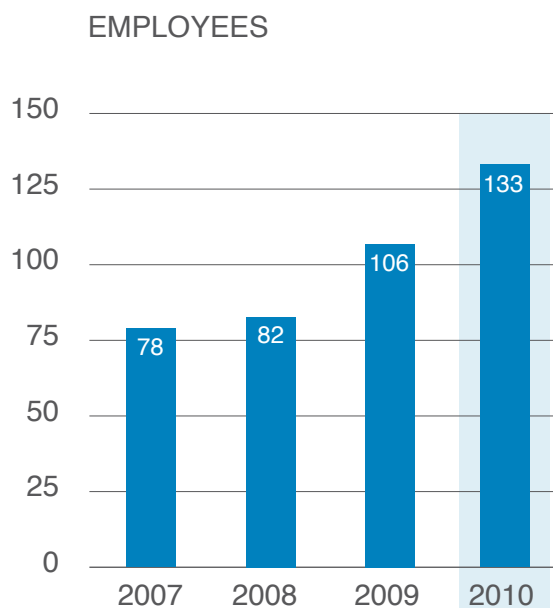
TURNOVER in million euros



EBIT in million euros



GERATHERM MEDICAL IS AN INTERNATIONALLY FOCUSED MEDICAL TECHNOLOGY COMPANY WITH THE BUSINESS UNITS HEALTHCARE DIAGNOSTIC, MEDICAL WARMING SYSTEMS, CARDIO/STROKE AND RESPIRATORY.



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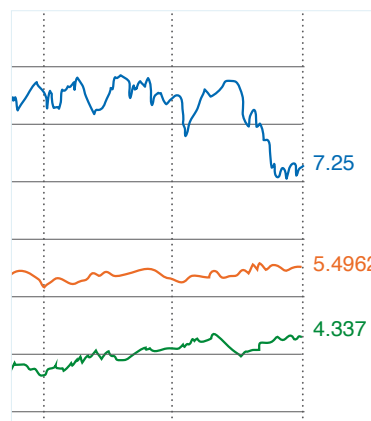
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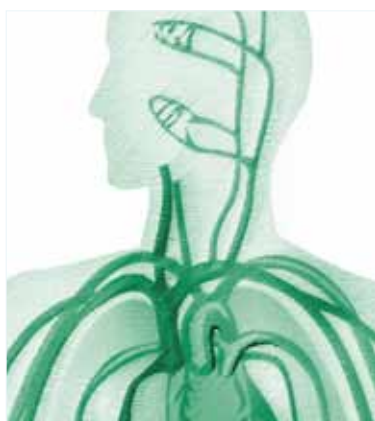
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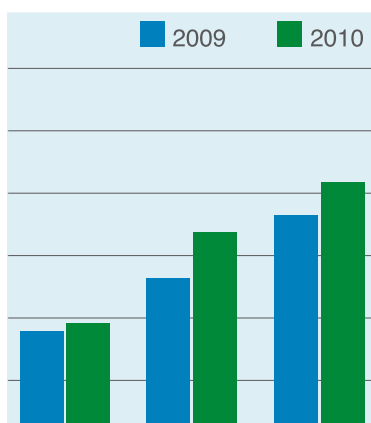
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The Supervisory Board of Geratherm Medical AG has monitored ...

... and advised the company's Executive Committee throughout the 2010 fiscal year. The Executive Committee regularly provided the Supervisory Board with detailed information about Geratherm Medical AG's planning, ongoing business development and risk management. That included in particular the order, sales and asset situation, the financial assets, the status of the planned development projects and the new business areas. The Supervisory Board convened four times in this regard during the 2010 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 in individual meetings. The Executive Committee fully fulfilled its duties to inform and report.

The Supervisory Board was not aware of any conflict of interests on part of its members during 2010 such that every member participated in all discussions and decisions.

The issues discussed involved the business policies of the parent company and the individual group member companies.

The supervisory board meetings focused primarily on expanding its shareholder structure by means of a capital increase that was implemented during the first quarter of 2010 and discussing a new logistics concept that may become necessary as a result of Geratherm's strong corporate growth.

Other focal points included the planned product developments in the individual business segments and management of the company's assets.

During its last meeting of the past fiscal year in December 2010, the Supervisory Board was able to get an idea of the investments already made and those in planning and about the current status of production at the company's headquarters in Thuringia.

The year-end financial statements of Geratherm Medical AG, which were prepared in compliance with Germany's Commercial Code (HGB), the consolidated financial accounts, which were prepared according to International Financial Reporting Standards and the respective management reports for the 2010 fiscal year have been checked by the appointed auditor, KPMG AG Wirtschaftsprüfungsgesellschaft Leipzig, while taking the company's books into account, and marked with their unqualified approval.

The documents of financial statements and the auditor's reports were sent to the members of the Supervisory Board immediately upon completion. The auditor participated in the Supervisory Board's discussions about the adoption of the financial statements, reported the significant results of the audit and was available for answering questions.

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

In our meeting on 25.03.2011, the Supervisory Board adopted the year-end financial statements and the consolidated financial accounts as of December 31, 2010. The financial statements are thereby approved.

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 2010.

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 suitable. 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 of the companies belonging to Geratherm Medical Group who have made a significant contribution to Geratherm's positive development in the 2010 fiscal year thanks to their dedication and commitment.

Geschwenda, this 25. day of March 2011



Rudolf Bröcker
Chairman of the supervisory board

A background image showing dandelion seeds floating in the air against a clear blue sky. The seeds are white and fluffy, with some dark brown seed heads visible. The overall mood is light and airy.

02 REPORT OF THE MANAGING BOARD

*What will bring us the
new decade?*

We are optimistic.

A close-up image of green grass at the bottom of the page, with blades of grass pointing upwards. The grass is vibrant green and appears to be in focus.



The past 2010 fiscal year was the third year in a row, where the company posted a double-digit growth figure again.

Dear Shareholders and Friends of Geratherm,

Not many companies can claim that they came through the last recession unscathed. Even less companies have managed to grow during the worldwide economic slump. That's why I am particularly pleased that Geratherm has experienced a very positive development during this phase. The sales volume has almost doubled since 2007 and the reported operating result (EBIT) quadrupled.

The past 2010 fiscal year was the third year in a row, where the company posted a double-digit growth figure again.

Besides the clear improvement in the operative performance figures, we are also proud of the fact that we were able to hire more than 30 new production employees for the Geschwenda plant in Thuringia last year.

Most of the corporate growth can be attributed to the EU's ban on mercury. The fact that individual countries are increasingly switching over to non-toxic products has also led to a high demand in gallium thermometers that are

manufactured at the Thuringia-based location.

Geratherm was still unable to satisfy the demand for environmentally friendly gallium thermometers in 2010, even though the annual production had increased significantly from 3.5 million thermometers to 4.6 million thermometers. We did experience delays in the supply chains, such as machinery producers, which still do not function as a result of the inventory liquidation like they used prior to the economic crisis.

During the 2010 fiscal year, we focused on managing the Geratherm's corporate growth and broadening the new business areas pulmonary function monitoring and stroke prophylaxis.

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. The fact that more and more doctors are applying this procedure can be seen as a positive development. At the end of December 2010, there were 637 users connected to the early stroke detection system (+35.0 % compared to the prior year). We were very glad that we received the innovation award presented by the federal state Rhineland-Palatinate for our product deve-

lopment involving atrial fibrillation detection/stroke prophylaxis in November 2010.

Geratherm's traditional core activities are focused primarily in the Temperature Management segment, i.e. it produces and markets all products, ranging from clinical thermometers and mini computers for documenting the body's temperature through to active warming systems for maintaining the body's temperature. After a long period of preparation, we received FDA approval for the warming systems developed by Geratherm for operating rooms and rescue operations in September 2010. As a result, the groundwork for a future successful marketing on the US market has been laid.

In the Respiratory segment, we concentrate on products for measuring lung function. The emphasis here is still on the development of new products. The planned increase in sales could not be realized in 2010, since the product launches were delayed. We are optimistic, however, that we will be able to achieve a two-fold increase in sales for 2011.

Medical technology continues to offer innovative companies great growth potential due to interesting products. The barriers to market entry are still high, because the approval-related requirements are increased regularly in almost all countries. Good products, patience and financial staying power are success factors for mastering barriers to market entry.

The products offered by Geratherm are primarily aimed to address international niche markets. The majority of the products

marketed are based on basic innovations that are protected with patents. Geratherm Medical is a company with an international outlook. The export share of our products exceeds 80 %.

The 2010 fiscal year was an exciting and the most successful business year for Geratherm so far.

A good liquidity position and sound balance sheets are indispensable success factors for a dynamically growing company.

We would like to thank our new shareholders, who have provided Geratherm Medical with additional liquid funds for the company's development as part of the increase in capital in March 2010.

We are very excited about the 2011 fiscal year and are pleased to still have the opportunity to successfully manage Geratherm Medical and meet the challenges ahead of us.

Yours faithfully,



Dr. Gert Frank
Chairman of the Board

03 THE GERATHERM SHARE

The economic situation recovered noticeably all over the globe during the course of 2010. The business climate indexes increased in all economic regions. The rate and strength of the V-shaped recovery far exceeded expectations and surprised many skeptics. The share market essentially anticipated the development and recovered significantly again compared to the same period last year, where the German share market performed the best globally. Germany's leading share index closed in 2010 with a plus of 16.1 %.

The share markets in Europe did not develop quite as favorably though. Without Germany, the MSCI EMU fell by 5 % in 2010. If the development of the share market is viewed over a longer interval, the European Stoxx 600 is listed nominally on the level of the spring of 1998. The MSCI World, which is listed in dollar, posted a 10 % increase.

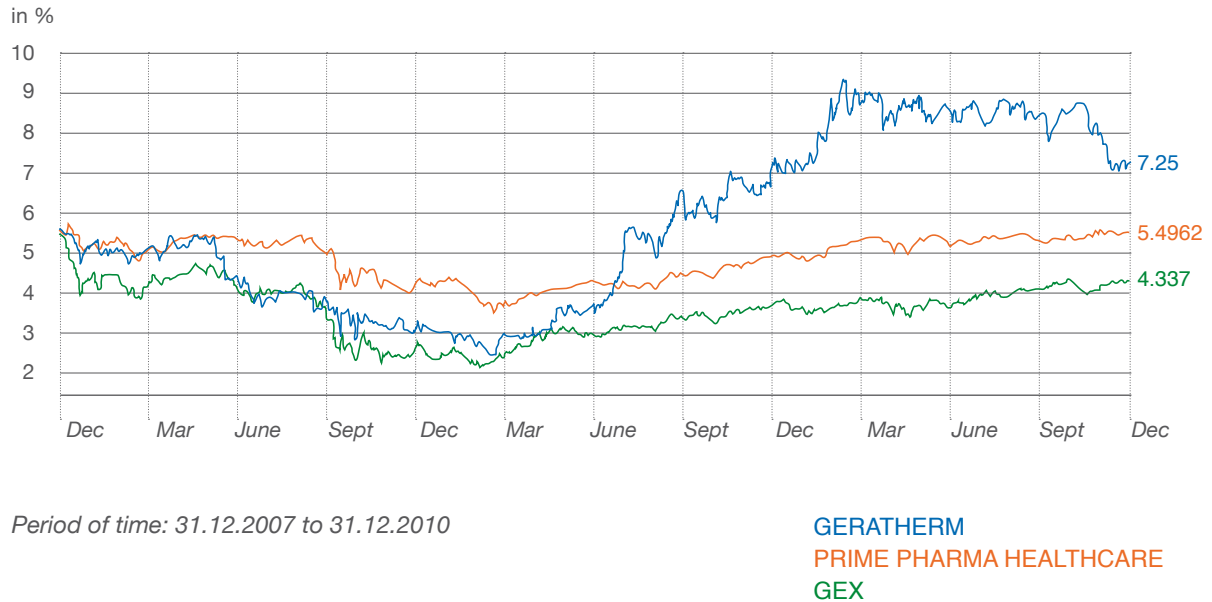
International pharmaceutical and medical technology securities exhibited a weaker development, which fell into oblivion a little due to structural problems, the pressure of the healthcare sector and the slow pace of innovation. Neither the recovery of economic activity as a catalyst nor the low interest rates nor the predominantly good figures posted by companies in the healthcare sector were able to

help. Pharmaceutical stocks were not able to escape the lowest valuations in decades, while MedTech stocks were spurned noticeably. For instance, the DJ World Health Care Index increased only by 2.7 % in 2010. The performance of companies grouped together in the German Prime, Pharmaceutical and Health Care Index looked considerably more positive, increasing by 11.2 % in 2010.

The shares of Geratherm Medical also benefited from the improving capital market conditions. Since the beginning of 2010, the share price increased from EUR 6.62 to EUR 7.25 by the end of the year. That corresponds to a 9.52 % increase in share price performance.

The good development of Geratherm shares during the first quarter of 2010, which was due to high demand, prompted us to issue 449,000 registered shares at a subscription price of EUR 8.00 to a select group of institutional investors as a follow-up to a roadshow. An increase in capital was conducted on March 11, 2010 and oversubscribed several times.

THE GERATHERM-SHARE 2010 COMPARED



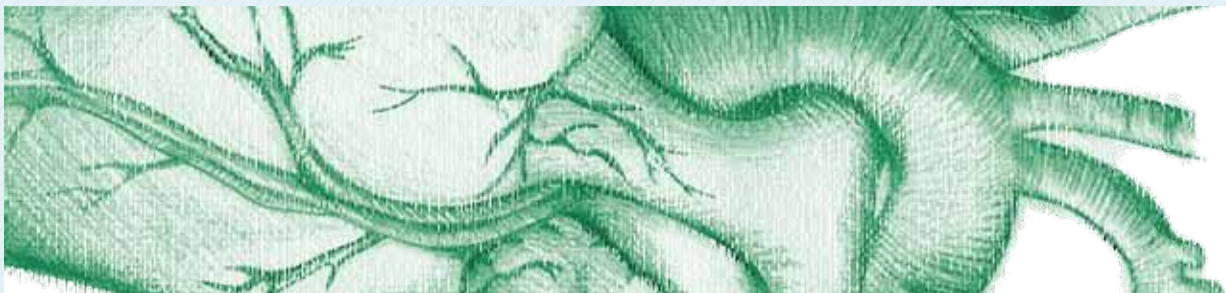
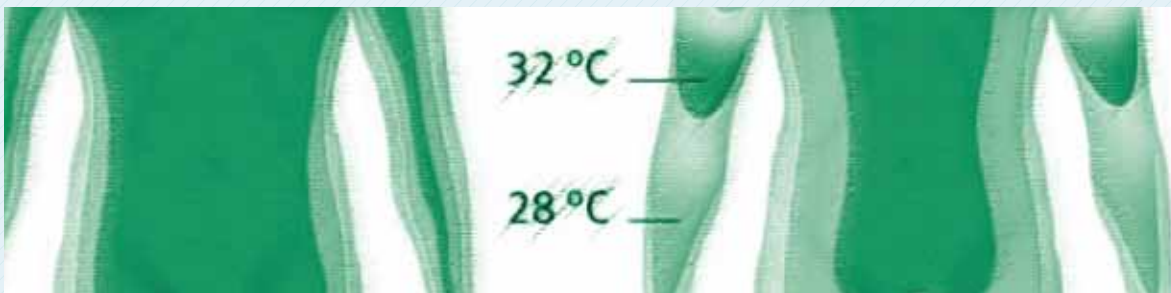
With the increase in tradable shares, the liquidity in Geratherm shares increased further. The trade volume of Geratherm shares on the German stock exchanges amounted to 2,232,144 shares in 2010 (2009: 1,207,740 shares). The majority of the transactions, amounting to 1,735,811 shares, were conducted through the electronic platform (XETRA) of the German Stock Exchange. The average daily sales volume, standing at 8,754 shares, was considerably higher again than in the previous year (2009: 4,755 shares). The highest daily sales volume was reported at 78,816 shares.

Geratherm's shares are listed in the Prime Standard, the highest quality segment of the German Stock Exchange. Moreover, the company's shares are listed in the 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 broad and stable shareholder structure. According to the latest records, the company's ownership structure is represented by approx. 2,000 shareholders. The free float of the company amounts to 47.22 %. There are a total 4,949,999 shares in circulation as of December 31, 2010.

Geratherm Medical strives to ensure the most open and transparent financial reporting possible. As part of our investor relations, we conducted investor presentations in Geneva, Paris, Zürich, Hamburg and Frankfurt in February of 2010. We also participated in the International EuroMedTech Day in Leipzig on June 1, 2010.

04 OPERATIONAL PRODUCT AREAS



*HEALTHCARE
DIAGNOSTIC*

*MEDICAL
WARMING SYSTEMS*

CARDIO/STROKE

RESPIRATORY

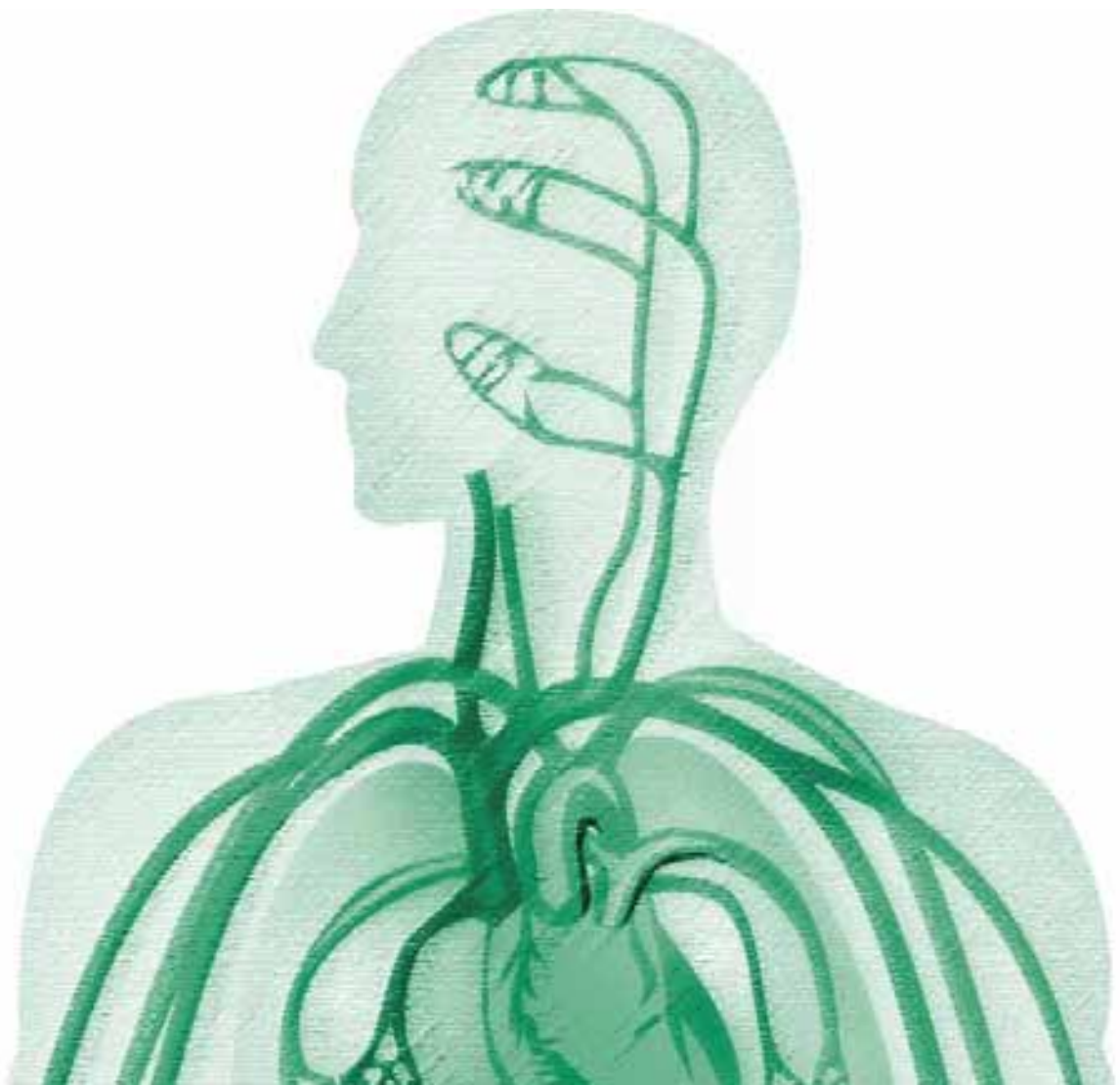
HEALTHCARE DIAGNOSTIC

In the Healthcare Diagnostic segment, we develop and market products for measuring vital information, especially body temperature and blood pressure. These products are marketed internationally to pharmacies, clinics and hospitals. We specialize primarily in the production of high-quality, environmentally friendly gallium thermometers, which are becoming more and more important due to the increasing ban on mercury worldwide.

Geratherm endeavors to offer a broader, appealing product range for pharmacies, clinics and hospitals as a sales channel. Besides monitors for measuring upper arm

and wrist blood pressure with integrated arrhythmia detection, we also aim to offer products for treating respiratory diseases in the future. At the same time, we intend to introduce products for determining ovulation onto the market in 2011.

The market for environmentally friendly products continues to develop in a very positive manner. The environmentally friendly gallium thermometers, which are manufactured by Geratherm and are gradually replacing the former toxic mercury thermometer, are aimed specifically at this market segment. The demand had increased again considerably in 2010



compared to 2009, which was a relatively good year. The strong growth was encouraged by the increased demand resulting from the EU's ban on mercury. The sales of clinical thermometers proved to be a stable source of income for the company again in 2010. Our classic product, a mercury-free clinical glass thermometer that is filled with gallium, is currently our best-selling product. For instance, the sales volume of gallium thermometers increased from 3.5 million units to 4.6 million units in 2010. On the whole, the volume of clinical thermometers sold in the different variations increased to 5.7 million units. (2009: 4.9 million units).

Even the sales of blood pressure monitors has developed favorably over the past few years, Geratherm is successful with this product group especially outside of Germany. During the fiscal year, 189 thousand units (2009: 140 thousand units) of Geratherm's blood pressure monitors were sold altogether. That is a clear increase of +35 %.

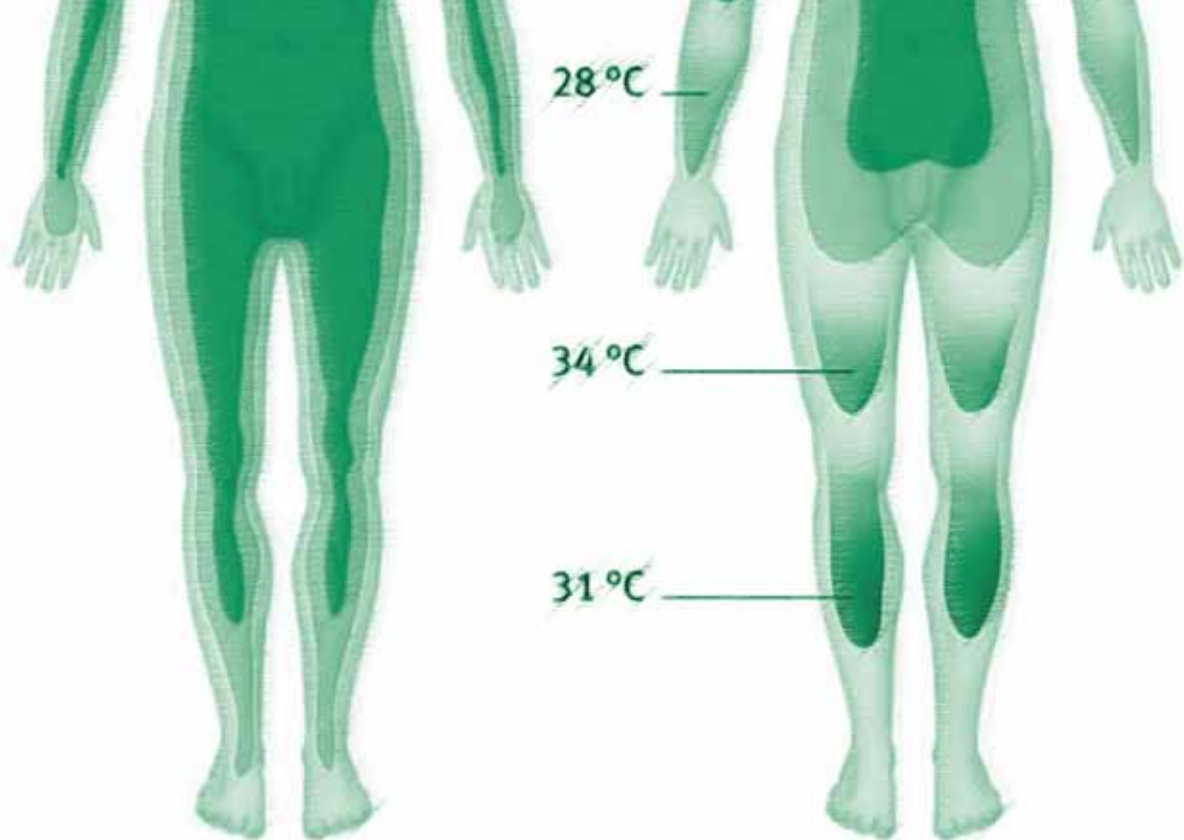
The increasing popularity of the Geratherm brand, especially in pharmacies in different countries, represents a good basis for further product releases in 2011.

THE MARKET FOR ENVIRONMENTALLY FRIENDLY PRODUCTS CONTINUES TO DEVELOP IN A VERY POSITIVE MANNER. THE ENVIRONMENTALLY FRIENDLY GALLIUM THERMOMETERS, WHICH ARE MANUFACTURED BY GERATHERM AND ARE GRADUALLY REPLACING THE FORMER TOXIC MERCURY THERMOMETER, ARE AIMED SPECIFICALLY AT THIS MARKET SEGMENT.

GERATHERM'S PRODUCTS
UNIQUETEMP° AND UNIQUERESC+
FOR MAINTAINING THE BODY'S
TEMPERATURE ARE MARKETING
INTERNATIONALLY. AMONG OTHER
THINGS, WE WERE ABLE TO OUT-
FIT THE FIRST HOSPITALS IN BRAZIL
WITH TWENTY OR SYSTEMS IN 2010.

In the medical warming systems segment we develop, produce and market reusable microprocessor-controlled patient warming systems for maintaining the body's temperature. The active warming systems for operating rooms are offered under the UniqueTemp° brand and the products for the emergency response segment under the UniqueResc+ brand. Geratherm possesses many years of experience in the field of medical temperature measurement.

The Geratherm patient warming systems are used to ensure the pre-, intra- and postoperative temperature management. As a result of the long useful life of the reusable warming blankets (approx. 5 to 6 years), the costs can be decreased decisively compared to the use of disposable



MEDICAL WARMING SYSTEMS

blankets. In addition, an economically justifiable pre-operative heat management is possible.

With the aid of the Geratherm warming system, patients can be warmed earlier and longer. That minimizes or eliminates the risks of an accidental intra-operative hypothermia. Not using a warming system can result in longer artificial respiration times, a greater loss of blood may occur in connection with a deterioration in wound healing. By the same token, the non-use of warming systems extends the operated patient's length of stay in the recovery room, intensive care unit or hospital.

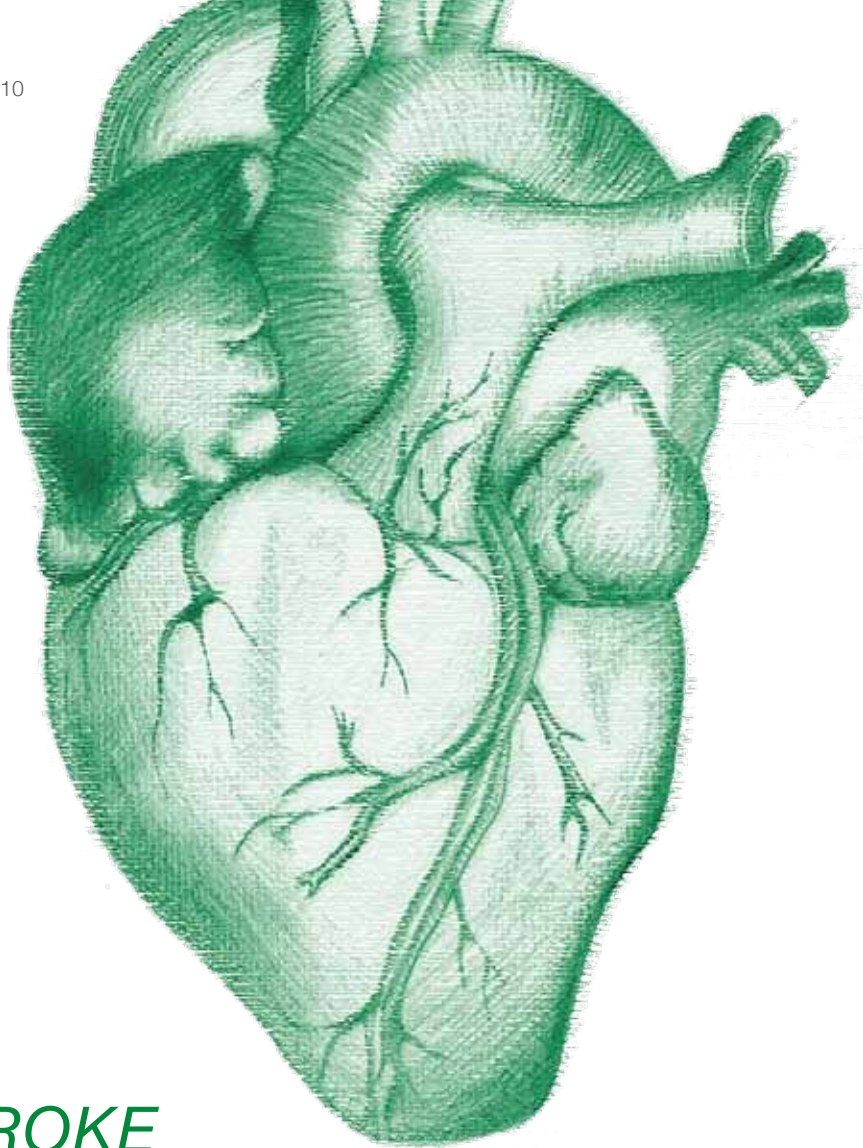
The warming systems developed by Geratherm are gaining more and more significance on the hypothermia market. We are particularly pleased that the warming

systems manufactured by Geratherm were selected among the ten most important innovations in the „Study 2010 – Cost Savings in the Medical Industry“ prepared by Prof. Dr. Marc Kraft, Medical Technology Department at TU Berlin, a team from the Medical Technology Competence Center of the business consultancy Droege & Company and the industrial association Spectaris.

In September 2010, we finally received the necessary FDA approvals for the Geratherm patient warming system and for the rescue system for the US market. We furthermore received the European air transport approval for rescue blankets UniqueResc⁺ in 2010. Therefore, Geratherm's product can be implemented in aircraft transporting patients.

Geratherm's products UniqueTemp^o and UniqueResc⁺ for maintaining the body's temperature are marketed internationally. Among other things, we were able to outfit the first hospitals in Brazil with twenty OR systems in 2010. Even the president hospital in Baku, Azerbaijan had decided in favor of Geratherm's warming systems like so many other hospitals. We were also able to equip Poland's navy with UniqueResc⁺ warming blankets in 2010 as well.

We are optimistic that the the warming systems segment will gain importance for Geratherm in the near future.



CARDIO/STROKE

The activities in the atrial fibrillation/stroke product segment are focused in apoplex medical technologies GmbH in Pirmasens, Germany. apoplex medical has developed a system for identifying atrial fibrillation in order to prevent a stroke. The product, a service, is offered to doctors, clinics and hospitals in different varieties.

There are approx. 1 million people living in Germany who have unidentified atrial fibrillation and thus are at a significantly increased risk of suffering a stroke. Since atrial fibrillation represents a treatable risk factor for stroke, it is important to identify as many of these people living with unidentified atrial fibrillation as soon as possible.

Heart disease usually goes unnoticed without symptoms or any definite symptoms and for this reason is difficult to diagnose. In addition to that, there are flutter episodes, which occur only sporadically, especially in the early phase, and thus discovery is frequently left to chance.

We aim to further expand the position as a service center for ECG analyses for stroke prevention on the basis of the technology developed by apoplex medical for detecting atrial fibrillation. This includes a broad range of services for medical specialists, family physicians, medical centers, hospitals and clinics.

THERE ARE APPROX. 1 MILLION PEOPLE LIVING IN GERMANY WHO HAVE UNIDENTIFIED ATRIAL FIBRILLATION AND THUS ARE AT A SIGNIFICANTLY INCREASED RISK OF SUFFERING A STROKE.

For medical specialists and family physicians, apoplex offers its SRAdoc product, which is available for patient screening in order to detect atrial fibrillation with a subsequent risk analysis. This application only requires an one-hour ECG, which is sent to apoplex medical's computer center via internet and is then returned to the relevant medical practitioner within about 3 minutes.

Identifying atrial fibrillation in clinics and hospitals is an integral part of the approach to prepare adequate treatments with the objective to prevent secondary strokes. For medical practitioners it is important to identify atrial fibrillation during ongoing flutter episodes or to receive an indication that

there is a risk of atrial fibrillation. That is where apoplex' SRAclinic product comes in.

Clinical trials, which validate the different aspects of use in everyday medical or clinical treatment, are essential for the marketing of the new products.

In cooperation with apoplex medical, a variety of institutions have conducted studies over the past two years. The results of these studies are expected to be published during the course of 2011.

A trial that focuses on „SRAdoc as risk stratification of unidentified atrial fibrillation as stroke prevention“ was performed by University of Münster in Germany.

A second study was conducted by University of Heidelberg. The focal point of the study was the product „SRAclinic for constant monitoring of patients suffering from an acute stroke to identify acute flutter episodes in a stroke unit“.

A third study concentrates on the topic „SRAdoc for risk stratification of patients with unidentified atrial fibrillation and the identification of acute atrial fibrillation episodes“.

RESPIRATORY

Geratherm Respiratory, which is located in Bad Kissingen, Germany, develops, produces and distributes medical products designed for pulmonary function diagnostics and cardiopulmonary function diagnostics.

The products Spirostik and Spirostik Complete, which are used in the area of spirometry, were launched on the European market with great success. All products rely on the company's own diagnostic software platform called Blue Cherry.

The 2010 fiscal year was once again distinguished by product developments that were aimed at making our existing range of products more attractive to registered pulmonary specialists and specialized clinics and hospitals. Besides newly developing an ECG recorder for special applications, a booth for testing pulmonary function, a so-called body plethysmograph, was developed and unveiled for the first time in November 2010 at the MEDICA trade fair in Düsseldorf, Germany, meeting with a positive response from professionals and experts in the field.

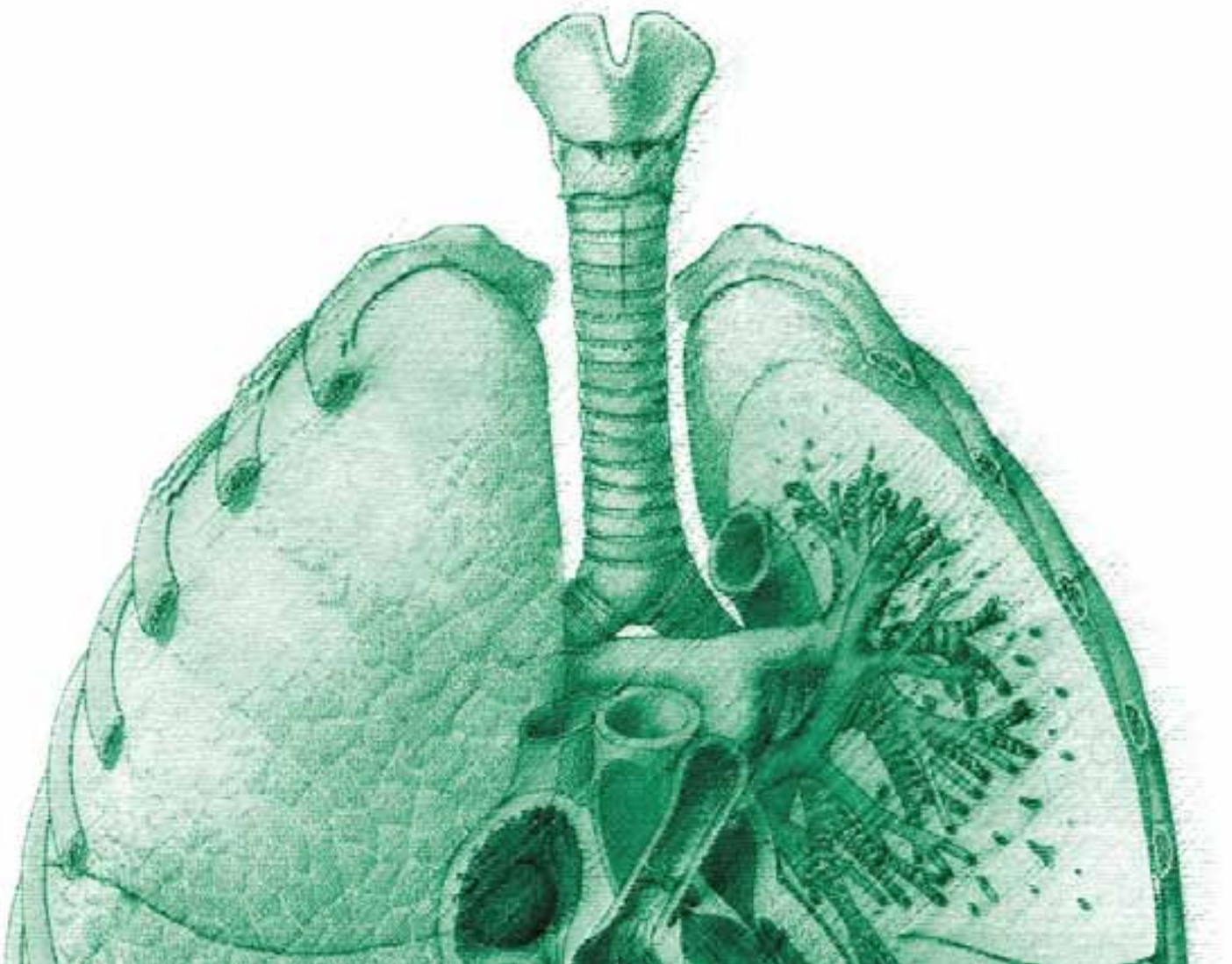
THE PRODUCTS SPIROSTIK AND SPIROSTIK COMPLETE, WHICH ARE USED IN THE AREA OF SPIROMETRY, WERE LAUNCHED ON THE EUROPEAN MARKET WITH GREAT SUCCESS. ALL PRODUCTS RELY ON THE COMPANY'S OWN DIAGNOSTIC SOFTWARE PLATFORM CALLED BLUE CHERRY.

In 2010, the product line was further developed in the areas of body plethysmography and CO diffusion. Body plethysmography is used to accurately quantify obstructive and restrictive lung diseases, to measure distended lung as well as perform bronchospasmolysis tests and provocation tests. CO diffusion involves a technique for measuring lung function. This method of examination primarily provides information about the ability of the lung's air sacs for transporting oxygen to the blood. The market launch of these new devices is slated for

mid 2011, especially in the core markets Germany, Great Britain and Benelux countries.

The product Ergostik, which is utilized in the area of cardiopulmonary function diagnostics, was upgraded with additional functions such that it may be connected, for instance, with ECG systems from major manufacturers like Mortara and General Electric. We were also able to acquire the Sports Medicine Department of University of Heidelberg as reference customer and cooperation partner.

So far, the customer response to Geratherm Respiratory's new product developments has been very positive such that this segment is expected to continue its dynamic development in 2011.



05 GROUP MANAGEMENT REPORT

*Research and development
progress optimistic*





GENERAL COURSE OF BUSINESS

The way 2010 progressed surprised many people. After the double-dip scenario occurring at the outset of the year, business activity recovered faster than many experts had expected. With an economic growth of 3.6 % – the strongest growth rate since its reunification, Germany was the forerunner not only in Europe but also among the G7 countries, exceeding by 1 % the growth rate reported by the US economy. The severe downturn experienced the year before with a 4.7 % decline in the economic performance should be taken into account, however.

The cyclical economic crisis seems to be over. The trend is

clearly pointing up again in almost every industrial country. There are exceptions still with regard to some Euro zone countries, which are striving to escape the debt trap with massive budgetary consolidations.

The stimulus spurring the economic recovery came mainly from investments and foreign trade. For instance, equipment investments in 2010 increased by 9.4 % and exports rose by 14.2 %. With a growth of 0.5 %, consumption remained on the same level reported the year before. Despite the historic growth, the deficit in Germany's federal budget increased from 3 % to 3.5 % of the gross

domestic product (GDP) in 2010.

The banking sector is still attempting to reduce the debts accumulated through summer 2007. The euro recovered from its drop during early summer in 2010. The euro's development remained vulnerable as a mirror image of the intensification of the debt crisis in Europe.

We assume that the global economy will continue to recover in 2011. In reference to Geratherm, we expect a steady demand from the markets in Europe, Middle East and South America.

MARKET ENVIRONMENT FOR MEDICAL PRODUCTS

The healthcare industry has survived the turmoil caused by the major recession and which has affected some industry sectors, without any damage. The market for medical technology has enjoyed a relatively stable development. There are indications, however, that the annual double-digit growth will not continue for the sector that has been spoiled by success for the time being.

The statutory health insurance's need to economize and the spending cuts in the healthcare industry are having an impact on the industry. The poor economic situation in the US further complicates the sales opportunities for

medical technology companies on the largest medical technology market in the world. The industry is considerably competitive due to the cost pressure in the health sector. It is also possible to expect low patient numbers especially on the largest medical technology market in the world, the US, since many Americans have lost their jobs and thus their health insurance as well. As a result, pending operations are postponed, if possible.

The medical technology market is expected to grow moderately in 2011 with 2 %. The large cardiology market with pacemakers and defibrillators is also under pressure in the US. The market should recuperate as of 2012. Consideration must be given the fact that as

of 2013 there are additional taxes for medical technology companies in the US and regulatory reforms that will make clinical trials more expensive.

The long-term outlook for the \$300-billion market is promising, however. The increasing life expectancy and the rise in chronic diseases run up the demand for healthcare services as well. People over sixty account for two-thirds of healthcare costs. Even emerging countries, especially in Asia, are increasingly seeking better health care which in turn leads to a greater demand over the medium term. And the number of people with heart problems and/or diabetes, which from experience elicits a high demand for medical products, also increases

THE WAY 2010 PROGRESSED SURPRISED MANY PEOPLE. AFTER THE DOUBLE-DIP SCENARIO OCCURRING AT THE OUTSET OF THE YEAR, BUSINESS ACTIVITY RECOVERED FASTER THAN MANY EXPERTS HAD EXPECTED.

with prosperity. All in all, the positive long-term outlook may contribute to an above-average growth compared to the GDP.

Innovative companies, which contribute to solving the patients' problems, will benefit on a sustained basis.

Geratherm Medical is well positioned with its innovative product lines in the areas of temperature management, pulmonary function testing and cardio/stroke and will continue to leverage opportunities that may arise in connection with the attractive market environment for medical products. In this respect, Geratherm's international focus is a good starting point.

THE ECONOMIC SITUATION OF GERATHERM MEDICAL

GENERAL OVERVIEW

Geratherm Medical continued to enjoy positive development during the 2010 fiscal year. Sales volume increased by 18.0 % to EUR 17.0 million. Thus, the company is on a promising course for growth, which is expected to continue during the coming fiscal year. Geratherm has managed to post double-digit growth rates for more than 3 years. The markets in Europe and Brazil and in the Middle East reported above-average performance. Geratherm's core business, Healthcare Diagnostic, reported an extraordinary growth of plus 20 %. Growth driver is still the strong demand for environmentally friendly gallium clinical thermometers.

The gross profit's development, which with a 21.9 % increase exceeded the reported 18.0 % growth in sales, is positive.

Another matter that can be assessed positively is the gross profit (EBITDA)¹ that increased by

13.1 %. Due to higher preproduction costs, such as personnel expenses and other material costs, the gross profit exhibited slightly lower growth rates than the increase in sales volume. The EBITDA margin of 17.4 % (2009: 18.1 %) is satisfactory.

The operating result EBIT showed only a slight increase to 5.0 % as a result of the greater write-offs for intangible assets and tangible assets. The EBIT margin amounted to 13.8 % (2009: 15.6 %).

Together with the financial results, the result for the shareholders of the parent company was reported in the amount of EUR 2.7 million. This corresponds to an earnings of 56 EUR cents per share.

¹ Gross profit (EBITDA) = profits from ordinary business activities adjusted by financial results and write-offs.



HEALTHCARE DIAGNOSTIC

The Healthcare Diagnostic segment encompasses essentially products that are used to measure vital information and are distributed internationally to pharmacies, clinics and hospitals. The range of products in this segment includes thermometers for measuring body temperature, blood pressure monitors with arrhythmia detection and products for determining ovulation. The new nebulizer used for administering inhalable medications and remedies in case of pulmonary function illnesses is scheduled to be launched by mid 2011. The so-called core business represents 91.7 % of the company's total sales. Geratherm's Healthcare Diagnostic division generated with a sales of EUR 15.6 million a 20 % sales increase compared with the prior year.

Impetus for growth came mainly from the sales of gallium-based clinical thermometers, which reported a high growth rate of 36.5 % With this product group,

Geratherm generated EUR 8.2 million altogether or 48.3 % of the overall sales. This development continues to be influenced favorably by the implementation of the EU's ban on mercury. The increasing trend to switch even outside the EU has generated additional demand. The sales of clinical thermometers increased on a whole from 4.9 million units to 5.7 million units. Geratherm has a good competitive position in this business area. The sales of clinical thermometers reflects 65.2 % of the segment's sales volume.

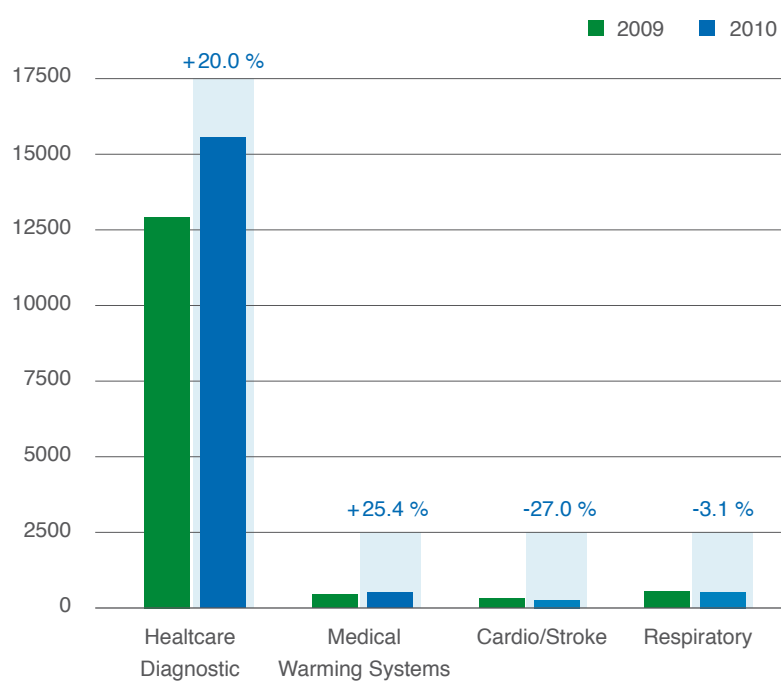
The sales of blood pressure monitors, which also posted above-average growth of 27.3 % to EUR 3.3 million, continues on its positive trend. Geratherm's blood pressure monitors are offered exclusively through pharmacies as sales channel. We concentrate on the higher-quality range of products in this submarket, which is characterized by intense competition. The product group, which boasts high double-digit growth rates for a long time now, represents

19.5 % of corporate sales. The main sales markets for Geratherm's blood pressure monitors were Europe with 11.4 %, South America with 58.9 % and Middle East with 21.2 %.

No noteworthy new products were released in 2010. That is due to a variety of reasons. The majority of the product releases planned for 2010 had been rescheduled for the 2011 fiscal year. We assume that if the general underlying conditions remain the same, the Healthcare Diagnostic segment will continue its positive development for the next two years.

SALES REVENUES BY SEGMENTS *in thousand euros*

	2010	2009	
Healthcare Diagnostic	15,564	12,969	+20.0 %
Medical Warming Systems	562	448	+25.4 %
Cardio/Stroke	262	359	-27.0 %
Respiratory	590	609	-3.1 %
Total	16,978	14,385	+18.0 %



MEDICAL WARMING SYSTEMS

In the Medical Warming Systems segment Geratherm offers products that are designed to maintain the body's temperature. Geratherm has many years of experience in the development of products designed to measuring the body's temperature. The relatively new Medical Warming Systems segment offers product solutions for situations, where it is necessary to ensure a fast and effective supply of heat to patients in operating rooms or emergency response situations. Geratherm's products are supplied to clinics and hospitals under the „UniqueTemp^o“ label and rescue services organizations under the „UniqueResc⁺“ label.

The absolute amount of sales is still relatively small compared to the group's overall sales. The obstacles to market entry are very high due to high preproduction costs. The market is transparent and dominated internationally by just a few vendors.

While sales development in the warming systems segment did not entirely meet our expectations, it was satisfactory with a 25.4 % sales increase to 562 kEUR. Many advance payments were made during the 2010 fiscal year, which will contribute to a considerably higher reported sales figure. We anticipate greater impetus in the coming years thanks to the FDA approvals received in 2010.

CARDIO/STROKE

Business activities involving atrial fibrillation and stroke prevention are concentrated in our subsidiary apoplex medical technologies in Pirmasens, Germany. This subsidiary specializes in stroke prevention products. To this end, apoplex has developed a system for identifying atrial fibrillation.

The products are offered to doctors, clinics and hospitals as part of atrial fibrillation diagnosis. The sales generated by apoplex amounting to 262 kEUR in 2010 was with -27.0 % considerably lower compared to the year before. One of the reasons was that a large contract for a clinical trial was deducted during the previous year and thus the basis of comparison is limited. It should be noted that the sales development has fallen short of our expectations so far. One positive aspect is that the number of users has increased noticeably during the 2010 fiscal year. All in all, the atrial fibrillation analyses completed by apoplex increased by 39.3 % to 10,581 analyses during the year under review. Even the number of connected stroke centers, which are constantly using apoplex' technology, increased to a total of nine centers.

The development in this segment is influenced by the current trials, which are currently in analysis. Our view of the overproportional growth opportunities in this segment remains unchanged.

RESPIRATORY

The Respiratory segment focuses on the development, marketing of products designed for pulmonary function diagnostics and cardio-pulmonary function diagnostics. Product development and market preparation are implemented at our premises in Bad Kissingen.

The sales development in this relatively new segment did not meet our original expectations. For 2010 we had planned on a considerably higher reported sales figure for the Respiratory segment. Altogether a sales of 590 kEUR (2009: 609 kEUR) was generated with the new products. The reasons for the below-average development were the more complex development expenses and the postponement of the market launch of new products.

The customer response to the new products of Geratherm Respiratory is still very positive and we assume that we are able to generate a clear two-fold increase in sales in 2011.

SALES DEVELOPMENTS BASED ON REGIONS

Geratherm is a company with an international presence. Our products are available in more than 60 countries. The sales structure of Geratherm products in the individual countries is basically the same. On the whole, we sold products in the amount of EUR 17.0 million in 2010. The export activities were once again a mainstay for the company in 2010. Approx. 86.3 % of the sales were generated internationally. The high and steady export share reflects the continued competitiveness of Geratherm's products on the international market.

After a healthy sales growth of more than 29.0 % in Germany in 2009, we were not able to generate this growth in sales in 2010 and even had to accept a 12.8 % decrease in sales during the past fiscal year. The decrease can be attributed to a variety of reasons, e.g. a decrease in demand due to last year's swine flu and delayed product launches.

An above-average growth with a 27.3 % increase in sales was reported in the euro zone outside of Germany. The economic area of Italy, Switzerland and Portugal exhibited an especially positive development. The European Market accounts for EUR 8.5 million which corresponds to 49.9 % of the total sales of Geratherm Medical.

Sales on the US market developed below average, decreasing slightly by -4.4 % to EUR 1.4 million. The share of the US market in Geratherm's total sales during the year under review was 8.2 % (2009: 10.1 %). There our gallium thermometers are sold primarily through US drugstore chains and warming systems for the military.

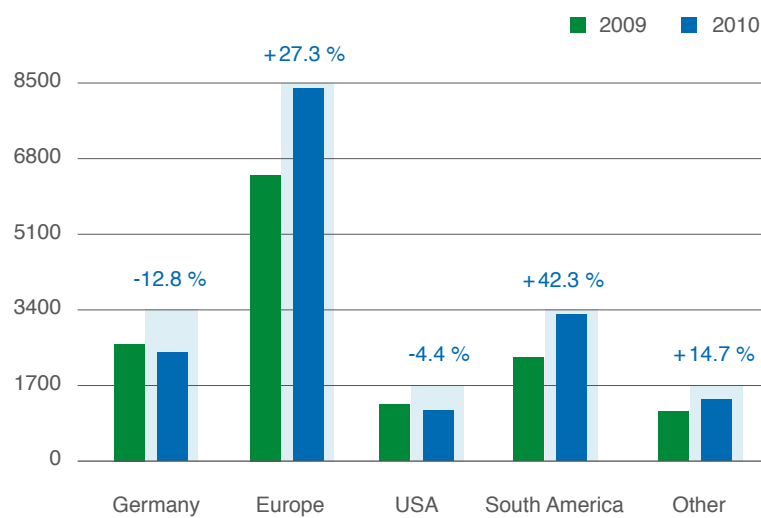
Geratherm's activities in the so-called emerging countries continue to gain importance as in the past years. The company's own sales organization in Sao Paulo managed to post a considerable growth spurt of 42.3 % to EUR 3.3 million. Another healthy increase in sales, amounting to 59.4 %, was generated in the Middle East. This country sales figure is integrated in the „Other countries“ region, which represents a 14.7 % growth.

The distribution of sales based on countries will present a similar trend in 2011 as during the 2010 fiscal year. We anticipate greater impetus from the sales markets in India, Pakistan, Middle East and South America. The approval regulations for medical products are being tightened more and more in individual countries such that there are planning uncertainties with regard to sales forecasts based on countries.



SALES REVENUES BASED ON REGIONS *in thousand euros*

	2010	2009	
Germany	2,332	2,674	-12.8 %
Europe	8,472	6,654	+27.3 %
USA	1,386	1,449	-4.4 %
South America	3,331	2,339	+42.3 %
Other	1,457	1,269	+14.7 %
Total	16,978	14,385	+18.0 %



EARNINGS SITUATION

The 2010 fiscal year was characterized again by a strong growth in sales volume. With an 18.0 % increase in sales the company managed to post an above-average increase in the gross profit by 21.9 %. The gross margin represents 62.5 % of sales. At EUR 2.350 million, Geratherm's operating results (EBIT) were 5.0 % higher than the previous year. The EBIT margin was 13.8 % (2009: 15.6 %) of sales. The below-average increase of the operating result is due to the considerably higher write-offs, especially amortizations of intangible assets, which were with 269 kEUR more than twice as high as during the reference period of 2009. Intangible assets include capitalized research and development costs that are first amortized with the market launch of the products.

The financial results as balance of realized earnings from securities, depreciations and interest earnings made a positive contribution in the amount of 983 kEUR (2009: 560 kEUR) to the overall performance of the company.

The profits from ordinary business activities increased by 19.2 % to EUR 3.333 million (2009: EUR 2.797 million).

The profit reported in the income statement for the 2010 fiscal year for the parent group is EUR 2.712 million or 56 cents per share.

The operating result adjusted by write-offs for Geratherm Medical increased parallel to the sales of EUR 2.948 million (2009: EUR 2.607 million). The EBITDA margin in relation to the sales level de-

creased slightly to 17.4 % (2009: 18.1 %).

Compared to our original assumptions, the operating result reported during the 2010 fiscal year was influenced negatively by consolidated start-up losses incurred by the new business units apoplex medical, Respiratory and Warming Systems. All in all, the loss of the Cardio/Stroke business unit was -274 kEUR (2009: -197 kEUR). Even the Respiratory business unit contributed a loss of -251 kEUR (2009: -144 kEUR) to the reported consolidated operating result. The Warming Systems business unit also weighed on the group operating result with approval-related additional costs and concluded the fiscal year with a minus of 69 kEUR (2009: -57 kEUR). Geratherm again did not meet the objective of breaking even as set for the new business units for the year. Our Brazilian subsidiary contributed an allocation of results in the amount of 106 kEUR to the group operating result.

The material costs that were below the sales growth developed positively. The material expenditure increased altogether by 13.3 % to EUR 7.168 million (2009: EUR 6.329 million). The personnel expenditure exhibited an above-average increase of 25.9 % and amounted altogether to EUR 3.902 million in the 2010 fiscal year (2009: EUR 3.100 million). The higher personnel expenditure is due to the hiring of new personnel to accommodate growth.

Amortization of intangible assets and depreciation of tangible assets were increased by 61.8 % to 598 kEUR (2009: 370 kEUR).

The above-average increase can be attributed to the amortization of intangible assets (269 kEUR) due to the introduction of new products and the amortization of invested capital due to above-average investments made at the Geschwenda location.

The other operating expenses also exhibited an above-average increase of 25.3 % to EUR 3.765 million (2009: EUR 3.006 million).

During the 2010 fiscal year, Geratherm Medical was able to generate the positive results again from financing activities. Of the reported financial result of 983 kEUR, 89 kEUR went to dividend income and 952 kEUR as net result from securities transactions. The interest balance and similar income and expenses amounted to -58 kEUR.

Together with the operating result, Geratherm Medical was able to post profits from ordinary business activities in the amount of EUR 3.333 million for the 2010 fiscal year. This is the best result in the history of Geratherm Medical.

Taxes on profit amounted to 791 kEUR (2009: 194 kEUR) and are thus considerably higher than during the reference period of 2009. The minimum taxation despite the existence of net operating losses carried forward amounts to 202 kEUR. The considerably higher amount is caused by deferred taxes in the amount of 589 kEUR. These taxes are non-cash. The increased deferred taxes arise due to the good results according to IFRS regulations, since the losses carried forward were capitalized at an earlier time and are now deducted from profits. Due to the

burdensome deferred taxes as per IFRS rules, the net consolidated income decreased by 2.3 % to EUR 2.542 million (2009: EUR 2.603 million).

The losses incurred by apoplex medical technologies are taken into account only to the extent of our participating interest in the amount of 61 %. The same applies to the losses of Geratherm Respiratory, in which we have a 61.27 % participating interest. There is a profit contribution from Geratherm do Brasil as part of consolidation. Geratherm Medical has a 51 % participating interest in this subsidiary. Full consolidation produced a result in the amount of -169 kEUR, which is apportionable to other shareholders (2009: -75 kEUR). For the 2010 fiscal year, Geratherm Medical is able to report a shareholder value for the parent company in the amount of EUR 2.712 million (2009: EUR 2.679 million). This corresponds to a net profit of 56 EUR cents per share (2009: 60 EUR cents).

The 2010 fiscal year built on a healthy prior year and managed to show with over EUR 3.3 million the best results from ordinary business activities.

We are looking forward with optimism to the opportunities we have to push the company's continuing successful development.

The board of directors and supervisory board of Geratherm Medical will propose to the general meeting a distribution of dividend in the amount of 40 EUR cents per share. The dividend will be disbursed for the most part (over 90 %) from the so-called tax de-

posit account with neutral tax effect in accordance with Art. 27 of KStG (Corporation Tax Law). This type of dividend payments is regarded as a refund on investment by shareholders and thus is not viewed as dividends within the meaning of Art. 20 (1) of KStG.

GERATHERM MEDICAL POSSESSES
A SOUND ASSETS SITUATION AT
THE END OF THE 2010 FISCAL YEAR.
THE FINANCIAL RESOURCES PROVI-
DED BY SHAREHOLDERS OF GERA-
THERM, INCLUDING THE CAPITAL
INCREASE IN MARCH OF 2010,
ENABLE THE COMPANY TO OPERATE
WITHOUT ANY EXTERNAL FUNDING.

ASSET SITUATION

The balance sheet total as of December 31, 2010 was EUR 27.0 million, which was 19.0 % higher than on the reporting date of the previous year. The company's reported equity capital is EUR 20.5 million (2009: EUR 17.7 million) or 76.1 % of the balance sheet total. The equity capital per share is EUR 4.15. The capital base allows the company to act very independently and pursue long-term corporate objectives. The market launch of new products and the formation of new business areas in the healthcare sector involve high development risks and commercial launch risks. Geratherm possesses adequate financial resources for countering risks.

As of December 31, 2010, the assets side of the balance sheet, which totals EUR 26.961 million, contains long-term assets amounting to EUR 6.076 million (2009: EUR 5.982 million) and short-term assets amounting to EUR 20.885 million (2009: EUR 16.670 million).

Within the long-term assets, the intangible assets decreased considerably by -24.5 % to 783 kEUR (2009: EUR 1.037 million). Depreciation of development costs was necessary, since a majority of the products were released for the first time. The tangible assets increased to EUR 3.202 million (2009: EUR 2.319 million). The increase in tangible assets can be attributed essentially to investments that were necessary for increasing production capacity at the Geschwenda plant in Thuringia. A total EUR 1.149 million were invested in the production facility in Thuringia.

The deferred taxation amounts to EUR 2.091 million (2009: EUR 2.626 million). That represents a decrease of 535 kEUR compared to the prior year and is justified as per tax law by the equally positive profit statement, which involves the use (consumption) of existing tax losses carried forward. The deferred taxation includes assets from the tax losses carried forward less the deferred tax liabilities on capitalized developments.

The inventory increased considerably compared to the prior year and amounted to EUR 4.799 million as of December 31, 2010 (2009: EUR 2.823 million). The considerable increase in inventory is due to the company's growth during the year under review and the extraordinarily low level as of the reporting date for the prior year. Raw materials and supplies increased by 58.8 % to EUR 1.573 million, unfinished goods by 32.5 % to 676 kEUR as well as the finished goods and products by 92.9 % to EUR 2.550 million.

The trade accounts receivable increased by 35.3 % to EUR 3.200 million (2009: EUR 2.365 million). Tax receivables amounted to 330 kEUR at the end of the year (2009: 104 kEUR). Other tangible assets increased to 534 kEUR (2009: 321 kEUR). This item contains investment grants with 167 kEUR and prepayments with 219 kEUR.

The reported book value of the securities held by Geratherm increased by 21.4 % to EUR 6.502 million (2009: EUR 5.355 million). The cash and cash equivalents available as at December 31, 2010 amounted to EUR 5.519 million (2009: EUR 5.703 million).

The equity and liabilities side of the balance sheet shows the company's strong equity capital base. Consequently, the equity capital in the amount of EUR 20.517 million (2009: EUR 17.670 million) is offset by debts amounting to EUR 6.445 million (2009: EUR 4.982 million).

The long-term debts amounting to EUR 2.751 million (2009: EUR 3.073 million) includes liabilities to banks in the amount of EUR 1.500 million. The loan bears a nominal 1.45 % interest p.a., which Geratherm can pay back at any time. Long-term debts also include investment subsidies accrued and received in past years, which amounted to 729 kEUR as of December 31, 2010. The long-term debts amounting to 522 kEUR (2009: 465 kEUR) come from loans of other minority shareholders.

The trade accounts payable increased to EUR 1.127 million during the 2010 fiscal year (2009: 708 kEUR). The other liabilities went up from 532 kEUR to 752 kEUR. These essentially include accounts payable to employees and accrued liabilities.

THE FINANCIAL SITUATION OF GERATHERM MEDICAL WAS VERY SOUND DURING THE 2010 FISCAL YEAR, AS IN PAST YEARS. THE COMPANY'S CASH AND CASH EQUIVALENTS AMOUNTED TO EUR 5.519 MILLION (2009: EUR 5.703 MILLION) AS AT DECEMBER 31, 2010.

FINANCIAL SITUATION

In spite of high investments in new production facilities and the company's growth during the current fiscal year, Geratherm possesses almost the same cash and cash equivalents as at the outset of the period under review. The financial situation provided Geratherm Medical with freedom to make investments at any time in order to preserve or further expand the company's innovative capability.

The cash flow from operations decreased as a result of growth to 427 kEUR (2009: EUR 2.710 million). The weaker cashflow from operations is mainly due to the increase in inventories and in trade receivables.

The cash flow from investment activities was with -2,369 kEUR (2009: -191 kEUR) considerably

higher compared to the same period last year. Investments were disbursed to fixed assets in the amount of EUR 1.235 million (2009: 829 kEUR). The investments mainly involved the expansion of production capacities at the Geschwenda plant in Thuringia. The cash inflow based on financial assets amounted to EUR 1.921 million (2009: EUR 2.729 million). The cash outflow amounted to EUR 3.212 million (2009: EUR 2.091 million).

The cash flow from financing activities was positive with EUR 1.758 million (2009: EUR 1.811 million). This item was influenced by the dividend payout in the amount of EUR 1.980 million and the cash inflow from the capital increase in the amount of EUR 3.600 million.

In 2010, Geratherm Medical was always in the position of fulfilling its payment obligations as they

arose. Cash discounts were utilized as agreed upon. To minimize risks, the granted payment targets were checked and adapted in individual cases. The company possesses a good financial structure with an above-average equity-to-assets ratio. The financial structure of the company is further strengthened by the capital increase implemented in 2010 in the amount of EUR 3.6 million. We do not foresee any situations, which could jeopardize the continued existence of the company.

Thanks to its solid assets, financial and earnings situation, Geratherm Medical is in the position of financing its own product developments and market releases that could extend over a prolonged period of time. The degree of financial freedom allows the company to acquire subsidiaries if that should seem reasonable to the company.

RESEARCH AND DEVELOPMENT

The research and development activities of Geratherm Medical mainly focus on the still new business areas Warming Systems, Respiratory and Cardio/Stroke. In the Medical Diagnostic business area, our development activities primarily involved the expansion of existing product families.

In the **WARMING SYSTEMS** business area, a variety of development projects were concluded successfully. FDA approval was received in September of 2010 for the newly developed generation of warming systems marketed under the UniqueTemp[®] label and UniqueResc⁺ label. Development activities in this segment concentrated on the new gel-based warming pad for operating rooms and the adaptation of operating room systems for special applications.

The **CARDIO/STROKE** segment remains the area with the currently greatest R&D expenditure within the Geratherm Group. Particular attention was placed on broadening the product base, which is geared to various clinical applications for specialists and the performance of clinical trials.

An initial study was published on August 18, 2010. The study was jointly conducted with the Neurology and Cardiology departments of Universität Heidelberg and the Epidemiology and Gerontology departments at DKFZ German Cancer Research Center in Heidelberg, Germany.

Another study conducted by the University Hospital of Heidelberg with more than 600 patients has



been concluded. The results are expected to be published during the first six months of 2011. The objective of the study was to validate apoplex' „SRAclinic for constant monitoring of patients with an acute stroke for acute fibrillation episodes in a stroke unit“.

A third study involves the SRAdoc product, which is being performed jointly with the Cardiology Platform of Hesse. The objective of the study involves the use of the SRAdoc product for a risk stratification of patients with unknown atrial fibrillation. The study has also been concluded and will be published once the review phase is completed.

In the **RESPIRATORY** business area, the majority of employees work on developing new

products. That includes products for the Spirometry and Cardiology area. During the last six months of 2010, a new booth was developed for testing pulmonary function, a so-called body plethysmograph, and unveiled for the first time at the Medica trade fair in Düsseldorf in 2010.

The activities in the **HEALTH-CARE DIAGNOSTIC** segment focused in 2010 on development in the new product field of inhalers for treating asthma, bronchitis and other chronic diseases, development of a new product to determine ovulation and development of a new „non-contact“ thermometer.

OPPORTUNITIES AND RISKS OF FUTURE DEVELOPMENTS

CHANCES AND RISK MANAGEMENT

Geratherm Medical focuses on the Medical Technology market segment. Medical Technology is a demanding segment, in which market opportunities are based primarily on innovative product solutions that must be made available to the market as quickly as possible. Before products can be released, there is a lot to be done. And that will continue to increase in the future due to very strict approval procedures. For instance, clinical trials are becoming more and more important for the acceptance of products. Access to and maintenance of a sales network for our own medical products is essential as an important value component in the industry.

The success of Geratherm Medical's business activities depends on various factors that are not always easy to foresee and which influence the development of sales and operating results. 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 significant increases

in the operating results with the required financial earnings.

The Executive Committee and Supervisory Board are pursuing the goal of operating in various Med-Tech markets within the framework of its platform strategy in order to improve the risk structure. At the same time, an attempt is being made to decrease regional risks by means of a broad diversification; Geratherm exports to more than 60 countries. Geratherm strives to build up new business areas. That initially involves expenses without there being any guarantee that the anticipated success will indeed be achieved. We are aware of 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 company's risk management and control system monitors the operative and strategic risks. For instance, the activities of our subsidiaries, business units and product groups are analyzed on a monthly basis. These analyses include information about sales, order situation, gross margin and currency risk exposure. 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.

In addition to the monthly analyses of operating figures, we also strive to minimize risks by maintaining dialog with our customers and by attending international medical technology trade fairs.

As a company that exports medical equipment, we depend on permission to implement in-house customs clearance and product certification and maintaining our product approvals. We strive to eliminate the risk in this segment as much as possible by means of continuous training of the responsible employees.

OBJECTIVE OF FINANCIAL MANAGEMENT

Financial management focuses on the administration of financial aspects of the Geratherm Group. That includes in particular the financing of operating processes, liquidity management, return-oriented use of available capital and all activities relating to the capital market.

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 is suited to identify key risks for depicting business transactions.

Such risk includes 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. These include the monthly preparation of a breakeven analysis on the product level including the reconciliation of the Group's income statement and a presentation of how security investments have developed. 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.

LIQUIDITY RISK

The company has a good to excellent liquidity position. Consequently, short-term debts are covered by freely available means of payment. The available liquid assets were increased by the EUR 3.6 million increase in capital implemented in March of 2010. 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

The Geratherm Group 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 the 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.

CREDIT AND NON-PAYMENT RISK

The process that is implemented in the Group for minimizing the bad debt losses 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. A maximum credit line has been agreed upon for the Sao Paulo-based subsidiary. Thanks to the combination of instruments used to minimize risks, we currently regard the bad debt risk as low.

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 continues to be 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.

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. On the procurement side, we are endeavoring to canvass more suppliers, if possible.

MARKET PRICE RISK – SECURITIES

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 capital 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.

PATENT PROTECTION RISK

Patent protection has been granted for certain Geratherm products. Industrial and intellectual property rights may become the target of attacks and violations. Asserting patent rights is very complex, especially in dictatorial countries like China, where industrial property rights are ignored systematically. By monitoring the market and our customers, we are striving to take the necessary precautions to identify any such threats and to defend our patent rights, if necessary.

RISK – NEW BUSINESS AREAS

Geratherm focuses on continuing the development and sales activities of new products, particularly in the new segments Cardio/Stroke, Respiratory and Warming Systems. The technological competence and expertise are strengthened by the collaboration with technology partners. The products of these business areas are still in part in the market launch phase. That means there are risks and considerable opportunities in terms of achieving future success on the market.

FINAL CONCLUSION

The markets that are served by Geratherm have a defensive character. Our products are utilized for monitoring health or diagnostic purposes in hospitals, clinics and doctors' offices. The market cycles in this segment have a medium to long-term character and involve high market entry barriers. The medical technology market has a high risk/benefit profile. It is not possible to rule out risks either. The market does offer, however, corresponding opportunities. The company's sound financial structure may cushion relevant risks.

ADDITIONAL INFORMATION

REPORTING IN COMPLIANCE WITH ARTICLE 315 (4) OF HGB (GERMAN COMMERCIAL CODE).

The subscribed capital of Geratherm Medical AG amounts to EUR 4,949,999 as of December 31, 2010 and is divided into 4,949,999 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. Moreover, the regulations governing the appointment and dismissal of executive committee members correspond with Art. 84 of AktG.

The Executive Committee was also authorized on June 7, 2010 to purchase own shares up to a portion of the capital stock, not exceeding 10 %, by June 6, 2015. 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 Deutschen 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 furthermore 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 6/6/2015 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.

The authorization of the general meeting of shareholders on

6/8/2009 to purchase own shares was cancelled with the new authorization resolution coming into force.

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 52.78 % in Geratherm Medical AG.

The annual general meeting of Geratherm Medical AG convened on June 7, 2010 in Frankfurt am Main. The attendance at the annual general meeting represented 66.01 % of the capital stock. The expenses for the stock exchange listing in 2010 were 90 KEUR (2009: 62 KEUR).

PRINCIPLES OF THE REMUNERATION SYSTEM

The compensation of the Executive Committee was made up of various components, a fixed salary and a variable bonus during the 2010 fiscal year. The variable bonus is awarded on the basis of the company's achievement of objectives, operating profit, financial results and overall development.

ANTICIPATED DEVELOPMENT

Geratherm Medical has made a good start in 2011. All key early indicators of economic activity are based on a continuation of the economic recovery process. The World Bank has predicted a growth of more than 3 % for the global economic output for the next few years. For 2011, the World Bank expects a 3.3 % growth and a 3.6 % growth for 2012.

The US industry's recovery is gaining momentum. The Goldman Sachs Investment Bank predicts that the US economy will grow 3.4 % faster than in 2010. Even the euro zone has started the new year with a strong upturn. Companies should be able to grow in strength. The extent in which the excessive debts of individual countries and the large budget deficits of major economies may adversely impact the real economy again remains to be seen.

Economic researchers of Deutsches Institut für Wirtschaftsforschung, DIW Berlin, are expecting a 2.2 % growth for Germany's economy.

The overall market for medical products should remain steady, albeit less dynamic, over the next twelve months.

For Geratherm Medical we currently anticipate that the company as a whole will continue its positive development in 2011 and 2012, building on development attained during the 2010 fiscal year.

Further investments in expanding production are planned for the co-

ming years. As of December 31, 2010, orders in the amount of 456 kEUR have been awarded for the construction of new machinery and systems.

The company's development depends on the continued strong demand for gallium-filled products and the results of the three studies involving atrial fibrillation, which are pending publication. The new business areas Cardio/Stroke, Respiratory and Warming Systems should make an above-average contribution to the sales revenue in 2011 for the corporate growth.

Based on the current state, we are facing higher raw material prices for gallium and for plastics. The increased procurement costs will be passed onto customers only to a limited extent. That's why we will strive to invest more and more in the company's increased productivity so that we are able to maintain the prior quality of earnings.

The auspices for 2011 and 2012 are positive. We anticipate an increase in sales and earnings in the moderate double-digit percent range over the next two years, while maintaining the balance sheet structure and quality and a comparable financial position with analog underlying conditions. If the stability on the capital markets should remain, we expect a positive financial result at last year's level.

We would like to point out, however, that the actual results may deviate significantly from our

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.

MAIN EVENTS AFTER THE REPORTING DATE

Geratherm Medical has made a good start in the new fiscal year. The development of sales and earnings corresponds so far with our expectations. In the opinion of the Executive Committee, no main events occurred during the first weeks of the 2011 fiscal year.

Geschwenda, March 25, 2011



Dr. Gert Frank
Chairman of the Board



Thomas Robst
Head of Marketing/Sales

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CONSOLIDATED FINANCIAL STATEMENTS

(IFRS) of December 31, 2010

ASSETS	Annex No.	12/31/2010 EUR	12/31/2009 EUR
A. LONG-TERM ASSETS			
I. Intangible Assets	1.		
1. Development costs		667,824	916,792
2. Software		39,095	44,604
3. Goodwill		75,750	75,750
		782,669	1,037,146
II. Intangible Assets	2.		
1. Land, land rights and buildings		1,125,303	1,199,867
2. Technical equipment and machinery		1,249,095	734,082
3. Other equipment, factory and office equipment		256,563	150,462
4. Construction in process		571,162	234,940
		3,202,123	2,319,351
III. Deferred Taxes	3.	2,091,495	2,625,639
		6,076,287	5,982,136
B. SHORT-TERM ASSETS			
I. Inventories	4.		
1. Raw materials and supplies		1,573,475	990,887
2. Unfinished goods		676,235	510,274
3. Finished goods and merchandise		2,549,516	1,321,896
		4,799,226	2,823,057
II. Receivables and other assets			
1. Trade receivables	5.	3,200,158	2,364,659
2. Tax receivables	6.	329,605	103,705
3. Other assets	7.	534,529	320,683
		4,064,292	2,789,047
III. Securities	8.	6,502,161	5,355,347
IV. Cash and cash equivalents	9.	5,519,458	5,702,573
		20,885,137	16,670,024
		26,961,424	22,652,160

EQUITY AND LIABILITIES

Annex
No.

12/31/2010
EUR

12/31/2009
EUR

A. EQUITY CAPITAL

I. Subscribed capital	10.	4,949,999	4,500,000
II. Capital reserves	11.	10,577,354	7,570,000
III. Other reserves	12.	5,089,579	5,597,396
Minority interests assigned to the shareholders of the parent company		20,616,932	17,667,396
Non-controlling interests	13.	-100,176	3,030
		20,516,756	17,670,426

B. LONG-TERM DEBTS

1. Liabilities to banks	14.	1,500,000	2,000,000
2. Accrued investment subsidies	15.	729,079	607,462
3. Other long-term liabilities	16.	522,079	465,329
		2,751,158	3,072,791

C. SHORT-TERM DEBTS

1. Liabilities to banks	17.	1,127,748	441,288
2. Payments on accounts		240,535	80,088
3. Trade payables	18.	1,126,602	708,352
4. Tax liabilities	19.	446,272	147,204
5. Other short-term liabilities	20.	752,353	532,011
		3,693,510	1,908,943

CONSOLIDATED INCOME STATEMENT

(IFRS) for the period from January 1 to December 31, 2010

	Annex No.	1/1–12/31/2010 EUR	1/1–12/31/2009 EUR
Sales revenue	21.	16,978,282	14,384,854
Change in inventory of semi-finished and finished products		355,524	64,123
Other capitalised own work		0	62,429
Other operating income	22.	449,291	529,582
		17,783,097	15,040,988
Cost of materials	23.		
Cost of raw materials, consumables and goods for resale		-6,806,067	-6,089,257
Costs of purchased services		-361,502	-239,312
		-7,167,569	-6,328,569
Gross profit or loss		10,615,528	8,712,419
Personnel expenses	24.		
Wages and salaries		-3,230,401	-2,533,888
Social security, pension and other benefits		-672,007	-565,832
		-3,902,408	-3,099,720
Amortization of intangible assets and depreciation of tangible assets	25.	-598,133	-369,614
Other operating expenses	26.	-3,764,794	-3,005,643
Operating results		2,350,193	2,237,442
Dividend income		89,453	58,880
Income from securities trading		1,175,617	1,160,358
Losses from securities		-49,640	-504,486
Securities-related expenses		-173,599	-27,512
Other interest and similar income		31,628	12,621
Interests and similar expenses		-90,004	-139,914
Financial results	27.	983,455	559,947
Result of ordinary activities		3,333,648	2,797,389
Income taxes	28.	-791,358	-194,070
Consolidated net income		2,542,290	2,603,319
Results of the minority interests		-169,285	-75,226
Results of the shareholders of the parent company		2,711,575	2,678,545
Earnings per share undiluted	29.	0.56	0.60
Earnings per share diluted	29.	0.56	0.60

CONSOLIDATED CASH FLOW STATEMENT

(IFRS) for the fiscal year from January 1 to December 31, 2010

	Annex No.	1/1–12/31/2010 kEUR	1/1–12/31/2009 kEUR
Consolidated net income		2,542	2,603
Other costs affecting income/expenses		60	94
Dividend income	27.	-89	-59
Interest earnings	27.	-32	-13
Interest expenses		90	140
Decrease in deferred taxes		534	39
Income tax expenditure		202	156
Depreciation of fixed assets		598	370
Income from securities trading	27.	-1,176	-1,160
Loss from securities trading		0	0
Loss from valuation of securities		50	504
Amortization of public grants and subsidies	15.	-65	-46
Loss from disposal of fixed assets		7	4
Gross cash flow	31.	2,721	2,632
Increase/decrease in loan liabilities		-1,976	257
Increase in trade receivables and other assets		-1,344	-634
Increase/decrease in current liabilities and other liabilities		1,146	589
Monies received from dividends		89	59
Monies received from interest		32	13
Cash outflow from interest		-90	-140
Cash outflow for income taxes		-151	-66
Cash flow from operations	32.	427	2,710
Cash outflow for investments in fixed assets		-1,235	-829
Cash inflow from funding for investments		157	0
Monies received based on financial assets	8.	1,921	2,729
Cash outflow based on financial assets	8.	-3,212	-2,091
Cash flow from investments	33.	-2,369	-191
Cash inflow from capital increase		3,600	0
Cash outflow for equity capital procurement costs		-198	0
Taxes regarding equity capital procurement costs		55	0
Cash inflow from minority interests		63	0
Dividend payout to minority interests		-26	-20
Dividend payments	12.	-1,980	0
Increase in loan liabilities	14.	187	1,771
Inflow from long-term liabilities		57	60
Cash flow from financing activities	34.	1,758	1,811
Change in cash and cash equivalents		-184	4,330
Cash and cash equivalents at beginning of fiscal year		5,703	1,373
Cash and cash equivalents at end of fiscal year		5,519	5,703

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(IFRS) of December 31, 2010

	Subscribed capital 10. EUR	Capital reserves 11. EUR
As of January 1, 2009	4,500,000	7,570,000
Dividend paid to shareholders	0	0
Transactions with shareholders and member partners	0	0
Consolidated net income	0	0
Unrealized profits and losses from valuation of securities	0	0
Currency translation in group	0	0
Total consolidated income	0	0
As of December 31, 2009	4,500,000	7,570,000
As of January 1, 2010	4,500,000	7,570,000
Increase in Share Capital	449,999	3,149,993
Transaction costs	0	-198,316
Taxes regarding transaction costs	0	55,677
Increase in share capital of the subsidiary Geratherm Respiratory GmbH	0	0
Increase in share capital of the subsidiary apoplex medical technologies GmbH	0	0
Dividend paid to shareholders	0	0
Transactions with shareholders and member partners	449,999	3,007,354
Consolidated net income	0	0
Unrealized profits and losses from valuation of securities	0	0
Currency translation in group	0	0
Total consolidated income	0	0
As of December 31, 2010	4,949,999	10,577,354

	Other reserves		To be assigned to the sharehold- ers of the parent company	Non-controlling interests	Equity capital
Market valuation reserve	Currency con- version reserve 12.	Accumulated earnings		13.	
EUR	EUR	EUR	EUR	EUR	EUR
-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
2,274,419	24,918	3,298,059	17,667,396	3,030	17,670,426
0	0	0	3,599,992	0	3,599,992
0	0	0	-198,316	0	-198,316
0	0	0	55,677	0	55,677
0	0	0	0	26,750	26,750
0	0	0	0	36,000	36,000
0	0	-1,979,999	-1,979,999	-25,907	-2,005,906
0	0	-1,979,999	1,477,354	36,843	1,514,197
0	0	2,711,575	2,711,575	-169,284	2,542,291
-1,269,821	0	0	-1,269,821	0	-1,269,821
0	30,428	0	30,428	29,235	59,663
-1,269,821	30,428	2,711,575	1,472,182	-140,049	1,332,133
1,004,598	55,346	4,029,635	20,616,932	-100,176	20,516,756

CONSOLIDATED STATEMENT OF EARNINGS (IFRS) for the period from January 1 to December 31, 2010

	1/1-12/31/2010 EUR	1/1-12/31/2009 EUR
Profits of the shareholders of the parent company	2,711,575	2,678,545
Results of the minority interests	-169,285	-75,226
Consolidated net income	2,542,290	2,603,319
Profits and losses from revaluation of securities	-1,269,821	2,346,304
Difference resulting from currency translation	59,663	93,832
Income and expenses directly included in equity capital	-1,210,158	2,440,136
Total consolidated income	1,332,132	5,043,455
of which assignable to minority interests	-140,049	-29,249
of which assignable to shareholders of the parent company	1,472,181	5,072,704

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR 2010 FISCAL YEAR

APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated financial statements of Geratherm Medical AG were prepared for the 2010 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 standards, amendments to existing standards and interpretations took effect for the first time during the 2010 fiscal year:

Amendment of IAS 27 „Consolidated and Separate Financial Statements“ and IFRS 3 „Business Combinations“

- Significant changes in IAS 27 include the accounting of transactions, in which a company continues to hold controlling interest and transactions that do not result in a loss of control. These shall be reported as equity transaction without having any effect on the income statement. Remaining shares are to be shown at the current market value at the time of loss of control. In this respect, it is possible to show a negative item for minority interests.

- Significant changes in IFRS 3 are the valuation of shares without controlling influence, the reporting of successive acquisitions and treatment of purchase price components and incidental acquisition costs. In case of successive acquisitions, a cash-effective revaluation of the shares held at the time of transfer of control is planned at the market value. An adaptation of specific purchase price components, which are reported as a liability at the time of purchase, shall be reported in the future in the income statement. Incidental acquisition costs are shown as expenditure at the time of their occurrence.
- The changes have no significant impact on the consolidated financial statements of Geratherm Medical AG.

Amendment of IAS 39 „Financial Instruments: Recognition and Measurement: Appropriate Basic Transactions“

- The amendment explains the procedure necessary for hedge accounting with the inflation share of and with option contracts that are used as hedge.
- The amendments have no significant impact on the consolidated financial statements of Geratherm Medical AG.

Amendment of IFRS 1 „First-time Adoption of International Financial Reporting Standards“

- The amendment concerns a reorganization of the standard without any change to contents. Companies with existing lease agreements are excepted under certain prerequisites of re-appraisal according to IFRIC 4.
- The amendment has no significant impact on the consolidated financial statements of Geratherm Medical AG.

IFRIC 16 „Hedges of a Net Investment in a Foreign Operation“

- The interpretation clarifies what should be considered as risk when hedging a net investment of a foreign business operation.
- The amendment has no impact on the consolidated financial statements of Geratherm Medical AG.

The following standards that have been adopted by the European Union were not taken into account:

Revised version of IAS 24 „Related Party Disclosures“

Amendment of IAS 32 „Financial Instruments: Presentation – Classification of Subscription Rights“

Revised version of IFRS 1 „First-time Adoption of International Financial Reporting Standards“ in regard to the application of IFRS 7 „Financial Instruments“

IFRIC 19 „Extinguishing Financial Liabilities with Equity Instruments“

IFRIC 14 – „The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction“

We do not anticipate that the aforementioned standards will have any significant impact on the future consolidated financial statements of Geratherm Medical AG.

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 state-

ments are prepared in full EUR (functional currency). Various figures have been rounded off and 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 Pri-

me Standard exchange segment of the Frankfurt Stock Exchange (FWB).

The management of Geratherm AG has released the consolidated financial statements based on IFRS on March 25, 2011 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. Losses of a subsidiary are then assigned to shares without controlling influence, if these result in a negative balance.

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:

SHARE QUOTAS *in percent*

Company	2010	2009
GME Rechte und Beteiligungen GmbH, Geschwenda, Germany	100.00	100.00
apoplex medical technologies GmbH, Pirmasens, Germany	61.00	60.00
Geratherm Respiratory GmbH, Bad Kissingen, Germany	61.27	55.00
Geratherm Medical do Brasil Ltda., Sao Paulo, Brazil	51.00	51.00

The share capital of Geratherm Respiratory GmbH was increased by EUR 150,000 to EUR 650,000 in accordance with the resolution of the shareholders' meeting from April 27, 2010. Of which Geratherm Medical AG assumed another capital share of EUR 123,250. The percentage of shares held increased from 55.00 % to 61.27 %. The new share capital of Respiratory was paid in full. Entry in the Commercial Register was carried out on May 25, 2010.

The share capital of apoplex medical technologies GmbH was increased by EUR 100,000 to EUR 400,000 in accordance with the resolution of the shareholders' meeting from September 20, 2010. Of which Geratherm Medical AG acquired a capital share in the amount of EUR 64,000. The percentage of shares held increased from 60.00 % to 61.00 %. The share capital has been paid in full. Entry in the Commercial Register was carried out on October 11, 2010.

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 recoverable amount is determined on the basis of calculating the value of use while applying a cash flow prognosis, which is based on current planning. The planning encompasses a detail plan for the first couple years. The cash flows were carried on for the further planning phase without change. The forecasted cash flows are discounted with a discount rate before taxes in the amount of 16.75 % (2009: 16.75 %). There were no indications that call for an impairment loss.

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.

Depreciation is implemented on a straight-line basis between 4 and 15 years.

If the assessments made with regard to future inflow of funds require an update, the Executive Committee checks for the presence of a „triggering event“. If such does exist, an impairment

test is conducted for the respective development. The recoverable amount is determined on the basis of calculating the value of use while applying a cash flow prognosis, which relies on current planning. That is based on the best assessment made by management with regard to future development. The planning encompasses a detail plan for the first couple years. The cash flows were carried on for the further planning phase without change. The forecasted cash flows are discounted with a discount rate before taxes.

The applied discount factors range between 16.75 % and 18.25 %. There were no indications that call for an impairment loss.

TANGIBLE ASSETS

The tangible assets were accounted and valued at the acquisition costs in accordance with 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. The acquisition and manufacturing costs also include borrowing costs for long-term construction projects, provided the valuation criteria are fulfilled.

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. If impairment losses are imple-

mented, these are shown under depreciations.

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

LEASING

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.

If impairments of inventories are implemented, these are reported as material expenses during the current period. If there is a reversal of impairment losses concerning inventories, these are reported as decrease in material expenditure during the period, in which the reversal of impairment occurred.

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.

USE OF ESTIMATES

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 EUR 1.916 million (2009: EUR 2.476 million) and capitalized development costs

amounting to 668 kEUR (2009: 917 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 783 kEUR (2009: EUR 1.037 million) are reported as of December 31, 2010. The development of the intangible assets is shown in the following table:

Intangible Assets	Development costs	Software	Goodwill	Total
Initial and manufacturing costs in EUR				
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
Transfers	0	0	0	0
12/31/2009	1,962,170	162,919	90,000	2,215,089
1/1/2010	1,962,170	162,919	90,000	2,215,089
Additions	0	14,230	0	14,230
Disposals	0	22,139	0	22,139
Transfers	0	0	0	0
12/31/2010	1,962,170	155,010	90,000	2,207,180
Amortization and Depreciation in EUR				
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
1/1/2010	1,045,378	118,315	14,250	1,177,943
Additions	248,968	19,739	0	268,707
Disposals	0	22,139	0	22,139
12/31/2010	1,294,346	115,915	14,250	1,424,511
Book values in EUR				
1/1/2009	923,601	45,115	75,750	1,044,466
12/31/2009	916,792	44,604	75,750	1,037,146
1/1/2010	916,792	44,604	75,750	1,037,146
12/31/2010	667,824	39,095	75,750	782,669

No development costs for intangible assets created internally were capitalized during the 2010 fiscal year (2009: 105 kEUR). Non-capitalizable research and development costs were posted as expenses in the amount of 337 kEUR (2009: 287 kEUR).

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 range, 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 plan-

ning horizon from 2011 to 2013. A perpetuity is assumed, the scope of which is derived from the last year of the planning time frame. The Medical Warming Systems segment was identified as the smallest cash-generating unit. This segment possesses a goodwill of 76 kEUR (2009: 76 kEUR) and an additional net worth of 210 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 16.75 % before taxes. There were no points of reference for an impairment and none were necessary in this regard. 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 6 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
Initial and manufacturing costs in EUR					
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
Transfers	0	24,035	0	-24,035	0
12/31/2009	2,244,407	4,130,262	511,065	234,940	7,120,674
1/1/2010	2,244,407	4,130,262	511,065	234,940	7,120,674
Additions	0	555,413	176,259	488,503	1,220,175
Disposals	0	21,664	75,986	0	97,650
Transfers	0	152,281	0	-152,281	0
12/31/2010	2,244,407	4,816,292	611,338	571,162	8,243,199
Amortization and Depreciation in EUR					
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
1/1/2010	1,044,540	3,396,180	360,603	0	4,801,323
Additions	74,564	192,680	62,182	0	329,426
Disposals	0	21,663	68,010	0	89,673
12/31/2010	1,119,104	3,567,197	354,775	0	5,041,076
Book values in EUR					
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
1/1/2010	1,199,867	734,082	150,462	234,940	2,319,351
12/31/2010	1,125,303	1,249,095	256,563	571,162	3,202,123

The additions in the area of tangible assets mainly involve the acquisition of additional machinery and systems for expanding the production of gallium-filled thermometers. The high demand

made a further increase in the production capacities necessary.

Impairment losses on fixed assets were not necessary.

3. DEFERRED TAXES

The deferred taxes representing assets and liabilities, which are balanced in the consolidated financial statements can be attri-

buted 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.

	12/31/2010	12/31/2009	12/31/2009	12/31/2010	12/31/2010	12/31/2009
	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	328,499	426,971	199,501	264,309	128,998	162,662
Goodwill	0	0	8,773	7,089	-8,773	-7,089
Foreign currency valuation	0	0	0	6,379	0	-6,379
Losses carried forward	1,971,271	2,476,445	0	0	1,971,271	2,476,445
Total	2,299,770	2,903,416	208,274	277,777	2,091,496	2,625,639

The changes to the deferred taxes representing assets and liabilities, which are balanced in the conso-

lidated financial statements, are shown as follows:

Change in the balance of deferred taxes	1/1/2010	Change with effect on income	Change without effect on income	12/31/2010
	EUR	EUR	EUR	EUR
Capitalized development costs/patents	162,662	-33,664	0	128,998
Goodwill	-7,089	-1,684	0	-8,773
Foreign currency valuation	-6,379	6,379	0	0
Losses carried forward	2,476,445	-560,851	55,677	1,971,271
Total	2,625,639	-589,820	55,677	2,091,496

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
Total	2,664,208	-38,569	0	2,625,639

An income tax rate ranging between 28.08 % and 29.83 % (2009: 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 re-

ported 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 three 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 THE DEFERRED TAXES ON THE ASSETS SIDE FOR THE TAX LOSS CARRIED FORWARD

	2010 kEUR	2009 kEUR
Tax loss carried forward as of 12/31	9,668	10,982
Valued	7,697	9,679
Deferred taxation	1,971	2,476

4. INVENTORIES

	12/31/2010 EUR	12/31/2009 EUR
Raw materials and supplies	1,573,475	990,887
Unfinished goods	676,235	510,274
Finished goods	593,393	426,738
Goods	1,956,123	895,158
Total	4,799,226	2,823,057

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

The unfinished goods as of Dec. 31, 2010 primarily include clinical thermometers in various stages of production.

The finished goods item mainly includes thermometers and warming systems as of Dec. 31, 2010. The goods essentially include digital thermometers and blood pressure meters that are earmarked for sales and produced for contracts.

5. TRADE RECEIVABLES

The trade receivables are structured as follows:

	12/31/2010 EUR	12/31/2009 EUR
Gross sum of trade receivables	3,213,370	2,407,227
Devaluations	-13,212	-42,568
Total	3,200,158	2,364,659

The shown trade receivables are due within one year and results primarily from deliveries of products and goods. The devaluations relate to receivables subject to a risk of non-payment and are recognized on the balance sheet under other expenses of the current period.

6. TAX RECEIVABLES

The tax receivables essentially comprise the receivable from sales tax refunds in the amount of 242 kEUR (2009: 81 kEUR) and other taxes in the amount of 88 kEUR (2009: 22 kEUR).

7. OTHER ASSETS

The other assets essentially relate to the receivables from advances paid (219 kEUR; 2009: 110 kEUR), from expenses paid in advance (24 kEUR; 2009: 34 kEUR) and receivables from investment subsidies and grants (167 kEUR; 2009: 137 kEUR).

8. SECURITIES

The securities holdings include the following:

2010	Number/ nominal	Book value as of 12/31 EUR	Rate as of 12/31 EUR
Pfizer Inc.	40,000	521,778	13.04
Adolor Corp.	460,000	416,555	0.91
Epigenomics AG	478,889	938,622	1.96
Agfa-Gevaert N.V.	500,000	1,600,000	3.20
Cardionet Inc.	100,000	350,247	3.50
Eckert & Ziegler Strahlen- und Med. AG	51,000	1,341,810	26.31
Sanofi-Aventis S.A.	24,000	1,148,400	47.85
Newron Pharmaceuticals S.P.A.	17,000	75,184	4.42
Roche Holding AG.	1,000	109,565	109.56
Total		6,502,161	

2009	Number/ nominal	Book value as of 12/31 EUR	Rate as of 12/31 EUR
Draegerwerk AG & Co KGaA	20,000	589,000	29.45
Pfizer Inc.	20,000	252,533	12.63
Evotec AG ADR 2	25,024	97,970	3.92
Evotec AG	140,000	296,800	2.12
Adolor Corp.	460,000	466,195	1.01
Epigenomics AG	292,593	1,003,594	3.43
Agfa-Gevaert N.V.	274,078	1,227,869	4.48
Cardionet Inc.	100,000	393,586	3.94
Eckert & Ziegler Strahlen- und Med. AG	60,000	1,027,800	17.13
Total		5,355,347	

During the 2010 fiscal year the level of securities was increased by means of acquisitions in the amount of EUR 3.212 million (2009: EUR 2.091 million). The level also decreased by means of sales in the amount of EUR 1.921 EUR (2009: EUR 2.729 million). As a result, it was possible to realize a profit contribution of EUR 1.176 million (2009: EUR 1.160 million).

The held securities (available-for-sale assets) are regularly audited as of the reporting date in accordance with IAS 39.58 and IAS 39.61 for any possible significant or longer lasting decrease in value. In case of equity instruments classified as held for sale, a significant or longer lasting decrease in the fair value of the instrument would present an objective indication under its acquisition costs. The decision as to what „significant“ or „lasting“ may mean, is a discretionary decision. As part of this decision, the Executive Committee values in addition to other factors the price fluctuations in the past, the duration and scope, in which the fair value of a financial investment is below its acquisition costs.

Based on these criteria, an impairment loss totaling 50 kEUR (2009: 504 kEUR) was reported with effect on the bottom line as pursuant to IAS 39.67.

As at the balance sheet date December 31, 2010, the market assessment reserve was decreased by sales of securities and declines in prices compared to the year before from EUR 2.274 million to EUR 1.005 million.

9. CASH AND CASH EQUIVALENTS

	12/31/2010 kEUR	12/31/2009 kEUR
Cash on hand	4	6
Credit balances with banks	5,515	5,697
Cash and cash equivalents	5,519	5,703

The credit balances with banks, amounting to EUR 5.424 million (2009: EUR 5.664 million) are invested at the prevailing market rates and are available daily.

EQUITY AND LIABILITIES**EQUITY CAPITAL**

The change in the equity capital structure can be noted in the consolidated statement of change to shareholders' equity.

10. SUBSCRIBED CAPITAL

The subscribed capital of Geratherm Medical AG amounts to EUR 4,949,999 as of 12/31/2010 and is divided into 4,949,999 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 4,949,999 during the 2010 fiscal year.

On March 11, 2010 the Executive Committee had decided with the approval of the Supervisory Board while utilizing the authorization according to Art. 5 Para. 5 of the Articles of Association to increase the capital stock of Geratherm Medical AG by issuing new common shares in the form of share certificates made out in the name of the holder with a pro-rata share of capital stock of EUR 1.00 per share by EUR 449,999. The new shares are entitled to dividends as of January 1, 2009.

AUTHORIZED CAPITAL

The Executive Committee was authorized, subject to the approval of the Supervisory Board, to increase the capital stock of the company by issuing up to a maximum 1,800,001 new share certificates made out in the name of the holder through individual or multiple cash or non-cash contributions not exceeding EUR 1,800,001 by June 11, 2011.

PURCHASE OF OWN SHARES

The Executive Committee was also authorized on 6/7/2010 to purchase own shares up to a portion of the capital stock, not exceeding 10 %, by 6/6/2015. 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 6/6/2015 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 6/8/2009 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.

The new shares were admitted on the regulated market (prime standard) on March 17, 2010. The issuing price for the shares was EUR 8.00 per share. Of the received cash contribution in the amount of EUR 3,599,992, the capital stock accounts for EUR 449,999 and

capital reserve accounts for EUR 3,149,993 less the transaction expenses in the amount of EUR 198,316. Deferred taxes in the amount of EUR 55,677 were taken into account for procurement costs of equity capital.

12. OTHER RESERVES

The development of the other reserves is shown in the consolidated statement of change to the shareholders' equity.

MARKET ASSESSMENT 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 amounts to EUR 1.005 million (2009: EUR 2.274 million) as of December 31, 2010.

ACCUMULATED EARNINGS

The accumulated earnings are calculated based on the results brought forward as of the reporting date (EUR 3.298 million; 2009: 619 kEUR), the current net income of the shareholders of the parent company (EUR 2.712 million; 2009: EUR 2.679 million) less the distributed dividend (EUR 1.980 million; 2009: 0 kEUR).

The Executive Committee and Supervisory Board will propose to the general meeting in June 2011 to distribute a dividend of EUR 0.40 per share for the 2010 fiscal year. The dividend will be disbursed for the most part (over 90 %) from the tax-specific contribution account with neutral tax effect in accordance with Art. 27 of KStG (Corporation Tax Law).

CURRENCY CONVERSION RESERVE

The currency conversion reserve in the amount of 55 kEUR (2009: 25 kEUR) is based on the consolidation of the financial statements of Geratherm do Brasil Ltda, which are prepared in a foreign currency.

13. NON-CONTROLLING SHARES

	Total kEUR
Non-controlling shares as of January 1, 2010	3
Capital increase by Geratherm Respiratory GmbH	27
Capital increase by apoplex medical technologies GmbH	36
Currency translation in Group	29
Dividend payout by Geratherm do Brasil	-26
Result attributable to non-controlling shares	-169
Minority interests as of 12/31/2010	-100

14. LONG-TERM LIABILITIES TO BANKS

Geratherm Medical AG received on September 4/11, 2009 a loan in the amount of EUR 2.000 million 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 was due for the first time 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 entire warehouse

of Geratherm Medical AG in Geschwenda as security (book value as of reporting date: EUR 4.208 million). 400 kEUR were reclassified from loans remaining in the amount of EUR 1.900 million as of December 31, 2010 in short-term liabilities to banks.

15. ACCRUED INVESTMENT SUBSIDIES

The item shown in the balance sheet in the amount of 729 kEUR (2009: 607 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.

Investment grants and subsidies are awarded on the condition that the tangible assets acquired with such remain in the company's assets or in the designated area eligible for development assistance during the binding period.

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

477 kEUR (2009: 420 kEUR) and Geratherm Respiratory GmbH in the amount of 45 kEUR (2009: 45 kEUR) are reported. 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 EUR 1.128 million (2009: 441 kEUR). 400 kEUR of these are concerning the reorganization of

the loans of Geratherm, 149 kEUR (2009: 165 kEUR) the availment 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 579 kEUR (2009: 276 kEUR).

18. TRADE ACCOUNTS PAYABLE

The trade payables are included at their repayment value. Corresponding accrued liabilities have been formed for outstanding in-

voices 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 taxes 286 kEUR (2009: 95 kEUR), wage taxes 35 kEUR (2009: 32 kEUR) and sales taxes 126 kEUR (2009: 20 kEUR).

20. OTHER LIABILITIES

	12/31/2010 kEUR	12/31/2009 kEUR
Accrued liabilities	443	353
Other liabilities	309	179
Other liabilities	752	532

ACCRUED LIABILITIES

The accrued liabilities include the following:

	12/31/2009 kEUR	Consumption kEUR	Dissolution kEUR	Addition kEUR	12/31/2010 kEUR
Staff related	158	-152	-6	166	166
Bonuses, commissions, credits	111	-111	0	115	115
Outstanding invoices	29	-29	0	101	101
Other	55	-45	0	51	61
Total	353	-337	-6	433	443

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 177 kEUR (2009: 129 kEUR) and social security liabilities in the amount of 75 kEUR (2009: 14 kEUR).

All other liabilities shown here fall due within one year.

NOTES TO CONSOLIDATED INCOME STATEMENT

21. SALES REVENUES

Sales revenues based on product groups:

	2010 kEUR	2009 kEUR	Change %
Healthcare Diagnostic	15,564	12,969	20.0
Med. warming systems	562	448	25.4
Cardio/Stroke	262	359	-27.0
Respiratory	590	609	-3.1
Total	16,978	14,385	18.0

Sales revenues based on regions:

	2010 kEUR	2009 kEUR	Change %
Germany	2,332	2,674	-12.8
Rest of Europe	8,472	6,654	27.3
USA	1,386	1,449	-4.4
South America	3,331	2,339	42.3
Other	1,457	1,269	14.7
Total	16,978	14,385	18.0

The „Other“ item mainly encompasses sales in Middle East over EUR 1.011 million (2009: 634 kEUR) and Asia over 273 kEUR (2009: 367 kEUR).

22. OTHER OPERATING INCOME

The other operating income includes amortization of capitalized grants and subsidies in the amount of 65 kEUR (2009: 46 kEUR).

The remaining other operating income is essentially based on the differences in exchange rates (2010: 261 kEUR; 2009: 362 kEUR). The revenue from the release of accrued liabilities (2010: 6 kEUR; 2009: 26 kEUR) are to be regarded as income unrelated to an accounting period.

23. COST OF MATERIALS

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

24. PERSONNEL EXPENSES

The personnel expenses in the 2010 fiscal year were EUR 3.902 million (2009: EUR 3.100 million). The accounts for this fiscal year included contributions of 248 kEUR (2009: 217 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 61.8 % to 598 kEUR (2009: 370 kEUR) due to the investments made in tangible assets and the start of write-offs with regard to newly developed products in the subsidiary Geratherm Respiratory GmbH.

26. OTHER OPERATING EXPENSES

Other operating expenses primarily comprise the costs for sales, advertising and marketing (EUR 1.803 million; 2009: EUR 1.380 million) and administrative expenses (EUR 1.640 million; 2009: EUR 1.271 million). The administrative expenses include, among other things, expenses arising in connection with the stock exchange listing (90 kEUR; 2009: 62 kEUR), external services (492 kEUR; 2009: 432 kEUR), consulting and auditing costs (220 kEUR; 2009: 111 kEUR) and expenses for operating leasing (126 kEUR; 2009: 100 kEUR). The expenses occurring in connection with exchange rate fluctuations decreased slightly to 203 kEUR (2009: 276 kEUR).

27. FINANCIAL RESULTS

The company posted financial results in the amount of 983 kEUR (2009: 560 kEUR) during the year under review. These included dividend income (89 kEUR; 2009: 59 kEUR), gains from sales of securities (EUR 1.176 million; 2009: EUR 1.160 million); devaluation of the securities with effect on the income (50 kEUR; 2009: 504 kEUR), expenses occurring in connection with the securities (174 kEUR; 2009: 28 kEUR), interests earned (32 kEUR; 2009: 13 kEUR) and interests paid (90 kEUR; 2009: 140 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:

The nominal tax rate which is valid for the concluded fiscal year of the parent company Geratherm Medical AG of 28.08 % (2009: 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.

	2010 kEUR	2009 kEUR
Actual Taxes	-202	-155
Deferred Taxes	-589	-39
Income tax according to IFRS	-791	-194
	2010 kEUR	2009 kEUR
Results before income taxes	3,334	2,797
Tax expenses to be expected	-936	-785
Effects from valuation variances (change of permanent differences)	90	125
Effects due to tax-free income	291	242
Effects due to expenses nondeductible	-26	-108
Change in valuation of tax losses carried forward	-200	369
Other	-10	-37
Income tax according to IFRS	-791	-194

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.

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

	2010	2009
Results of the shareholders of the parent company (kEUR)	2,712	2,679
Weighted average number of outstanding shares (k shares)	4,864	4,500
Undiluted earnings per share (EUR)	0.56	0.60
Diluted earnings per share (EUR)	0.56	0.60
	2010 k shares	2009 k shares
Nominal capital in no-par shares	4,950	4,500
Weighted number of outstanding shares	4,864	4,500

RELATIONSHIPS WITH RELATED PAR- TIES AND PERSONS

Relationships with related parties as defined by IAS 24 exist with GMF Beteiligungsberatung GmbH, Frankfurt am Main (GMF). For GMF, 239 kEUR (2009: 96 kEUR) were recorded for the services performed by the chairman of the board Dr. Frank during the

2010 fiscal year. The amounts are appropriate and comprise the remuneration of the board for 2010 and bonus payments.

As of December 31, 2010 there were no outstanding accounts owed to or by GMF. An accrued liability vis-a-vis GMF in the amount of 15 kEUR (2009: 15 kEUR) was discontinued as of the reporting date.

There were no accounts receivable from supervisory board members as of the balance sheet date, as during the 2009 fiscal year.

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

	Votes	Percentage
GMF Beteiligungsberatung GmbH, Frankfurt am Main	2,612,737	52.78 %

OTHER FINANCIAL OBLIGATIONS

As of Friday, December 31, 2010	Total	< 1 Jahr	1 – 5 years	> 5 years
Other financial commitments from lease agreements kEUR	267	130	137	0
Other financial commitments from obligation to accept kEUR	666	618	48	0
Other financial commitments from obligation to accept kUSD	235	235	0	0
Per 31. Dezember 2009	Total	< 1 Jahr	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

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 in this regard amount to 267 kEUR (2009: 101 kEUR) for 2011 and subsequent years.

Other purchase commitments primarily comprise final payments for investments made in 2010 for expanding capacity of production in the amount of 430 kEUR and purchase commitments from blanket agreements to safeguard the production of warming systems in the amount of 236 kEUR

for 2011 and following years. Other purchase commitments exist in USD and mainly concern the gallium and indium deliveries with the main suppliers. That results in purchase commitments in the amount of 186 kUSD (2009: 925 kUSD).

AUDITOR FEES

In 2010, 45 kEUR (2009: 44 kEUR) was entered as expenditure for the audit of the financial statements, 1kEUR (2009: 0 kEUR) for other auditing services and 10 kEUR (2009: 4 kEUR) as expenditure for tax consulting services.

30. SEGMENT INFORMATION

The business segments have been presented in the financial statements in accordance with IFRS 8. 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:

HEALTHCARE DIAGNOSTIC

- 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 foregoing 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 in the segment's sales figure.

In the South America segment, the majority of sales were generated in Brazil in the amount of EUR 3.286 million (2009: EUR 2.231 million) and in the Europe segment the majority of sales were generated in Italy in the amount of EUR 4.407 million (2009: EUR 2.678 million).

The reconciliation of the segment assets in the segment report based on product areas is made up of the following cash or cash equivalents and securities of Geratherm Medical AG, which are not assigned to a specific segment. These comprise the following:

	2010 kEUR	2009 kEUR
Securities of Geratherm Medical AG	6,502	5,356
Cash and cash equivalents of Geratherm Medical AG	5,427	5,670
Total	11,929	11,026

GROUP SEGMENT REPORT FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2010

Based on product groups	Healthcare Diagnostic	Medical warming systems	Cardio/Stroke	Respiratory	Consolidation	Reconciliation	Total
2010	Jan.-Dec. kEUR	Jan.-Dec. kEUR	Jan.-Dec. kEUR	Jan.-Dec. kEUR	Jan.-Dec. kEUR	Jan.-Dec. kEUR	Jan.-Dec. kEUR
Segment sales	16,793	610	263	649	-1,336	-1	16,978
Operating results	3,161	-69	-193	-120	-394	-35	2,350
including: Amortization/ depreciation of intangible assets and tangible assets	557	38	4	10	-88	77	598
Segment assets	11,082	984	311	564	0	11,929	24,870
Segment debts	5,459	112	617	257	0	0	6,445

Based on product groups	Healthcare Diagnostic	Medical warming systems	Cardio/Stroke	Respiratory	Consolidation	Reconciliation	Total
2009	Jan.-Dec. kEUR	Jan.-Dec. kEUR	Jan.-Dec. kEUR	Jan.-Dec. kEUR	Jan.-Dec. kEUR	Jan.-Dec. kEUR	Jan.-Dec. kEUR
Segment sales	13,640	448	352	610	-665	0	14,385
Operating results	2,663	-57	-223	-114	9	-41	2,237
including: Amortization/ depreciation of intangible assets and tangible assets	139	29	10	9	89	94	370
Segment assets	7,129	932	385	554	0	11,026	20,026
Segment debts	4,137	53	614	178	0	0	4,982

By region	Germany	Europe	USA	South America	Other	Total
2010	Jan.- Dec kEUR	Jan.- Dec kEUR	Jan.- Dec kEUR	Jan.- Dec kEUR	Jan.- Dec kEUR	Jan.- Dec kEUR
Sales revenues	2,827	8,472	1,386	4,172	1,457	18,314
Elimination of intercompany Sales	-495	0	0	-841	0	-1,336
Sales revenues on third parties	2,332	8,472	1,386	3,331	1,457	16,978
Gross profit or loss	1,362	4,952	810	2,640	852	10,616
Operating results	215	781	127	1,093	134	2,350
including: Amortization/depreciation of intangible assets and tangible assets	98	354	58	27	61	598
Amortization of public grants and subsidies	11	40	7	0	7	65
Acquisition costs of fixed assets for the period	1,168	0	0	66	0	1,234
Segment assets	22,915	0	0	1,955	0	24,870

By region	Germany	Europe	USA	South America	Other	Total
2009	Jan.- Dec kEUR	Jan.- Dec kEUR	Jan.- Dec kEUR	Jan.- Dec kEUR	Jan.- Dec kEUR	Jan.- Dec kEUR
Sales revenues	3,106	6,654	1,449	3,004	1,269	15,482
Elimination of intercompany Sales	-432	0	0	-665	0	-1,097
Sales revenues on third parties	2,674	6,654	1,449	2,339	1,269	14,385
Gross profit or loss	1,618	3,936	857	1,550	751	8,712
Operating results	404	983	214	449	187	2,237
including: Amortization/depreciation of intangible assets and tangible assets	78	191	42	22	37	370
Amortization of public grants and subsidies	10	25	5	0	6	46
Acquisition costs of fixed assets for the period	887	0	0	35	0	922
Segment assets	18,922	0	0	1,104	0	20,026

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 EUR 2.721 million (2009: EUR 2.632 million) 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 427 kEUR (2009: EUR 2.710 million).

The capital flow statement for 2010 includes in detail the payments received from interests (32 kEUR; 2009: 13 kEUR) and dividends (89 kEUR; 2009: 59 kEUR) and outgoing payments from interests (90 kEUR; 2009: 140 kEUR) and income taxes (151 kEUR; 2009: 66 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 EUR 1.235 million (2009: 829 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 primarily the inflow of funds from the increase in the capital of Geratherm Medical AG less the procurement costs of equity capital balanced with the resulting tax effect in the amount EUR 3.457 million and an outflow of funds from the dividend payments in the amount of EUR 2.006 million (2009: 20 kEUR).

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. Financial security is gauged primarily by the equity-to-assets ratio and liquidity. The operative and strategic management of capital is an integral part of the company's internal reporting sys-

tem. The capital comprises the issued shares, capital reserves and other reserves. This capital of the parent company's shareholders is EUR 20.617 million (2009: EUR 17.667 million) as of the reporting date such that an equity-to-assets ratio of 76.5 % (2009: 78.0 %) is derived.

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	Book value
		12/31/2010	12/31/2009
		kEUR	kEUR
I. Securities – „Financial assets available for sale“		6,502	5,355
Securities – „Financial assets available for sale“	Valuation not affecting net income at the current market value	417	466
Securities – „Financial assets available for sale“	Valuation adjustment with effect on the income at the current market value	6,085	4,889
II. Credits and accounts receivable	Net book value	3,867	4,119
1. Trade receivables		3,200	2,365
2. Tax receivables and other assets		864	424
3. Cash in hand and cash in banks		5,519	5,703
4. Long-term debts		-522	-465
5. Liabilities to banks		-2,628	-2,441
6. Liabilities on payments received		-240	-80
7. Trade accounts payables		-1,128	-708
8. Tax liabilities and other liabilities		-1,198	-679

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.

7.29 (a) represents a reasonable approach to the current market value, there is no indication of the current market value. The valuation conducted at the current market value is implemented according to level 1 (IFRS 7.27 A (a)).

Since the book value of the financial instruments according to IFRS

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:

Fiduciary activities are not performed in regard to financial assets.

	available - for - sale		Accounts receivable and credits	
	2010	2009	2010	2009
	kEUR	kEUR	kEUR	kEUR
Interest earnings			32	13
Interests paid			-90	-140
Interest income			-58	-127
Exchange gains			261	362
Exchange losses			-203	-276
Income from currency differences			58	86
Exchange gains from sales of securities	1,176	1,160		
Exchange losses from sales of securities	0	0		
Losses from valuation of securities	-50	-504		
Dividend income	89	59		
Securities-related expenses	-174	-28		
Securities-related income	1,041	687		
Allowance for uncollectible accounts			-21	-18
Net profits and losses entered in the income statement	1,041	687	-21	-59
Change in market valuation reserve due to sale	-547	72		
Change in market valuation reserve due to change in current net book value	-723	2,274		
Overall change in market assessment reserve	-1,270	2,346		
Overall results from financial instruments	-229	3,033	-21	-59

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 the 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 value adjustments formed for bad debt losses (respectively 100 % of the corresponding receivable).

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

	2010 kEUR	2009 kEUR
Domestic	740	582
Abroad	3,324	2,207
	4,064	2,789

The age structure of trade accounts receivable not impaired as of the reporting date, tax receivables and other assets is as follows:

	2010 Gross kEUR	2009 Gross kEUR
Not overdue	3,594	2,256
0 - 30 days overdue	407	466
31 - 60 days overdue	10	34
More than 60 days overdue	53	33
	4,064	2,789

The valuation adjustments have developed in this regard as follows:

	2010 kEUR	2009 kEUR
As of January 1	42	56
Addition	21	18
Utilization	-44	-32
Dissolution	-6	0
As of December 31	13	42

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:

	2010 kEUR	2009 kEUR
Short-term liabilities to banks	-1,128	-441
Trade Accounts Payable	-1,127	-708
Tax Liabilities	-446	-147
Other liabilities (without advance payments received)	-752	-532
Short-term financial resources required	-3,453	-1,828
Liquid assets	5,519	5,703
Liquidity 1	2,066	3,875
Trade receivables	3,200	2,365
Tax receivables	330	104
Other receivables (without prepayments)	315	210
Liquidity 2	5,911	6,554
Securities held as short-term investments	6,502	5,355
Liquidity 3	12,413	11,909

Below is a breakdown of the cash outflow from the repayment of financial liabilities to banks:

The liabilities on payments received, trade payables, tax liabilities and other payables will result in a cash outflow during the coming year.

	Book value kEUR	Cash outflow		
		< 1 year kEUR	1–5 years kEUR	> 5 years kEUR
Liabilities to banks 2010	2,628	1,128	1,500	0
Liabilities to banks 2009	2,441	441	2,000	0

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:

	12/31/2010 kUSD	12/31/2010 kEUR	12/31/2009 kUSD	12/31/2009 kEUR
Trade receivables	625	468	993	689
Bank loans / cash in banks	97	72	264	183
Trade accounts payables	-566	-423	-367	-255
Balance sheet items	156	117	890	617
Order balance	484	362	913	634
Financial obligations	-235	-176	-946	-657
Purchase commitments	-334	-250	-1,754	-1,218
Pending transactions	-85	-64	-1,787	-1,241
Net item	71	53	-897	-624

The following currency translations were applied:

	12/31/2010	Average	12/31/2009	Average
US dollar	1.336	1.325	1.441	1.392

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.

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.

	12/31/2010		12/31/2009	
	Equity capital	Performance	Equity capital	Performance
US dollar	0	-4	0	58

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.

Insofar as we have liquid resources available, 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 EUR 2.022 million (2009: EUR 2.465 million) 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 invest-

ments, 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 res-

pective 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.

PFIZER INC.

Pfizer Inc. is one of the leading research-based biotechnology and pharmaceutical companies in the world. Pfizer concentrates mainly on the development and production of pharmaceutical products that are available only on prescription basis. Areas of competence include: Cardiovascular diseases, central nervous system disorders, rheumatism, aches, infections, cancer as well as HIV diseases, urogenital, respiratory, ocular and metabolic diseases. The appreciation as at December 31, 2010 was posted in the market assessment reserve.

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 12/31/2010. We have reported the decrease in value as of 12/31/2010 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. The change in value as at December 31, 2010 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. The change in value as at December 31, 2010 was posted in the market assessment reserve.

ECKERT & ZIEGLER STRAHLEN- U. MED. 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 write-up resulting from the valuation as at December 31, 2010 was posted in the market assessment reserve.

SANOFI-AVENTIS S.A.

Sanofi-Aventis is a large international pharmaceutical company with the third largest research and development budget in the world. The research resources are concentrated on four major growth areas: cancer, thromboses, diabetes and vaccines. Sanofi-Aventis

is the global market leader in the field of vaccines, including the new vaccine for treating cervical cancer, for instance. We foresee a positive development of this major pharmaceutical group over the medium term. The impairment due to valuation as at December 31, 2010 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 balance sheet item securities at the end of the 2010 fiscal year:

	2010		2009	
	Highest price	Lowest price	Highest price	Lowest price
	EUR	EUR	EUR	EUR
Pfizer Inc.	14.36	11.22	13.60	9.53
Adolor Corp.	1.60	0.72	1.94	0.92
Epigenomics AG	3.58	1.83	3.87	1.57
Agfa-Gevaert N.V.	7.30	2.97	4.52	1.24
Cardionet Inc.	7.51	2.96	22.24	2.96
Eckert & Ziegler Strahlen- u. Med. AG	27.60	16.00	21.10	5.51
Sanofi-Aventis S.A.	58.84	44.03	-	-
Newron Pharmaceuticals	16.43	3.75	-	-
Roche Holding AG	127.75	97.67	-	-

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.

MARKET RISK – NEW PRODUCTS

Geratherm drives development and sales activities of new products in all segments. The technological competence and expertise are strengthened by the collaboration with technology partners. In part these new products are still in the market launch phase and are expected to contribute to noticeable growth in sales once the anticipated market success is attained. There are certain risks and significant opportunities in this regard.

ADDITIONAL INFORMATION

INFORMATION ABOUT THE EXECU- TIVE 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 the Executive Committee or by one member of the 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 (2009: 168 kEUR) and

variable payments in the amount of 166 kEUR (2009: 29 kEUR) for the activities of the Executive Committee were reported during the 2010 fiscal year. The remuneration received by the managing directors in the amount of 9 kEUR (2009: 9 kEUR) represents contributions to the contribution-oriented pension schemes. Variable payments were made in 2010 for management services based on financial results. On June 12, 2006 the annual general meeting

decided while applying Art. 286 Para. 5 of HGB (German Commercial Code) that the information required according to Art. 285 Para. 1(9)a Clause 5 to 9 and Art. 314 Para. 1(6)a Clause 5 to 9 of the HGB a.F. (German Commercial Code, old version) be omitted for five years.

As of the reporting date, the board of directors held directly and indirectly 2,612,987 shares.

INFORMATION ABOUT SUPERVISORY BOARD

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

A payment in the amount of 12 kEUR (2009: 12 kEUR) is included in the accrued liabilities for the activities of the supervisory board in 2010.

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

Members of the supervisory board are:

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

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

Firus Mettler, Frankfurt am Main
Dipl. Jurist, MBA; Investment Manager
Chairman of the Supervisory Board of Biomix Biotec AG,
Dänischenhagen

STAFF TRENDS

		Employees	Technical employees	Trainees	Total
Number of employees (annual average) – excluding managing	2010	37	92	2	131
	2009	37	66	1	104

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.

Geratherm Medical AG

Geschwenda, March 25, 2011



Dr. Gert Frank
Chairman of the Board



Thomas Robst
Head of Marketing/Sales

CONSOLIDATED FINANCIAL STATEMENTS AFFIDAVIT FOR 2010 FISCAL YEAR

To the best of our knowledge, and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and

the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Geschwenda, March 25, 2011

Geratherm Medical AG



Dr. Gert Frank
Chairman of the Board



Thomas Robst
Head of Marketing/Sales

AUDITOR'S REPORT

We have audited the consolidated financial statements of the Geratherm Medical AG company, Geschwenda – consisting of the consolidated balance sheet, consolidated income statement, statement of changes in equity and cash flow, group statement of income and expense, group statement of changes in equity and group financial statements – as well as the group management report for the business year from 1 January to 31 December, 2010. The preparation of the consolidated financial statements and the management report in accordance with the IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Para. 1 German Commercial Code is the responsibility of the Company 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 German Commercial Code and in compliance with generally accepted standards of the Institute of Public Auditors in Germany (IDW).

These standards require that we plan and perform the audit such that misstatements materially affecting the presentation of net assets, financial position and earnings situation in the annual financial statements in accordance with German principles of proper accounting and in the summarised management report and group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations of possible misstatements are taken into account in the determination of the 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 the assessment of the financial statements of the companies included in the consolidated financial statements, the segregation of the consolidated group, the accounting and consolidation principles used, and the sig-

nificant estimates made by legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the summarised management report 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 the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Para. 1 German Commercial Code 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 summarised management report and group management report agree with the consolidated financial statements, and as a whole provide a suitable view of the Group's situation and accurately represents the opportunities and risks of future development.

Leipzig, on 25 March, 2011

KPMG AG
Auditing Company

NOTES

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IMPRINT

To release on April 20, 2011 by the Geratherm Medical AG

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KEY DATES FOR 2011

Publication of 2010 Financial Report
April 20, 2011

Annual General Meeting
June 6, 2011 in Hamburg

Analysts' Conference
Small & Mid Cap Conference of Close Brother Seydler Bank AG
June 27 and 28, 2011 in Paris

Interim Report 1st Quarter
May 25, 2011

Interim Report 2nd Quarter
August 24, 2011

Interim Report 3rd Quarter
November 23, 2011

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