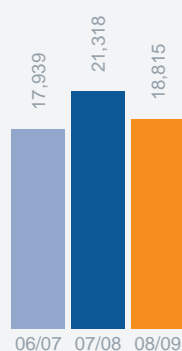


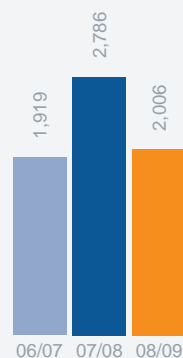
# 08/09

## Annual Report

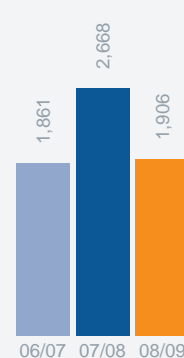
**Revenues**  
€ thousand



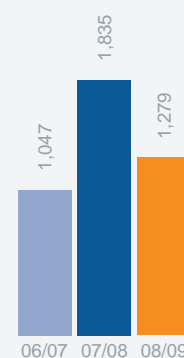
**EBIT**  
€ thousand



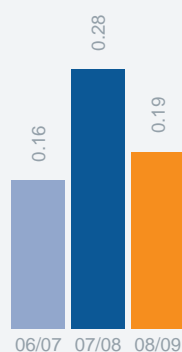
**Profit before tax**  
€ thousand



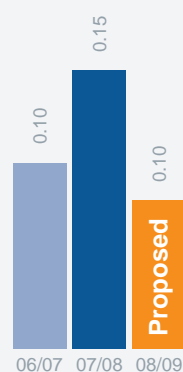
**Profit after tax**  
€ thousand



**Earnings per share\***  
€



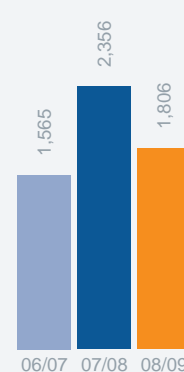
**Dividends**  
€



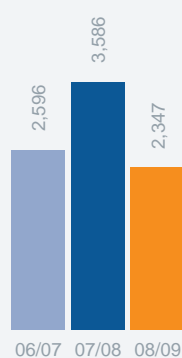
**Equity ratio**  
in %



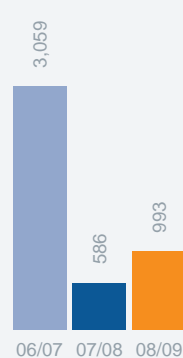
**Gross cash flow**  
€ thousand



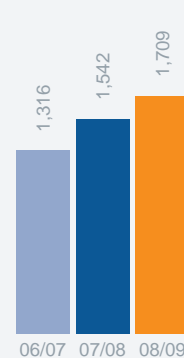
**Financial liabilities**  
€ thousand



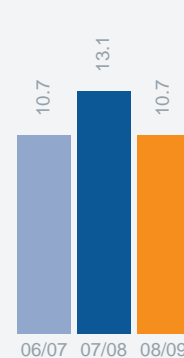
**Investments**  
€ thousand



**R&D expenses**  
€ thousand

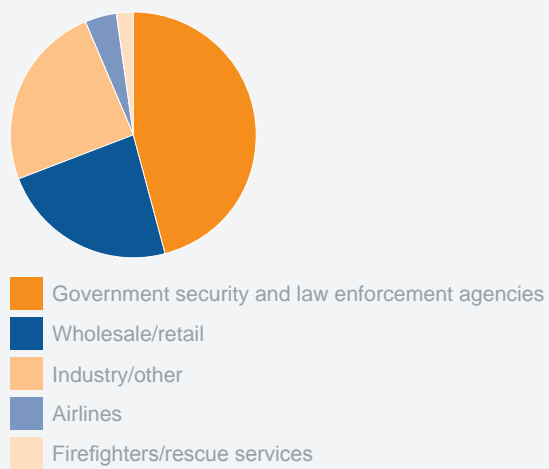


**EBIT margin**  
€

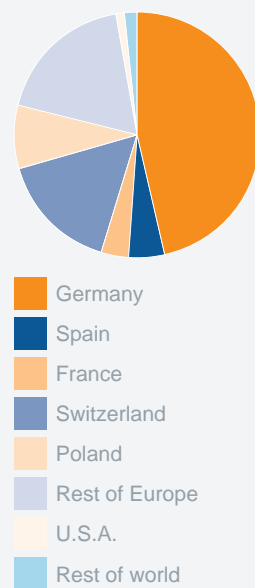


\*Figures for 2006/2007 adjusted for the effect of the 1:3 share split in 2007/2008.

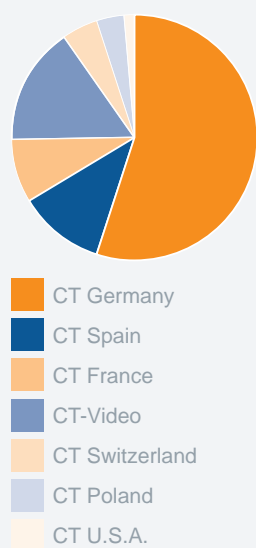
### Revenues by customer group



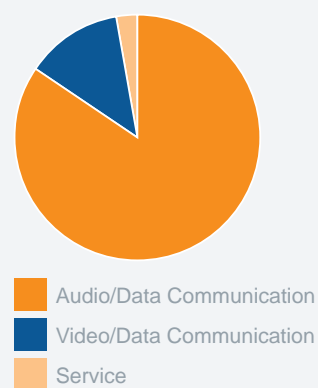
### Revenues by market



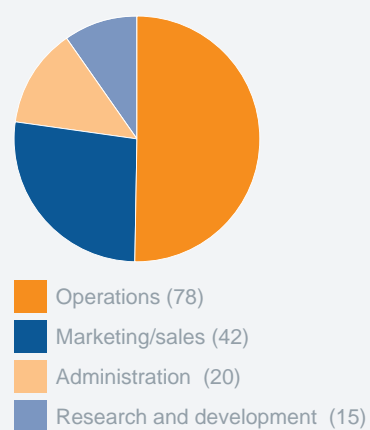
### Revenues by company



### Revenues by division



### Personnel structure



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# History

## 1985

Formation of CeoTronics GmbH in Rödermark near Frankfurt/Main, Germany; development, production, and sale of communication systems.

## 1986-1993

Formation of CeoTronics Ltd., CeoTronics AG (Switzerland), CeoTronics S.L., CeoTronics, Inc., and the opening of a sales office in the Benelux countries.

## 1997

Reorganization of international marketing/sales at the parent company. Reorganization of CeoTronics GmbH as CeoTronics AG.

## 1998

CeoTronics AG's IPO on the Neuer Markt in Frankfurt/Main.

## 1999

Formation of CT-Video GmbH.

## 2000

Opening of a sales office in Scandinavia. Acquisition of the entire Audio Accessory Division of DTC, Inc. (U.S.A.). Launch of wireless digital audio transmission technology. DIN EN ISO 9001:1994 certification.

## 2001

New CT-Video GmbH factory opens in Lutherstadt Eisleben.

## 2002

ATEX certification. Acquisition of 75% of AACOM Ltd., Poland (former CT sales partner). Change of stock market segment from the Neuer Markt to the Geregelter Markt.

## 2003

Admission to and listing in the Prime Standard.

## 2004

DIN EN ISO 9001:2000 and ATEX certification. Inclusion in the TechnologyAllShare index. Launch of wireless digital video data transmission technology.

## 2006

CeoTronics AG is awarded the "2006 Georg Waeber Innovation Prize."

## 2007

CeoTronics AG receives the largest order in its history, totaling €8.5 million, from the German Armed Forces for CT-DECT JetCom systems. Inclusion in the GEX index.

## 2008

CeoTronics AG commissions its own Tetra radio cell, its own GTEM cell for EMC measurements, and a new acoustics laboratory.

## 2009

Construction begins in Lutherstadt Eisleben to expand CT-Video GmbH's production space by 650 m<sup>2</sup> to a total operating area of 1,850 m<sup>2</sup>. Completion is expected in fall/winter 2009.



## Corporate Culture

People have been using our products to communicate under challenging ambient conditions for a good 25 years. From the beginning, CeoTronics was decisively shaped by bold entrepreneurship and people with the courage to seek out unconventional solutions. From this commitment and dedication grew a corporate philosophy characterized by openness, respect, and success.

We direct operations from Rödermark, working closely with 155 employees around the world. We have flat hierarchies and an open door policy that stand for short information paths and decision-making processes. These are the strengths that make our Company unique – plus talented, motivated employees in all of our areas of activity.

We invest a great deal in staff recruitment, training, and retention, as well as in creating a working environment where talent and creativity can shine. The reason is simple: We can only achieve our corporate goals together with our employees.

This is why all employees naturally share in our success in the form of profit sharing, special bonuses for exceptional performance, training events, and an annual inflation allowance.

Our team spirit also continues beyond working hours. This can be seen in numerous events such as our office soccer tournaments, which attract a great many fans, or the traditional summer party where the members of the Board of Management are not above barbecuing for all our staff.





# Letter from the Board of Management

**Ladies and Gentlemen,  
Dear Shareholders,**

Fiscal year 2008/2009 was dominated by the worst global economic and financial crisis in 80 years.

Nevertheless, the CeoTronics Group generated the second-highest revenues and profit in its history, at €18,815 thousand and €1,279 thousand respectively, and in fact slightly exceeded its forecasts.

In the period under review, the upcoming switch to digital radio by government security and law enforcement agencies and firefighters in Germany and in Northern Europe – which unfortunately is being implemented extremely hesitantly – led to even greater reluctance on the part of these customers to invest in communications accessories for analog radios. In addition, the changeover to a new generation of digital radios was announced at a very early stage in Switzerland among other countries, something that has also resulted in delays to the ongoing switch to digital radio there.

CT-Video GmbH's positive business performance in fiscal year 2008/2009 led to it replacing CeoTronics Spain as the Group's highest-selling subsidiary. CT-Video GmbH's digital video and wireless transmission systems are innovative, customized, and powerful, as well as offering outstanding quality. The growing customer need not only for reliable communication but also seeing and documenting procedures and situations will fuel even more positive development by this CeoTronics Group unit in future.

Construction work on expanding our production and research and development capacities at CT-Video GmbH in Lutherstadt Eisleben started on schedule. The shell has now been completed and the extension will be commissioned in November 2009, in time for the subsidiary's tenth anniversary.

The order backlog as of May 31, 2009 was down 63.7% as against the extremely high prior-year figure, at €2,234 thousand. The high order backlog for 2007/2008 was mainly due to the order for CT-DECT JetCom systems from the German Armed Forces, which has now been delivered and invoiced in full. Additional reasons for the decline in incoming orders and the lower order backlog are the worst global economic and financial crisis in 80 years and the delays in the switch to digital radio by security authorities and organizations in Germany and Northern Europe.

The drop in consolidated revenues due to these effects led to a deterioration in the Group's key earnings figures in fiscal year 2008/2009 compared with the record fiscal year 2007/2008. EBIT fell by 28.0% to €2,006 thousand, while profit before tax fell by 28.6% to €1,906 thousand. Profit for the year amounted to €1,279 thousand (previous year: €1,835 thousand).

Equity increased by €177 thousand to €13,144 thousand as of May 31, 2009. The equity ratio rose significantly to 72.5% (previous year: 64.8%).



With regard to the appropriation of net profit, the Board of Management is recommending to the Supervisory Board that a proposal be made to the General Meeting on November 6, 2009 for a dividend of €0.10 per share (previous year: €0.15) be paid out of the net retained profit of €2,679 thousand reported by the parent company, and that the remainder be carried forward to the fiscal year 2009/2010 to

- further strengthen the Group's self-financing ability (especially in view of the global economic and financial crisis),
- increase its flexibility of action with respect to opening up new markets, and
- develop new products.

We would like to thank our national and international customers, employees, sales and distribution partners, suppliers, banks, the Supervisory Board, and our shareholders for their confidence in us and for our successful cooperation.

Given the negative external factors, the Board of Management is satisfied with the Group's revenues and profit for fiscal year 2008/2009.

The impending start of the switch to digital radio in Germany and other European markets, the changeover to the new generation of digital radios in Switzerland and Spain, the new projects being implemented, and our new product developments give CeoTronics AG reason to be 'cautiously' optimistic about fiscal year 2009/2010.

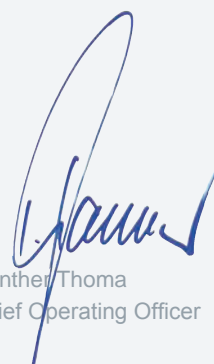
CeoTronics – Your company!  
Rödermark, August 14, 2009



Thomas H. Günther  
Chairman of the Board of Management



Berthold Hemer  
Deputy Chairman of the Board of Management



Günther Thoma  
Chief Operating Officer

# Report by the Supervisory Board

## Dear Shareholders,

Once again, our work with CeoTronics AG's Board of Management in fiscal year 2008/2009 took place in a spirit of trust and open communication. The Supervisory Board provided in-depth support for the Company's development and advised the Board of Management.

The regular meetings of the Supervisory Board were held on August 14, 2008, October 10, 2008, January 14, 2009, and March 31, 2009. A Supervisory Board meeting was also held following the General Meeting on November 7, 2008; in this meeting, the members of the Supervisory Board elected Hans-Dieter Günther as Chairman and Horst Schöppner as Deputy Chairman. All three members of the Supervisory Board attended all meetings in person. Between its meetings, the Supervisory Board was also kept informed about key developments both orally and in writing. In addition, the Chairman of the Supervisory Board addressed policy issues during discussions held at irregular intervals with the Chairman of the Board of Management in particular, and was given access to the minutes of the meetings of the Board of Management.

### Focus of the Supervisory Board's advisory activities

At each meeting, the Supervisory Board addressed any necessary review of the transactions by the Board of Management requiring approval. In addition, and in the presence of the Board of Management, it discussed topics including the quarterly reports; analyses of and deviations from the budget and year-on-year comparisons; income statements prepared by the parent company and each affiliate; risk management in accordance with the Gesetz zur Kontrolle und Transparenz im Unternehmensbereich (KonTraG – German Act on Control and Transparency in Business) with a risk inventory including the strategic, financial market, and legal risks facing the Company; the complaints rate; the current business situation including bank balances; receivables and liabilities; bank ratings; order



backlogs; forecasts; potential bad debts; the stock market situation; share price performance; and investor relations measures.

The content of amendments to the German stock corporation law and the German Corporate Governance Code relevant to CeoTronics AG was presented and discussed at the regular meetings of the Supervisory Board.

On August 14, 2008, the Supervisory Board – in the presence of the Board of Management – received the oral report of the auditors and discussed the HGB annual financial statements, the consolidated IFRS financial statements, and the Board of Management's proposal on the appropriation of net profit for fiscal year 2007/2008. In addition, the Supervisory Board's audit-related responsibilities as laid down in the draft of the Bilanzrechtsmodernisierungsgesetz (BilMoG – German Accounting Law Modernisation Act), amendments to the Articles of Association, and motions for the General Meeting were resolved, among other things and the agenda for the 2008 General Meeting was prepared together with the Board of Management.

At its regular meeting on October 10, 2008, the Supervisory Board discussed, among other things, the "Extended Documentation Obligations for International Transfer Prices" with the Board of Management and the Board of Management's report on new products.

At its meeting on January 14, 2009, the Supervisory Board itself – after weighing the costs of engaging an external auditor – reviewed the efficiency of its work in accordance with section 161 of the Aktiengesetz (AktG – German Stock Cooperation Act) and concluded that it has been efficient. The Supervisory Board also discussed the progress made with expanding operations at Group company CT-Video GmbH in Lutherstadt Eisleben with the Board of Management. The Supervisory Board's annual Declaration of Conformity with the German Corporate Governance Code was also adopted at this meeting.

The joint Declaration of Conformity by the Supervisory Board and the Board of Management was resolved by the Supervisory Board on March 16, 2009 following the circulation of the written documents.

On March 31, 2009, the Supervisory Board reviewed the remuneration of the members of the Board of Management and discussed the possible effects of the banking and financial crisis on CeoTronics AG's business, a competitor analysis prepared by the Board of Management, and the Board of Management's draft "Code of Conduct" for the Group, among other things.

The members of the Supervisory Board also kept themselves informed and exchanged their views between meetings, both in person and by telephone. On behalf of the Board of Management, the Supervisory Board defined the Board of Management's reporting obligations and the list of transactions requiring approval.

The Supervisory Board of CeoTronics AG therefore performed the duties required of it by law, the Articles of Association, and the German Corporate Governance Code throughout the entire fiscal year. It monitored the work of the Board of Management and supported the latter's decision-making by giving advice.

### **German Corporate Governance Code**

The Supervisory Board continuously monitored the ongoing development of corporate governance standards. It familiarized itself with the changes to the German Corporate Governance Code that were published on June 6, 2008 and discussed them in detail. The Board of Management and the Supervisory Board signed the joint Declaration of Conformity for fiscal year 2008/2009 on March 16, 2009. CeoTronics AG continues to comply with the principles required by the Code, with a small number of exceptions.

A detailed description of the German Corporate Governance Code can be found in the relevant chapter of the Annual Report. Moreover, both the current and previous declarations of conformity are published on CeoTronics AG's website (in German language only). The annual efficiency audit performed on the basis of the German Corporate Governance Code rated the efficiency of the cooperation between the Board of Management and the Supervisory Board as well as the Supervisory Board's work as very good. There are and have been no conflicts of interest affecting Supervisory Board members. The total remuneration of the Board of Management and the Supervisory Board is presented in the notes to the annual and consolidated financial statements.

### **Audit of the annual and consolidated financial statements**

UWP Unitreu GmbH Wirtschaftsprüfungsgesellschaft, Eschborn, which was elected as auditors and Group auditors for fiscal year 2008/2009 by the General Meeting on November 7, 2008, was engaged by the Supervisory Board to audit the annual financial statements, the consolidated financial statements, and the management reports after the details were established and prices agreed on April 7, 2009. The Supervisory Board acknowledged the declaration of independence obtained from the auditor in accordance with section 7.2.1 of the German Corporate Governance Code and determined the key focuses of the audit.

In accordance with the German Corporate Governance Code, the audit engagement also includes a duty to inform the Super-

visory Board about any potential conflicts of interest or cases of bias that arise during the audit and cannot be eliminated immediately. The auditor must also report material findings or events, including any facts that prove the inaccuracy of the Declaration of Conformity with the German Corporate Governance Code submitted by the Board of Management and the Supervisory Board.

In the past fiscal year, the consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs). UWP Unitreu GmbH Wirtschaftsprüfungsgesellschaft audited the annual and consolidated financial statements of CeoTronics AG and the relevant management reports as of May 31, 2009, including the accounting system, in accordance with the legal requirements and issued unqualified audit reports on them.

The auditors' report contains no notifications or indications of any inaccuracies in the Declaration of Conformity with the German Corporate Governance Code. On August 6, 2009, the Board of Management provided the Supervisory Board with the annual financial statements in accordance with the Handelsgesetzbuch (HGB – German Commercial Code) and the IFRS consolidated financial statements, as well as the management reports.

The auditors attended the meeting on August 14, 2009, reported on the results of their audit, and were available to answer detailed questions from the Supervisory Board. The Supervisory Board had at its disposal all of the documentation on CeoTronics AG's and the Group's final financial statements, the Board of Management's proposal for the appropriation of profits, and the auditors' reports both before and during its meeting on August 14, 2009.

The Supervisory Board conducted its own examination of the HGB annual financial statements and the management report of CeoTronics AG, and did not raise any objections. The Supervisory Board also concurred with the auditor's findings with regard to the consolidated financial statements and the Group

management report and, following its own examination, approved the consolidated financial statements and the Group management report in accordance with IFRSs as of May 31, 2009. CeoTronics AG's annual financial statements were adopted in accordance with section 172 of the Aktiengesetz, and the consolidated financial statements were approved.

The Supervisory Board endorses the proposal by the Board of Management on the appropriation of the net retained profit. A proposal will be made to the General Meeting that part of the profit for the year reported by CeoTronics AG be distributed as a dividend of €0.10 per share and that the remainder be carried forward to new account to strengthen the Company's self-financing ability.

The CeoTronics Group turned in a remarkable performance, given the global economic problems triggered by the banking and financial crisis. The Supervisory Board would like to thank the Board of Management, the executives, and the employees of the CeoTronics companies in Germany and abroad for their personal contributions to a highly successful 2008/2009 fiscal year.

We would like to thank our shareholders for their confidence in us and wish us all success in meeting the challenges ahead of us in fiscal year 2009/2010.

Rödermark, August 14, 2009

The Supervisory Board of CeoTronics AG



Hans-Dieter Günther  
Chairman



# The original

In-ear-headsets from CeoTronics since 1987

## The ear never forgets

Our ears were not originally designed to be abused by extreme loud environments – such as at work. This kind of intense noise did not exist in the thousands of years in which humans and their senses evolved. As a result, nature did not provide the body with a warning signal for dangerous noise levels. Only when your ears are still pounding or whistling hours after you finish work do you realize that the noise levels were excessive – but by then it is too late.

## Communicating in high-noise environments

Since 1987, CeoTronics has been developing comfortable in-ear communications systems that prevent this kind of damage but still ensure reliable communication.

The latest generation of CT-ClipCom communication systems is a good example of this. Officially approved as personal protective equipment, these devices fit directly into the ear using a simple clip-on earpiece similar to a high-tech hearing aid. They protect wearers against noise and transmit what is said absolutely reliably, regardless of where they are used. This is a real advantage for many employees in a wide range of industries – not only do the systems significantly improve occupational safety, but they also make workflows more efficient and more cost-effective.

## In the field

There are as many different versions of the CT-ClipCom communications system as there are fields of operation. The equipment can be easily used even in combination with helmets and breathing masks or under protective suits, ensuring often vital communication in the field.

## Adverse ambient conditions

Which CT-ClipCom version is used depends on the location and on the often difficult and changing ambient conditions.

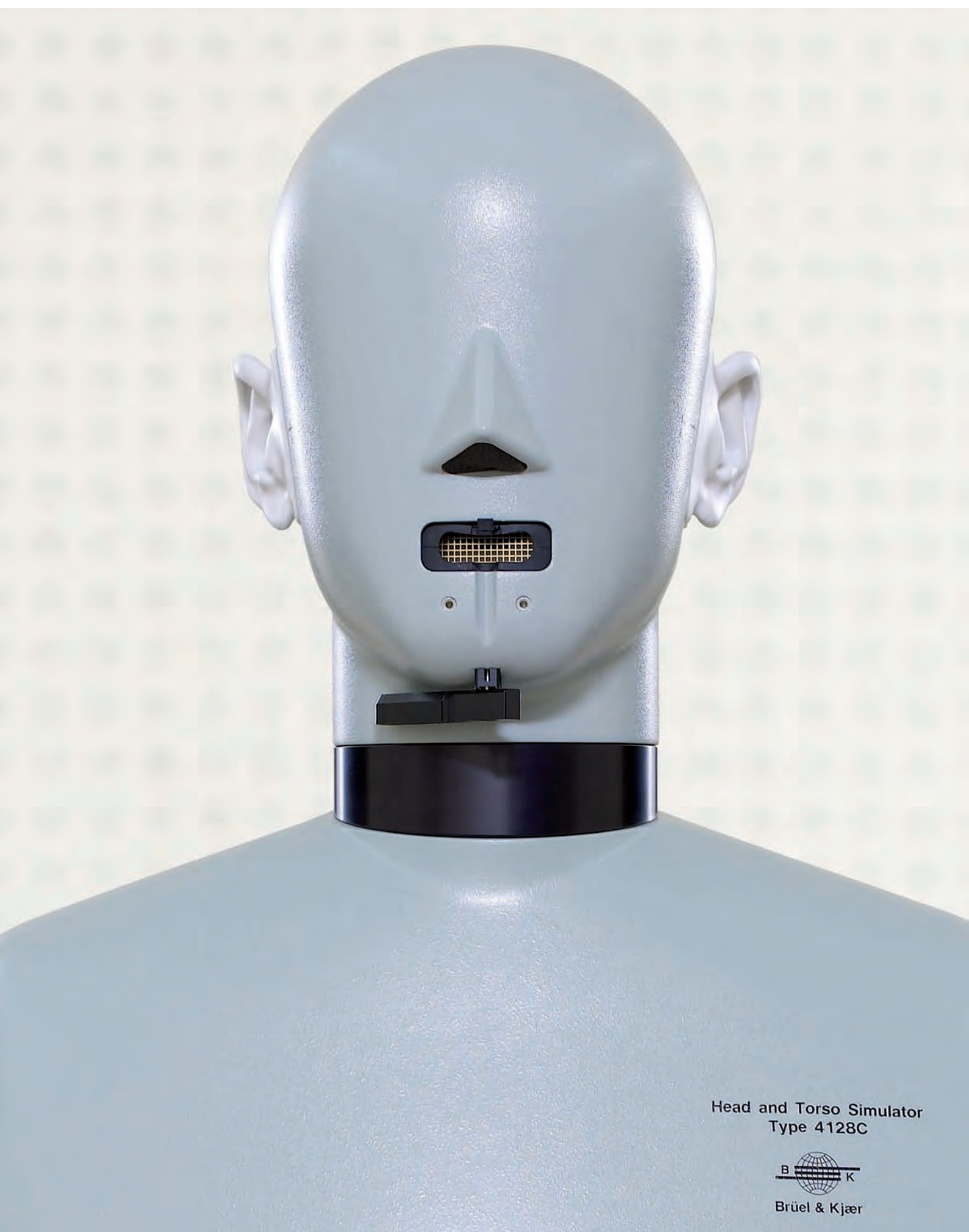
For example, firefighters entering buildings normally use heavy breathing apparatus. As the masks used cover most of their faces, words cannot be picked up and transmitted in the conventional way using a microphone positioned in front of their mouths. CeoTronics AG's engineers came up with something special for such cases: ear microphones. These are contact microphones that pick up words directly from the ear – behind the user's passive hearing protection. The vibrations are then processed in a digital speech processor and transmitted.

Other ambient conditions – explosion-proof areas, for example – entail different kinds of danger. Naturally enough, the use of conventional communication systems is strictly prohibited here. In this case, CeoTronics has an ATEX-certified CT-ClipCom version with a monoaural/biaural boom mike.

## Who are the target groups?

Given that the occupational health and safety guidelines for noise specify an exposure of 85 decibels (dB) for eight hours a day, many more people should be using hearing protection than one might think. A clue: loud shouting or screaming reaches some 85 decibels; and a running circular saw roughly 100 decibels.

This means that there is substantial market potential and anyone who needs to communicate under highly adverse ambient conditions is well advised to trust in CeoTronics AG's almost 25 years of experience.



Head and Torso Simulator  
Type 4128C



## Our Engineers and Technicians

**A total of 15 engineers and 4 technicians develop and modify products at CeoTronics AG's and CT-Video GmbH's German locations.**

Additionally, four engineers (two of whom are with CT-Video GmbH) work with our office and field sales forces and as Prokuristen (authorized signatories), providing expertise, high-quality consulting, and an optimal flow of information to the technical departments.

Examples of CeoTronics' innovation leadership include:

- The original CT-ContactCom skull microphone was patented in 1994, and remains a top-selling product to this day.
- The first headset with an integral radio was developed in 1994 and has been marketed extremely successfully since then.
- The CT digital radio system CT-DECT has been successfully marketed internationally and continually enhanced since 1999.
- The CT-CombiCom received an international design patent in 2003.
- The robust, modular CT-CombiCom headset system has been used by government security and law enforcement agencies, as well as industrial customers, since 2004.
- In 2005, CeoTronics unveiled its internationally patented CT-Neckband Headset, one of the lightest and most comfortable of its kind in the world.
- The CT-DCOM video digital radio system hit the market in 2005.
- Market launch of the generation III CT-Cylinder Camera in 2007.
- Generation I/II CT noise protection helmets were developed in 2005/2007.
- 2007 saw the development and installation of complex robotics.
- In 2006/2007, CeoTronics developed the software and hardware for integrating digital noise reduction (CT-DNR), acoustic shock elimination (CT-ASE), ambient sound reception

(CT-ASR), and active gain control (CT-AGC) in CeoTronics' communication systems for use with radio devices, and in its CT-DECT systems.

- In 2008, the CT-DECT Headset in ATEX was the world's first headset with an integral digital duplex radio for explosion hazard zones.
- In 2008, T-ClipCom Digital was the first digital in-ear headset with CT Bluetooth technology, CT radio PTT, and DSP technology.
- The latest CT-DECT system generation was equipped with new software in 2009 and is now even more secure thanks to double authentication and 64-bit encryption, both of which are recalculated every time the system is restarted.
- Spring 2009 saw the development and announcement of the CT-BluetoothAdapter for connecting CT 12 pin communication systems for use with cell phones.

The Group spent €1,709 thousand on research and development in fiscal year 2008/2009 (including €240 thousand at CT-Video GmbH); this represents 9.1% of consolidated revenues in fiscal year 2008/2009 (previous year: 7.2%).

In fiscal year 2007/2008, the Company had already invested in

- its own Tetra cell,
- the expansion of its acoustics laboratory, and
- an EMC measuring station with a GTEM cell.

Together with its acoustics test head (an artificial head from Bruel and Kjaer), which was commissioned four years ago, this means that CeoTronics is optimally equipped to master future challenges with its own highly professional testing laboratory.

# Prime Performance

**Since it was formed in 1985, CeoTronics has positioned itself at the top of the quality and performance pyramid thanks to its leadership in the premium segment, based on its outstanding consulting expertise, customer focus, excellent product quality in terms of both functionality and workmanship, the use of state-of-the-art technologies, and the flexibility to develop customized system solutions.**

## Technology and innovation leadership

The ability to meet our customers' diverse technical demands is based on substantial and continuous investment in our own research and development. Our technological expertise reflects our in-house knowledge, and CeoTronics' customers value the rapid access they have to this engineering expertise, in particular when it comes to fulfilling individual wishes.

## Skills partnerships

Professional audio communication systems are often no longer enough. Increasingly, the complexity of tasks requires additional data and image information. CT-Video GmbH, Lutherstadt Eisleben, which was established in 1999, specializes in the development, production, and marketing of video camera and analog/digital video data transmission systems. The sales organizations of the two companies complement each other perfectly, and CeoTronics makes use of CT-Video GmbH's production facilities. Leading premium manufacturers of protective helmets, radio sets, special vehicles, and aircraft put their trust in the high-end products from CeoTronics and CT-Video GmbH. All individual products and systems dovetail perfectly and fulfill our customers' extremely exacting requirements for overall solutions.

## Systems compatibility

CeoTronics communications accessories are available for TETRA and TETRAPOL standard digital equipment, as well as for all commonly used analog radios. If required, even CeoTronics' mobile digital radio networks and equipment (CT-DECT) for local operation can be integrated with the above-mentioned wide-scale radio networks – including GSM.

## Customized system solutions

Since every human being is an individual and the operating environments of our customers are extremely different, the requirements for a communication system are also highly specific. The almost infinite range of potential configurations and

variations within CeoTronics' product range is supplemented by the individual communication systems that we develop in accordance with specific customer demands. All our products are always developed in close cooperation with our international customers and continuously enhanced to reflect technological progress.

## Excellence in quality management

The cost-effectiveness of an investment results from the benefit it produces and its total cost of ownership. A product's cost is affected by the purchase price itself and in particular by quality. No customer can afford long or frequent product downtimes, the cost of continual repairs, or even accidents due to malfunctions in a communication system. Demanding customers value the reliability, durability, and the high cost-effectiveness of CeoTronics products, which are never cheap, but are always worth their price.

## Certified and guaranteed

CeoTronics was the first company in this specialist communications sector to be certified in accordance with ISO 9001:2000 including KBA (Kraftfahrtbundesamt – German Federal Motor Transport Authority) and ATEX Directive 94/9. CeoTronics offers warranties of up to three years on all its products and is a registered NATO supplier. The customer satisfaction surveys we have conducted for a number of years also speak volumes: According to the latest survey in June/July 2009, the recommendation rate for CeoTronics' products is 99.2%.





CeoTronics AG, Rödermark



CT-Video GmbH, Lutherstadt Eisleben



CeoTronics, Spain



CeoTronics, France



CeoTronics, Switzerland



CeoTronics, Poland



CeoTronics, U.S.A.



# Our Employees

**We know that shareholder value alone does not define a company's value and potential.**

Rather, it is CeoTronics' highly motivated and dedicated employees who are responsible for CeoTronics AG's outstanding position on the markets. Management appreciates this and has the highest respect for the work of each employee, no matter what role they play in the Company's various departments. This corporate philosophy fosters an atmosphere in which every employee can develop their potential and is motivated to do their best. To enable the CeoTronics Group to maintain its position as an attractive and successful employer, CeoTronics AG's responsible human resources management focused heavily on further training for its employees in the reporting period.

Since CeoTronics AG was formed, it has set store by training young people. Almost all vocational trainees were hired by CeoTronics following the successful completion of their training, and some have had remarkable careers. The trainee ratio in Germany is currently 5.8%. The results of this corporate culture are extremely positive, as is shown by the Rödermark location: The sickness absence ratio is only 3.7%, the average length of service is 9.8 years, and the employee turnover rate is only 4.0%. The Board of Management would once again like to express its gratitude to the entire CeoTronics team: 155 employees around the world (as of May 31, 2009), who speak many different languages and are at home in eight countries.





# CeoTronics' Shares

The proposed distribution equates to a dividend yield of 4.8%, based on CeoTronics' share price as of May 31, 2009.

## Financial and stock markets in clear retreat

Until March 2009, equity markets worldwide were in the grip of a slump that affected almost all stocks and equity indices. The TECDAX, the TechnologyAllShare index, and the GEX all recorded drops of more than 50% between June 2008 and March 2009. Prices started to recover as of mid-March 2009, offsetting losses to a certain extent. Nevertheless, as of May 31, 2009 the TECDAX was down 26% year-on-year, while the TechnologyAllShare index was down approximately 30%, and the GEX was down 33%.

## CeoTronics' shares

The record-breaking results for fiscal year 2007/2008 that CeoTronics published in August 2008 were unable to boost the Company's share price. As a result, its shares were unable to escape the negative trend and fell significantly in the past fiscal year. Although CeoTronics' share price only fell by a maximum of 40%, less than the above-mentioned indices, it was barely touched by the general market recovery starting in March 2009. This resulted in a 35% decline in value year-on-year, with the shares underperforming the indices mentioned.

At times, CeoTronics AG's shares were trading at less than their carrying amount. This means that they are undervalued, particularly given the Company's positive future prospects and market

opportunities. Equally, they offer upside potential of more than 50% based on the upside target calculated by GBC AG in April 2009.

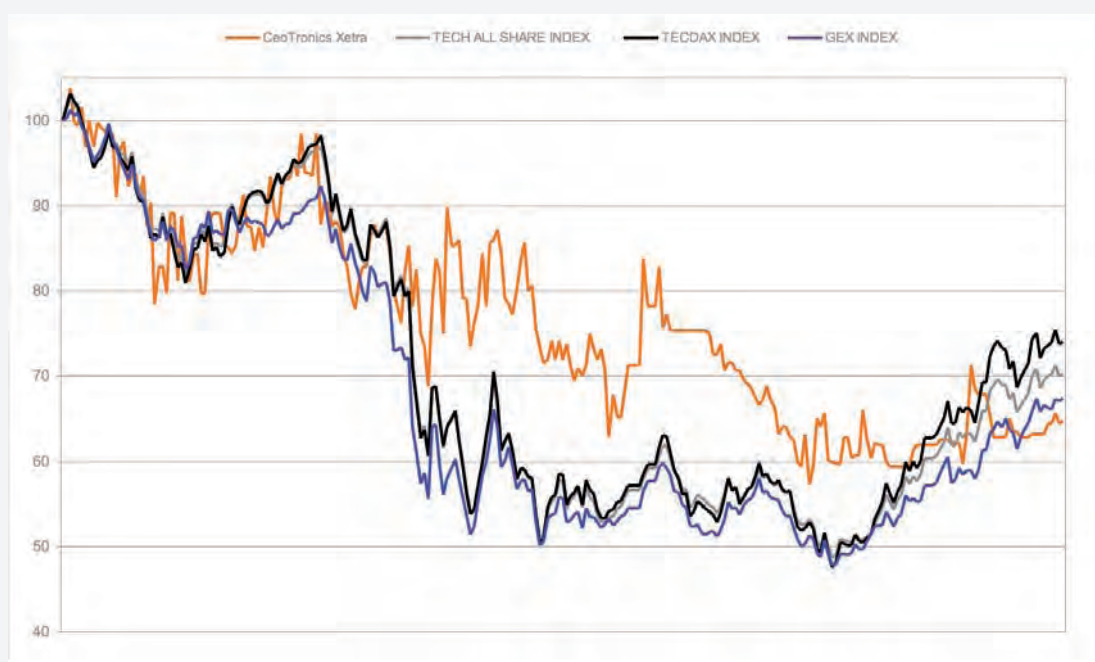
## Research and designated sponsoring

CeoTronics has been investing in research reports and designated sponsoring for three years with the aim of increasing interest in CeoTronics' shares and improving the liquidity of stock market trading. The effects of this have not been in proportion to the sums invested, despite the professional service provided by the analysts and the designated sponsor. For this reason, CeoTronics has decided to temporarily abandon paying for research and designated sponsoring and to use the savings in this area for the Company's ongoing operational development and for potential distributions. The contracts with the research house and the designated sponsor were terminated effective August 31, 2009.

## Dividend proposal for the General Meeting on November 6, 2009

On August 14, 2009, the Board of Management resolved to recommend to the Supervisory Board to propose to the General Meeting that a dividend of €0.10 per share be distributed from the net retained profit of €2,679,705.04 reported by the parent company.

## CeoTronics' shares compared with the benchmark indices from June 1, 2008 to May 31, 2009 (indexed)



-35,3%

Source: DZ Bank



# Corporate Governance Report

**The term “corporate governance” denotes the responsible management and supervision of companies; close and open cooperation between the Board of Management and the Supervisory Board; respect for shareholders’ interests; transparent, timely corporate communication; and financial reporting and auditing in compliance with the required standards.**

CeoTronics AG has adopted the recommendations of the German Corporate Governance Code as part of its management practices since 2002, with a small number of exceptions.

## **Declaration of conformity in accordance with section 161 of the AktG**

In accordance with section 161 of the Aktiengesetz (AktG – German Stock Corporation Act), the Supervisory Board and Board of Management of CeoTronics AG have issued the following statement:

Apart from the exceptions set out below, CeoTronics AG Audio • Video • Data Communication, Rödermark, complied with the recommendations of the German Corporate Governance Code published in the electronic Bundesanzeiger (German Federal Gazette) in fiscal year 2008/2009 and intends to comply with them in the future as well.

### **1. Section 3.8**

No deductible has been agreed for the D&O insurance policy for the members of the Supervisory Board and the Board of Management. A deductible would result in unreasonable additional cost to the Company, as the remuneration would have to be increased accordingly.

### **2. Section 4.2.4**

In accordance with the resolution by the General Meeting on November 4, 2005, the remuneration of the members of the Board of Management is not disclosed individually for each member of the Board of Management in the Corporate Governance Report or in the notes to the consolidated financial statements, but as an aggregate amount.

### **3. Section 5.1.2**

The Company did not comply with and will not in future comply with the recommendation in para. 1 sentence 2 of section 5.1.2, under which the Supervisory Board and the Board of Management jointly ensure that there is a long-term succession plan in the Board of Management. Because of the age of the current members of the Board of Management, the Supervisory

Board does not see any need to prepare a long-term succession plan at present.

### **4. Section 5.1.3**

In light of the size of CeoTronics AG and the number of Supervisory Board members (currently three), the Supervisory Board has not drawn up rules of procedure for itself. Its duties are performed collectively by the members of the Supervisory Board.

### **5. Section 5.3**

In light of the size of CeoTronics AG and the number of Supervisory Board members (currently three), the Supervisory Board has not formed committees. Instead, all duties are performed collectively by the members of the Supervisory Board.

### **6. Section 5.4.3**

The Company will only comply with the recommendation in para. 1 sentence 2 of section 5.4.3, under which candidates for the chair of the Supervisory Board should be announced to the shareholders, when the next election is held.

Rödermark, March 16, 2009

## **Remuneration report**

The remuneration report explains the basis of remuneration for the Board of Management and the Supervisory Board of CeoTronics AG.

The remuneration of the Board of Management is stipulated by the Supervisory Board, reviewed each year, and adjusted if required.

The remuneration of the Board of Management consists of fixed and variable remuneration components.

The fixed annual salary is payable to the members of the Board of Management in 12 monthly installments at the end of the respective month. In addition, the members of the Board of Management are provided with a company car, and a direct insurance policy in a defined amount is taken out on their be-

half. The package also includes health and long-term care insurance contributions.

Each member of the Board of Management receives a variable remuneration component (bonus) that depends on the performance of the Company. The bonus amounts to 3% of the consolidated profit before tax in each case, calculated in accordance with International Financial Reporting Standards (IFRSs). The annual bonus is limited to 25% of the total annual remuneration of the member of the Board of Management. The bonus is payable at the end of the month after the annual financial statements are adopted.

Furthermore, an agreement was reached over bonuses with the members of the Board of Management in fiscal year 2007/2008, which provides for payment to be made in the event that the closing price of CeoTronics shares reaches or exceeds a total of four specified targets on 10 successive days of trading. Only one payment is made for each of the four targets reached. This agreement runs until May 31, 2011.

The contracts with the members of the Board of Management do not provide for any express severance payment commitment in the event of early termination of the contract of service. The General Meeting on November 4, 2005 resolved that the salaries and other remuneration components will not be disclosed indi-

vidually for each member of the Board of Management in the annual financial statements and consolidated financial statements of CeoTronics AG. This also applies to benefit commitments to the members of the Board of Management in the event of termination of their activities. The resolution is effective for the fiscal year beginning June 1, 2005 and for the four subsequent fiscal years until May 31, 2010. The total remuneration of the Board of Management in fiscal year 2008/2009 amounted to €787 thousand (previous year: €709 thousand). The total remuneration comprises fixed salary components of €585 thousand (previous year: €557 thousand) and variable remuneration components of €202 thousand (previous year: €94 thousand). An additional €58 thousand was paid in the previous year in connection with the exercise of virtual stock options. The remuneration of the Supervisory Board is governed by Article 10 of the Articles of Association of CeoTronics AG. Each member of the Supervisory Board receives a fixed remuneration of €8,000.00 per fiscal year in addition to the reimbursement of expenses. In addition, each member receives a variable remuneration amounting to 1% of the gross total dividend of CeoTronics AG. In both cases, the Chairman of the Supervisory Board receives three times the remuneration and the Deputy Chairman receives one and a half times the remuneration. The members of the Supervisory Board also receive an attendance allowance of €250.00 for each meeting they attend and, as a result of an amendment to the Articles of Association, an attendance allowance of €500.00 as of March 2009.

The remuneration of the individual Supervisory Board members for fiscal year 2008/2009 is presented in the following overview:

Supervisory Board member	Fixed remuneration	Variable remuneration	Attendance allowance	Total remuneration
Hans-Dieter Günther/ Chairman	24,000.00	29,700.00	1,750.00	55,450.00
Horst Schöppner/ Deputy Chairman	12,000.00	14,850.00	1,750.00	28,600.00
Stephan Haack/ Member	8,000.00	9,900.00	1,500.00	19,400.00

#### Stock option plans

CeoTronics AG currently has no stock option plans.

### Shareholdings of the Board of Management and Supervisory Board members

The shareholdings of the Board of Management and Supervisory Board members as of May 31, 2009 are presented in the following overview:

Function	Name	CeoTronics shares (ISIN DE 0005407407/WKN 540740) quantity	
		May 31, 2009	May 31, 2008
<b>Board of Management</b>			
Chairman of the Board of Management	Thomas H. Günther	28,494	28,494
Deputy Chairman of the Board of Management	Berthold Hemer	513,150	513,150
Chief Operating Officer	Günther Thoma	18,066	18,066
<b>Supervisory Board</b>			
Chairman	Hans-Dieter Günther	1,113,600	1,113,600
Deputy Chairman	Horst Schöppner	655,410	655,410
Member	Stephan Haack	0	0

### Investor relations

CeoTronics is known for its timely, transparent, and accurate investor relations activities and reporting. CeoTronics' shareholders and interested investors can receive information about CeoTronics in various ways:

- Quarterly, half-yearly, and annual reports, including via the CeoTronics website
- General Meeting
- Investor/capital market conferences
- Corporate Governance Report
- Ad hoc disclosures, including an archive on the CeoTronics website
- Corporate news articles
- Directors' dealings disclosures

- Our website [www.ceotronics.com](http://www.ceotronics.com), containing all of our brochures and information on new products, successful sales stories, etc.
- Advertisements in specialized periodicals
- Participation at trade fairs
- Press releases in specialized periodicals and daily newspapers
- CT-News

In addition, the CEO is available to provide information by phone, fax, or e-mail at: [chairman@ceotronics.com](mailto:chairman@ceotronics.com).

# Covert



\*CT-BluetoothAdapter: For the use of CeoTronics headsets

# Investigator\*



for radios on any mobile phone with Bluetooth function



## Our Market

**Communication under difficult conditions means that special solutions are required in special situations. Even now – or particularly – in an age when communication is a lifestyle, but there are still hazardous areas where even the smartest multifunctional cell phones can't make a call.**

CeoTronics AG specializes in high-end communication under difficult conditions and develops, produces, and sells audio, video, and data communication solutions. Above all, our top-of-the-line products ensure clear and precise interaction: in noisy or hazardous areas, while wearing protective helmets or protective clothing, in explosion hazard zones, in undercover operations, and in hands-free communication. Our broad range of products for extremely diverse applications meets the toughest demands and focuses in particular on end-to-end system solutions in addition to traditional headsets and other communication systems for connecting to analog and digital radio systems. For example, mobile or fixed digital radio networks that can be set up in seconds and used on the move.

### **Communication systems for the manufacturing and service sectors and sports**

The diversity of our products' applications makes it possible to serve the widest variety of industries and individual needs. Our customer base includes engineering companies, the automotive industry, paper manufacturers, the aerospace industry, power utilities, refineries, and oil rigs. However, service providers such as amusement parks, the media, sports arenas, and motorsport teams also rely on CeoTronics.

### **Airport and airline communications**

This is a constantly growing market in which more than 300 airlines, airports, and ground handling service companies rely on CeoTronics products – and this trend is growing. As market leader in the area of ground-to-cockpit communication, our product range also includes systems for ramp handling, push-

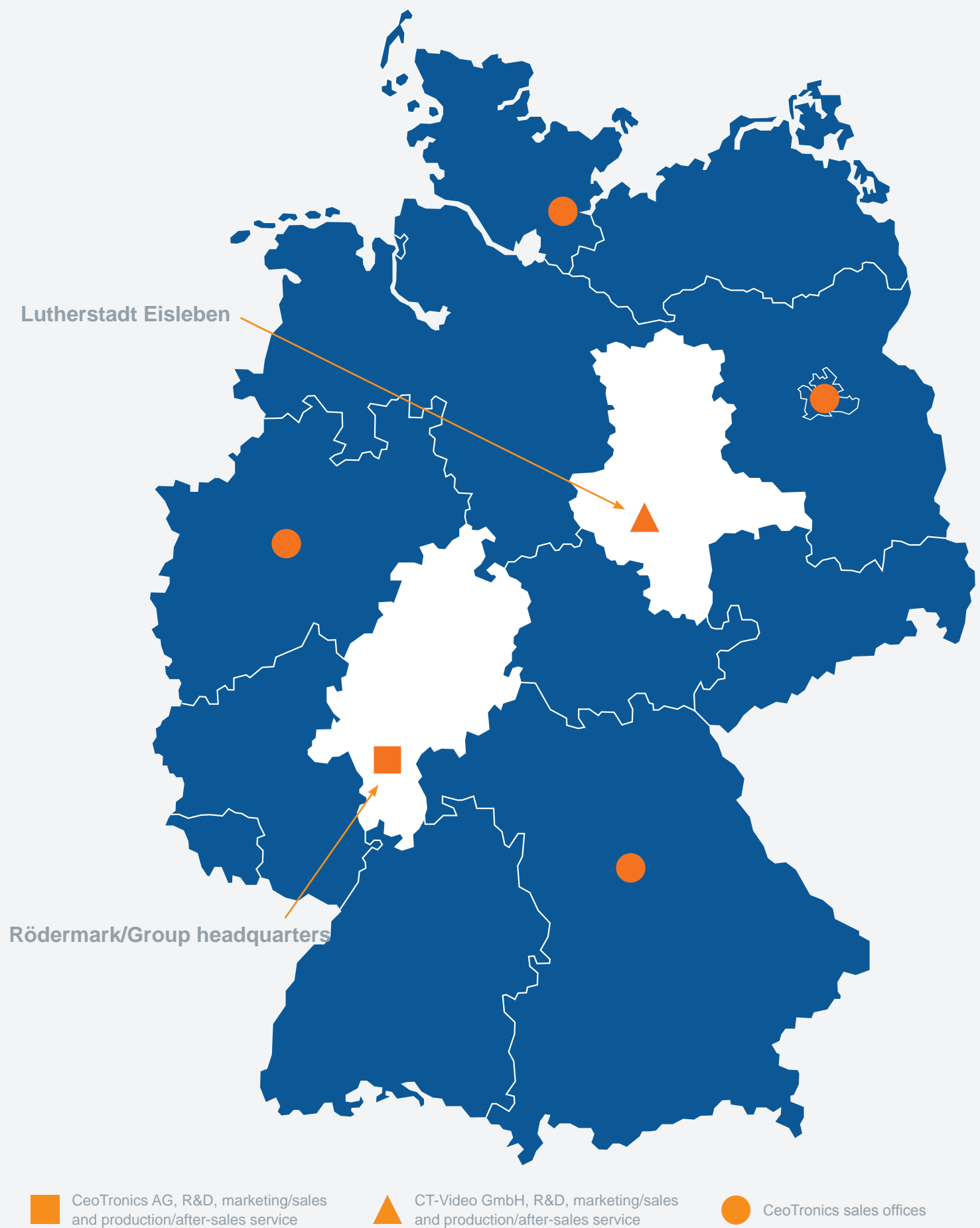
back, maintenance, in-flight service, and cockpit communication for sky marshals, as well as aircraft and helicopter maintenance.

### **Always in action: firefighters, civil defense, and rescue services**

Secure communication and high transmission quality are essential for fire fighting and in emergencies. That's why for these products, there is a special focus on development and design, safety, easy handling, and comfort. Durability, weather resistance, resistance to heat, cold, or chemical agents – and optionally explosion-proof models as well – are a must.

### **Custom solutions for the State and Federal Police, customs authorities, and the army, navy, and air force**

Last but not least, a particular strength of CeoTronics AG should not be overlooked: the development and supply of custom communication solutions for the German state and federal police forces, customs authorities, and the army, navy, and air force. A range of different systems is available in this field. Fully and partially covert communication systems as well as miniature radio cameras are used for the wireless transfer of video images during undercover investigations and for preserving evidence.



# Germany

Since the Company's formation in Rödermark in 1985, CeoTronics has developed and produced audio, video, and data communication systems exclusively at its two German locations in Rödermark (Hesse) and, since 1999, also in Lutherstadt Eisleben (Saxony-Anhalt).

In addition to the after-sales service at these two locations, which accounts for approximately 90% of the total volume, CeoTronics provides local on-site after-sales service through its subsidiaries in Poland, and Spain. CeoTronics prefers to work with German and European suppliers. Its German content, i.e., the value added as a percentage of the cost of sales,

was 79% in fiscal year 2008/2009, and its European content amounted to 97%. CeoTronics offers 139 jobs in Germany (reporting date: May 31, 2009). The Company is looking to recruit additional engineers for hardware development, among other things.

## Group Structure

### CeoTronics AG Germany/Rödermark

#### Representative Offices

**CeoTronics AG**  
Netherlands, Belgium,  
Luxembourg

**CeoTronics AG**  
Italy, Austria, Hungary, Slovenia,  
Croatia, Czech Republic,  
Slovakia

**CeoTronics AG**  
Finland, Sweden, Denmark,  
Norway, Iceland, Estonia,  
Latvia, Lithuania

**CeoTronics AG**  
Greece, United Arab Emirates

Non-exclusive  
distributors international

#### Subsidiaries

**CeoTronics S.à.r.l.**  
France/Paris

**CeoTronics AG**  
Switzerland/Rotkreuz

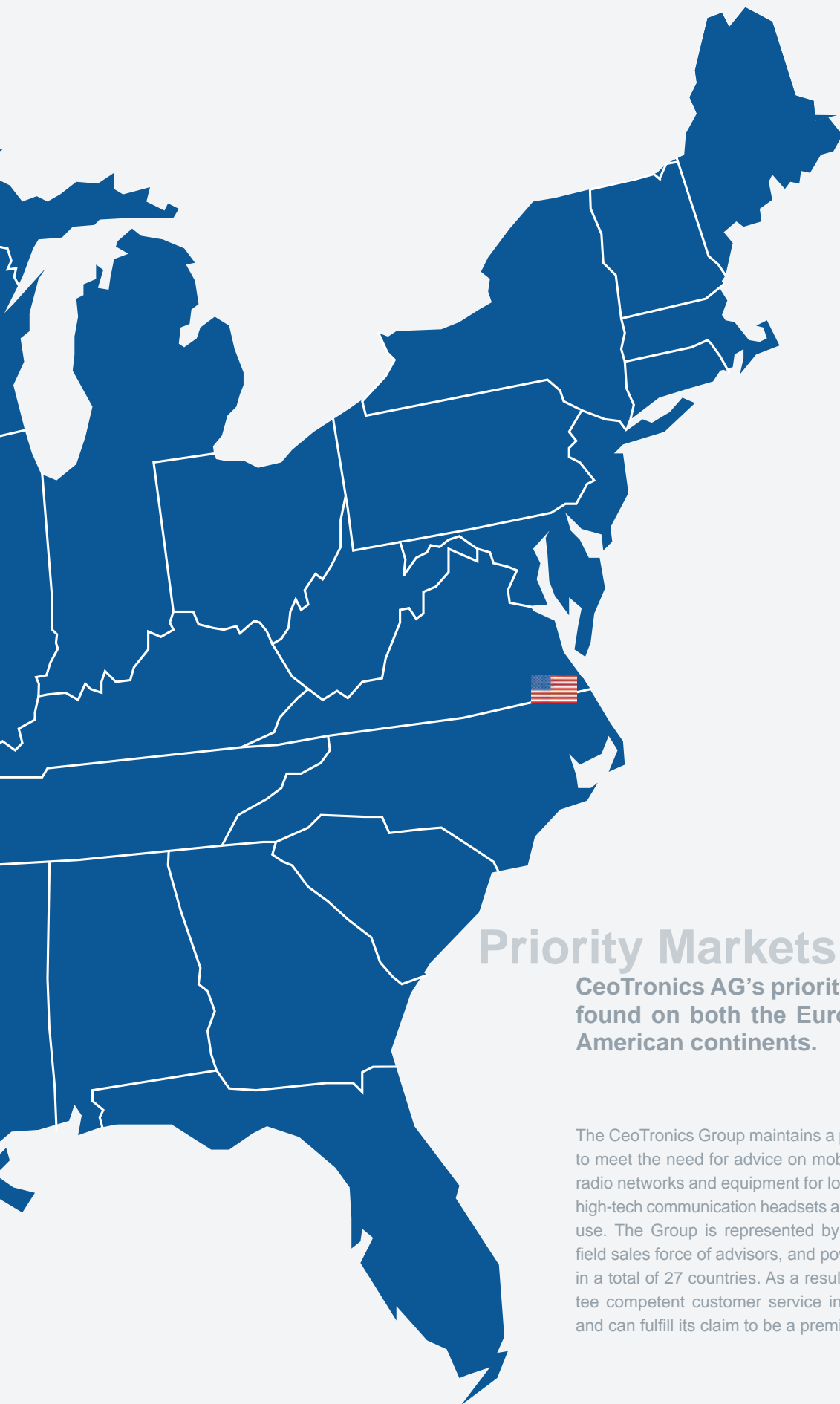
**CeoTronics S.L.**  
Spain/Madrid

**CeoTronics, Inc.**  
U.S.A./Virginia Beach

**CT-Video GmbH**  
D/Lutherstadt Eisleben

**CeoTronics Sp. z o.o.**  
Poland/Lodz

Exclusive project/distribution  
partners



## Priority Markets

**CeoTronics AG's priority markets can be found on both the European and North American continents.**

The CeoTronics Group maintains a professional sales network to meet the need for advice on mobile digital audio and video radio networks and equipment for local coverage as well as for high-tech communication headsets and systems for professional use. The Group is represented by six active subsidiaries, a field sales force of advisors, and powerful distribution partners in a total of 27 countries. As a result, CeoTronics can guarantee competent customer service in all of its priority markets and can fulfill its claim to be a premium brand.



# Group Management Report for Fiscal Year 2008/2009

## Macroeconomic conditions and effects on CeoTronics

The worst global economic and financial crisis in 80 years impacted the course of business at CeoTronics AG, as elsewhere, in fiscal year 2008/2009.

All of CeoTronics' priority markets saw a drastic drop in economic growth. The increases in government investment that have been announced have not yet taken effect.

## Investments in internal and external security

The global threat posed by international terrorism has not waned. Accordingly, government security and law enforcement agencies must upgrade their equipment in order to maintain the highest degree of security for citizens, as well as of free and democratic society.

Of course, the government security and law enforcement agencies cannot do this with fewer personnel and a diminished local presence, and using outdated technology. The security forces therefore need proper equipment – including state-of-the-art audio, video, and data communications technology. Many countries realized this years ago and took appropriate measures.

As in previous years, CeoTronics profited in fiscal year 2008/2009 from the investments by government security and law enforcement agencies in internal and external security.

## The switch from analog to digital radio

Government security and law enforcement agencies, firefighters, and industrial enterprises in certain priority European markets began switching from analog to digital radio several years ago.

Preparations are being made for the switch in other priority European markets. In Germany, CeoTronics expects large investments to be made by security authorities and organizations (BOS – Behörden und Organisationen mit Sicherheitsaufgaben), the Armed Forces, firefighters, and industry.

The market launch of the new generation of Tetrapol radios in countries that have already switched to digital radio or that have interrupted migration due to the announcement of the launch, among other things, will offer additional revenue potential.

Most communication systems for analog radios – and in many cases also for older digital radios – that are currently in operation can no longer be used due to the different mechanical and electronic interfaces required by the new digital radios.

Since 1999, CeoTronics has produced and sold over 45,000 systems for connection to the new digital Tetra/Tetrapol radios. Our experience in adapting communications accessories to digital radios is a major competitive advantage.

## Second-highest revenues in the Group's history

As a result of the ongoing global economic crisis in fiscal year 2008/2009 and the significant effect of the major order for CT-DECT JetCom systems from the German Armed Forces in fiscal year 2007/2008, CeoTronics was unable to match the record revenues seen in fiscal year 2007/2008, as had been expected. Consolidated revenues fell by €2,503 thousand (11.7%) to €18,815 thousand.

Nevertheless, the Group was able to generate its second-highest revenues ever in fiscal year 2008/2009. This represents a strong performance given that fiscal year 2008/2009 was impacted by the worst global economic and financial crisis in 80 years.

In addition the massive delays in the switch to digital radio in both Germany and Northern Europe contributed to the postponement of key purchases by government security and law enforcement agencies. Due to the planned switch to digital radios, public-sector customers in particular have held back on replacing communications accessories for analog radios, which has led to an investment backlog.

## Changes in revenues by region

The share of revenues generated outside Germany increased to 53.5% in fiscal year 2008/2009 (previous year: 52.4%). The

proportion accounted for by Germany decreased correspondingly to 46.5% (previous year: 476%).

The 13.8% drop in revenues in Germany is due, among other things, to muted spending by security authorities and organizations in anticipation of the switch to digital radios and to the fact that two batches of the major order for CT-DECT JetCom systems from the German Armed Forces were delivered and invoiced in fiscal year 2007/2008, but only one batch in fiscal year 2008/2009.

Almost all batches of the large orders won by CeoTronics in France were drawn down, delivered, and invoiced in fiscal year 2007/2008. Additional major tenders are currently being prepared by the procurement offices in France. Their muted activity in fiscal year 2008/2009 resulted in revenues falling 55.6% year-on-year. We increased our sales capacity at the turn of the year, and the order backlog as of May 31, 2009 was up 500% as against the prior-year date to almost €400 thousand.

In fiscal year 2008/2009, CeoTronics Spain continued to benefit from the ongoing switch to digital radio (Tetra) and investments in video technology by government security and law enforcement agencies and their equipment upgrades to combat terrorism. Revenues fell 4.3% from their high level. The order backlog as of May 31, 2009 was down 59.1% as against the same date in the prior-year period to €322 thousand, following a 92.6% increase the previous year.

CeoTronics participated in Switzerland's ongoing switch to digital radio, which progressed at a restrained pace, increasing revenues by 4.3%. At €90 thousand, the order backlog at the end of fiscal year 2008/2009 is down slightly on the prior-year figure (-4.4%).

In Poland, CeoTronics lifted revenues in euros by 7.7% year-on-year. As almost all orders were manufactured and delivered close to the end of the year, the order backlog fell significantly as against the previous year.

CeoTronics significantly increased its revenues in Norway, Finland, Croatia, and the United Kingdom, while revenues in the Netherlands, Belgium, Austria, Sweden, and the Czech Republic declined. The drop in revenues is due, among other things, to the fact that either the major investments associated with the switch to digital radio were already made in past years or the switch is currently pending, leading to muted customer demand for communications accessories for analog radio systems.

#### **Earnings at CeoTronics U.S.A.**

CeoTronics U.S.A.'s operating business turned in a negative performance. After consolidation and translation from U.S. dollars to euros, CeoTronics U.S.A.'s revenues fell by 50.0% year-on-year (previous year: +30.3%). The order backlog fell by 33.1% from its low level, which was also as a result of the economic crisis.

As a result, the loss for fiscal year 2008/2009 before currency translation adjustments and interest worsened significantly to USD 402 thousand from USD 181 thousand in the previous year. The favorable U.S. dollar exchange rate in the course of fiscal year 2008/2009 was the sole reason why CeoTronics U.S.A. recorded a significant improvement for the year, at USD -232 thousand (previous year: USD -511 thousand).

#### **Performance of the divisions and units (segments)**

CeoTronics Group's business activities can be broken down into two main divisions: Audio/Data Communication and Video/Data Communication. CeoTronics also has a third division, Service. The largest division, Audio/Data Communication, is divided into the following units:

- Radio Networks, Headsets, and Systems;
- Vibration Technology and Helmet Communication;
- In-ear Headsets (previously Ear Microphones) and Covert Communication; and
- Cable-bound Audio Communication and Accessories.

In the Radio Networks, Headsets, and Systems unit, consolidated Group revenues fell by 3.2% year-on-year, although the division's share of total revenues increased by 3.6%.

Revenues in the Vibration Technology and Helmet Communication unit fell by 41.8%. This decline is due in particular to the major order placed by the German Armed Forces for CT DECT JetCom systems with helmet-integrated CT-ContactCom. Two of the three batches for this order were delivered and invoiced in the previous year, while only the third and last one was delivered and invoiced in the past fiscal year.

Revenues generated by products from the In-ear-headset and Covert Communication unit declined by 12.9% year-on-year, due in particular to muted investments by German security authorities and organizations.

In the Cable-bound Audio Communication and Accessories unit, revenues in fiscal year 2008/2009 rose by 5.3% as against the previous year.

The trend in the Video/Data Communication unit was extremely positive, with revenues rising by a substantial 21.1% in fiscal year 2008/2009.

Revenues in the Service division fell by 18.5% year-on-year in fiscal year 2008/2009.

#### IFRSs

The financial statements contained in CeoTronics' 2008/2009 Annual Report were prepared in accordance with International Financial Reporting Standards (IFRSs). The consolidated financial statements were and will continue to be prepared in the future in accordance with IFRSs as adopted by the E.U. at the time the financial statements were prepared.

#### Cost of sales ratio down

The ratio of the cost of sales to revenues decreased to 48.5% (previous year: 49.7%). This is due to the percentage of revenues accounted for by lower-margin products being down on the prior-year period.

At €3,086 thousand, operating expenses fell slightly as against the previous year (€3,115 thousand). Costs now account for 16.4% of revenues (previous year: 14.6%).

#### Increased research and development investment and expenses

In the Research and Development unit, additional costs for external testing laboratories, additional employees, and extensive development activities led to an increase in expenses of €167 thousand (+10.8%) over the previous year, from €1,542 thousand to €1,709 thousand. The ratio of research and development expenses to revenues increased to 9.1% (previous year 7.2%).

#### Selling and marketing expenses

Selling and marketing expenses amounted to 24.5% of revenues in fiscal year 2008/2009 (previous year: 21.3%). At €4,610 thousand, absolute costs were up 1.4% on the previous year (€4,548 thousand).

#### General and administrative expenses

In fiscal year 2008/2009, general and administrative costs increased slightly by 1.1% year-on-year. Costs now account for 8.4% of revenues (previous year: 7.3%).

#### EBITDA and EBIT

As expected, EBITDA and EBIT in the period under review were unable to match the level seen in the previous year due to the decline in revenues. EBITDA fell by 23.4% as against the record figures for fiscal year 2007/2008, from €3,307 thousand to €2,533 thousand, while EBIT fell by 28.0% from €2,786 thousand to €2,006 thousand.

The EBIT margin declined to 10.7% in fiscal year 2008/2009 (previous year: 13.1%).

#### Profit before tax

In fiscal year 2008/2009, CeoTronics' profit before tax fell by €762 thousand (28.6%) year-on-year to €1,906 thousand.

The return on sales based on the profit before tax amounted to 10.1% (previous year: 12.5%).

**Profit for the period**

Profit for the period for fiscal year 2008/2009 amounted to €1,279 thousand, down 30.3% as against the previous year (€1,835 thousand).

The return on sales based on the profit for the period fell to 6.8% (previous year: 8.6%).

The share of profit for the period attributable to shareholders of the parent amounted to €1,266 thousand for fiscal year 2008/2009 (previous year: €1,819 thousand).

Earnings per share (after tax) were €0.19, down from €0.28 in the previous year.

**Equity and equity ratio up substantially**

Equity increased to €13,144 thousand as of May 31, 2009 (previous year: €12,967 thousand). The equity ratio thus rose significantly to 72.5% (previous year: 64.8%).

**Gross cash flow**

Gross cash flow for the period under review fell by €550 thousand in comparison to the record year 2007/2008, to €1,806 thousand.

**Ample cash and cash equivalents**

Cash and cash equivalents as of May 31, 2009 were down €342 thousand on the previous year, from €908 thousand to €566 thousand.

**Investments up significantly**

Despite the ongoing global economic crisis, CeoTronics has prepared itself in good time to meet future challenges by investing in employee capacity, market developments, technologies, developments, and production technologies and processes.

At €993 thousand (previous year: €586 thousand), total investments increased by 69.4% during fiscal year 2008/2009.

**Workforce expanded further**

CeoTronics increased the number of employees (including trainees) by 5 from 150 in the previous year to 155 as of May 31, 2009. Four of the five new jobs were created in Germany.

A design engineer and an assistant for the head of development were recruited for the Research and Development unit. CeoTronics Germany's field sales force was rounded off by the recruitment of a new member, while capacity in the Marketing Service department was increased by a part-time employee. CeoTronics U.S.A. hired one person for the office sales force. The new positions were created to further increase CeoTronics' performance and, by doing so, not only to satisfy market requirements but also to exceed them.

**Group risk management**

As in previous years, CeoTronics AG continued to fulfill its obligations in the reporting period to perform active risk management according to the Gesetz zur Kontrolle und Transparenz im Unternehmensbereich (KonTraG – German Act on Control and Transparency in Business).

As part of the risk management process, new risks were identified and then analyzed and evaluated in conjunction with previously identified risks. The measures derived from this were implemented and the risk management manual modified. Implementation was checked.

The objective of this process is to weigh up business opportunities and the risks resulting from them in a reasonable manner. It is crucial not only to document the risk management process, but also for the Company's management to apply it in practice. This requires the Supervisory Board, Board of Management, executives, and employees to perform their risk management tasks in a highly responsible way.

The findings of the risk analysis were discussed in depth by the Board of Management and the Supervisory Board.

## a.) Price and currency risk

The CeoTronics Group is exposed to price and currency fluctuations because of its international business operations. 87% of all revenues are generated in euros, and the remaining 13% are generated in foreign currencies (U.S. dollars, Polish zloty, and Swiss francs). Because the consolidated financial statements are prepared in euros, fluctuations between the euro and the corresponding foreign currencies have a not insignificant effect on the level of revenues and of individual income and expense items. However, currency risks are mitigated by operating business locations in the corresponding countries; in addition to generating revenues in foreign currency, they also incur expenses in the same currency. No specific currency hedging transactions have been entered into in the past.

## b.) Market risk

As a rule, the CeoTronics Group is not significantly dependent on individual customers (10% of Group revenues). However, the partial delivery in the past fiscal year of a major order worth €3,091 thousand meant that an aggregate of 18.2% of total Group revenues was generated with a single customer. The customer revenue breakdown is expected to return to normal in the coming years.

As a rule, the share of the aggregate procurement volume of the CeoTronics Group attributable to individual suppliers is also less than 10%. The above-mentioned major order resulted in the 10% threshold also being exceeded in this area in one case during the past fiscal year. However, the Group's supplier structure will also return to normal in the coming years. Secondary sources have been established for the majority of assemblies/components, or can be activated within a very short period.

Because of the strongly competitive environment, the CeoTronics Group is faced with the need to continuously upgrade existing products and to drive forward the development of new products. The goal is to reinforce and extend the Company's exist-

ing technical lead over its competitors. The high degree of innovation in, and advanced technology of, CeoTronics products reduces price pressure and thus limits the price risk to the CeoTronics Group. In the past, the high level of research and development expenditures incurred to achieve this have always been amortized in the short to medium term.

## c.) Interest rate risk

Interest rate risk, i.e., the risk of exposure to possible fluctuations in the value of financial instruments because of changes in market rates of interest, may in particular affect medium- and long-term fixed-rate receivables and liabilities. There are no medium- and long-term interest-bearing receivables in the Group. In addition to the existing loan for a property in Lutherstadt-Eisleben, a loan of €2,100 thousand was raised in fiscal year 2006/2007 to finance the acquisition of a property in Rödermark. The fixed-interest period for the existing loans does not expire until 2016. On the basis of the redemption arrangements laid down in the contracts, the remaining value of the loans after expiration of the fixed-interest period will be €1,141 thousand. No interest rate hedging contracts have been entered into so far due to the long term of the fixed-interest period and the long remaining maturity of the loans.

## d.) Liquidity risk

In many cases, CeoTronics AG makes advance payments for substantial materials purchases, especially for large contracts, although the contracts themselves are not invoiced and settled until months later. To mitigate this risk, CeoTronics AG has reached agreement with banks on several lines of credit. This safeguards adequate liquidity in the Group at all times.

## e.) Default risk

The carrying amount of financial assets is the maximum value at risk if business partners do not meet their contractual payment obligations. To keep the default risk to a minimum, CeoTronics AG has established a comprehensive receivables

management system that ensures that credit rating information is obtained or historical data – and in particular payment patterns – from the existing business relationship is used to avoid payment default. If default risks are identified for individual financial assets, these risks are taken into account in the form of valuation allowances. In fiscal year 2008/2009, bad debts amounted to €31 thousand or 0.16% of revenues (previous year: €1 thousand or 0.005% of revenues).

#### Order backlog

The order backlog as of May 31, 2009 declined by 63.7% as against the extremely high prior-year figure to €2,234 thousand. The order backlog for 2007/2008 reflected in particular the third batch of the order for CT-DECT JetCom systems from the German Armed Forces, which has now been delivered and invoiced in full. In addition, the downturn in incoming orders is due to the severe global economic and financial crisis and the delays in the switch to digital radio by security authorities and organizations in Germany and Northern Europe.

#### Events after the balance sheet date

In July 2009, CeoTronics was commissioned to supply CeoTronics AG CT-DECT communication systems and CT-Video GmbH wireless video transmission systems worth approximately €1.7 million to a foreign special forces unit. CeoTronics plans to deliver and invoice most of these systems in fiscal year 2009/2010.

#### Disclosures in accordance with section 315(4) of the HGB

##### (No. 1)

The subscribed capital of CeoTronics AG amounts to €6,599,994.00 and is composed of 6,599,994 no-par value shares with a notional value of €1.00 per share.

##### (No. 2)

The Board of Management is not aware of any restrictions affecting the voting rights or the transfer of shares.

##### (No. 3)

The following shareholders hold more than 10% of voting rights as of May 31, 2009:

- Hans-Dieter Günther, 16,87%
- Dagmar Günther, 13,21%

##### (No. 4)

There are no CeoTronics AG shares with special rights.

##### (No. 5)

No employees exercise control of voting rights.

##### (No. 6)

The statutory provisions and the provisions of the Articles of Association governing the appointment and dismissal of members of the Board of Management and amendments to the Articles of Association are as follows:

##### a.) Appointment of members of the Board of Management

In accordance with section 84(1) sentence 1 of the Aktiengesetz (AktG – German Stock Corporation Act), the Supervisory Board appoints the members of the Board of Management for a maximum of five years. Reappointment or an extension of the member's term of office is permissible for a maximum of five years in each case. In accordance with Article 9 of the Articles of Association, the Board of Management of CeoTronics AG consists of at least two members and the Supervisory Board determines the number of members of the Board of Management. The Supervisory Board can appoint a Chairman of the Board of Management and a Deputy Chairman of the Board of Management. Furthermore, the Supervisory Board can appoint alternate members of the Board of Management. The Articles of Association do not explicitly specify the term of office for members of the Board of Management. As a rule, members of the Board of Management are appointed for five-year terms.

In accordance with section 84(1) sentence 3 of the Aktiengesetz, the reappointment or extension of a member's term of office requires a further resolution by the Supervisory Board, which may be adopted at the earliest one year before a member's current term of office expires.

In accordance with section 84(1) sentence 4 of the Aktiengesetz, the extension of a member's term of office may be provided for without a new resolution by the Supervisory Board if the member has been appointed for less than five years, provided that, as a result of this extension, the total term of office does not exceed five years.

In accordance with section 85(1) of the Aktiengesetz, in the event that the Board of Management lacks a required member, the court must appoint a member in urgent cases upon request of an interested party. The decision may be appealed immediately. In accordance with section 85(2) of the Aktiengesetz, the term of the court-appointed member of the Board of Management expires as soon as a replacement member has been found.

#### b.) Dismissal of members of the Board of Management

In accordance with section 84(3) of the Aktiengesetz, the Supervisory Board may revoke the appointment of a member of the Board of Management or the appointment of the chairman of the Board of Management for cause. In accordance with section 84(3) sentence 2 of the Aktiengesetz, such cause is in particular a gross breach of duty, inability to properly manage a business, or the withdrawal of confidence by the General Meeting, unless confidence is withdrawn for evidently subjective reasons. In accordance with section 84(3) sentence 4 of the Aktiengesetz, the revocation of the appointment of the Board of Management shall be effective until its ineffectiveness has been declared final and absolute by a court.

#### c.) Amendments to the Articles of Association

Under section 179(1) of the Aktiengesetz, a resolution by the General Meeting shall be required for any amendment to the

Articles of Association. However, under Article 10(15) of the Articles of Association in conjunction with section 179(1) sentence 2 of the Aktiengesetz, the Supervisory Board is authorized to resolve amendments to the Articles of Association that relate to the formal wording only.

Under section 179(2) sentence 1 of the Aktiengesetz, a resolution to amend the Articles of Association by the General Meeting shall require a majority of at least three-quarters of the share capital represented at the vote on the resolution. Under section 179(2) sentence 2 of the Aktiengesetz, the Articles of Association may require a different capital majority; in the case of an amendment to the purpose of the Company, however, they may only stipulate a larger capital majority and may lay down further requirements. Article 11(9) of the Articles of Association also stipulates that, apart from the cases in which the law requires a different majority, the resolutions by the General Meeting may be adopted by a simple majority of votes cast.

Furthermore it should be noted that, in particular, resolutions by the General Meeting to increase the share capital against contributions, to create contingent capital, to create authorized capital, to increase the capital from retained earnings, and to reduce the share capital each require a majority of at least three-quarters of the share capital represented at the vote on the resolution in accordance with section 182(1) sentence 1, section 193(1) sentence 1, section 202(2) sentence 2, section 207(2) sentence 1, and section 222(1) sentence 1 of the Aktiengesetz.

#### (No. 7)

The Board of Management has the following powers, in particular concerning its authorization to issue and repurchase shares:

#### a.) General powers of the Board of Management

The Board of Management manages CeoTronics AG and represents it both in and out of court. The members of the Board of Management must manage the Company's business in ac-

cordance with the law, the Articles of Association, the rules of procedure for the Board of Management and its schedule of responsibilities, as well as the Supervisory Board approval requirements in accordance with section 111(4) sentence 2 of the Aktiengesetz.

#### b.) Powers to issue shares

In accordance with Article 7(3a) of the Articles of Association, the Board of Management is authorized, with the approval of the Supervisory Board, to increase the share capital in the period up to November 3, 2010 by an aggregate amount of up to €3,299,994.00 by issuing no-par value bearer shares against cash or non-cash contributions on one or more occasions, and to issue the corresponding number of no-par value shares. The Board of Management is authorized, with the approval of the Supervisory Board, to disapply shareholders' preemptive rights to the issue in the following cases:

- for fractions to round the amounts of capital increases;
- in the case of capital increases against cash contributions, if the capital increase does not exceed ten percent of the share capital (currently 659,999 shares) and the issue price is not materially lower than the applicable stock exchange price. The applicable stock exchange price is the average price of the Company's shares in floor trading in Frankfurt (or a comparable successor system) during the last three trading days before the resolution by the Board of Management to issue new shares. If the new shares are subscribed by an underwriter with a simultaneous commitment by the underwriter to offer the new shares for sale to one or more third parties designated by the Company, the issue price under this authorization shall be the amount payable by the third party or parties;
- if the capital is increased against non-cash contributions for the purpose of acquiring companies, parts of companies, or investments in companies.

The Board of Management was also authorized, with the approval of the Supervisory Board, to determine the further de-

tails of the rights attached to the shares and the other details of the capital increases and their implementation.

#### c.) Powers to repurchase shares

In accordance with section 71(1) of the Aktiengesetz, the Company may only acquire own shares:

- if the acquisition is necessary to prevent serious and imminent damage to the Company (section 71(1) no. 1 of the Aktiengesetz),
- if the shares are to be offered for sale to persons who are or were employed by the Company or by one of its affiliated companies (section 71(1) no. 2 of the Aktiengesetz),
- if the acquisition is made to compensate shareholders in accordance with section 305(2), section 320b of the Aktiengesetz, or section 29(1), section 125 sentence 1 in conjunction with section 29(1), section 207(1) sentence 1 of the Umwandlungsgesetz (German Reorganization and Transformation Act) (section 71(1) no. 3 of the Aktiengesetz),
- if the acquisition is made without compensation or entails a bank executing a commission transaction as agent (section 71(1) no. 4 of the Aktiengesetz),
- through universal succession (section 71(1) no. 5 of the Aktiengesetz),
- by way of a resolution by the General Meeting to retire shares in accordance with the provisions on the reduction of the share capital (section 71(1) no. 6 of the Aktiengesetz), and
- by way of a resolution to acquire own shares in accordance with section 71(1) no. 8 of the Aktiengesetz.

The shares acquired in accordance with section 71(1) nos. 1 to 3 and no. 8 of the Aktiengesetz, together with other shares of the Company that the Company has acquired or still holds, may not account for more than 10% of the share capital. Furthermore, such acquisition is only permitted if the Company is able to set up the reserve for own shares required under section 272(4) of the Handelsgesetzbuch (HGB – German Commercial Code) without reducing the share capital or a reserve

required by law or in accordance with the Articles of Association that may not be utilized for payments to shareholders.

The Board of Management is authorized until May 6, 2010 to purchase own shares of CeoTronics AG with a notional interest in the share capital accruing to these shares in the aggregate amount of up to €659,999.00 in accordance with section 71(1) no. 8 of the Aktiengesetz. The previous authorization was revoked by way of a resolution of the General Meeting dated November 7, 2008.

**(No. 8)**

There are no material agreements of the Company that take effect in the event of a change of control following a takeover bid.

**(No. 9)**

There are no compensation arrangements agreed by the Company with the members of the Board of Management or employees in the event of a takeover bid.

**Opportunities of future development**

The switch to digital radio by the police, firefighters, and industrial enterprises in Germany, Switzerland, Northern Europe, and Austria as well as the switch to a new generation of digital radio equipment in Switzerland and Spain will offer CeoTronics substantial market potential for audio products in the coming years.

North America is the largest market for CeoTronics products. Our successful sales and the improved visibility resulting from our sales activities and marketing investments to date encouraged us to expand our sales team in the U.S.A. The additional field sales representative significantly improved our market presence and the number of customer contacts. As a result, we are expecting to see significant increases in revenue in the coming fiscal years.

CT video systems will play an even more important role in fighting crime and terrorism in future. The CeoTronics Group's

long-term revenue growth will be boosted by authorities investing in monitoring areas at risk – especially those temporarily at risk – and in securing video evidence, as well as by CT-Video GmbH's new product innovations.

**Risks of future development**

If the launch of digital radio and the switch to a new generation of digital radio devices in Switzerland and Spain are not continued and implemented in the near future, there is a danger that the CeoTronics companies in Spain and Switzerland will be able to maintain their past high level of revenues in the coming fiscal years.

If CeoTronics does not participate to the desired extent in the switch to digital radio by the German security authorities and organizations, firefighters, and industrial enterprises, this could have an adverse effect on CeoTronics AG's revenues and earnings planning.

Competitors, radio manufacturers and dealers, and importers are stepping up their efforts to penetrate CeoTronics' markets – especially Germany – using cheap goods (from Asia, for example) in order to win tenders during the switch to digital radio. CeoTronics will not leave the premium segment and will attempt to keep price acceptance and appreciation for its products and systems at a high level by offering value. The Company will also make greater use of its more cost-effective production location in Lutherstadt Eisleben (Saxony-Anhalt, Germany).

If CeoTronics U.S.A. cannot meet its revenue and earnings forecasts for the coming years, it cannot be ruled out that the carrying amount of goodwill at CeoTronics U.S.A. will decrease, that CeoTronics AG (Germany) will have to write down the value of its investment in CeoTronics U.S.A., and/or that CeoTronics AG (Germany) will have to recognize impairment losses on its receivables from CeoTronics U.S.A.

A potential continuation of the recession in CeoTronics' priority markets could negatively affect Group development.

### Report on expected developments

The pending start of the switch to digital radio in Germany and other European markets, the changeover to the new generation of digital radios in Switzerland and Spain, and the new projects being worked on, coupled with product innovations, mean that CeoTronics AG is "cautiously" optimistic for fiscal year 2009/2010.

CeoTronics will continue to profit from the switch to digital radio in Germany and Europe in the coming fiscal years, as well as from greater investment in internal and external security.

In keeping with tradition, CeoTronics expects to issue its revenue and earnings targets for fiscal year 2009/2010 in January 2010, at the time of publication of its interim results for the first half of the year. By then, we will have enough information to give a reasonably reliable forecast.

Rödermark, August 14, 2009  
CeoTronics AG  
Audio • Video • Data Communication



Thomas H. Günther  
Chairman of the Board of Management



Berthold Hemer  
Deputy Chairman of the Board of Management



Günther Thoma  
Member of the Board of Management

## IFRS Balance Sheet – Assets

€thousand	Note	May 31, 2009	May 31, 2008
<b>Current assets</b>			
Cash and cash equivalents	9	566	908
Trade receivables	10	3,577	6,043
Inventories	11	4,919	4,417
Other current assets	12	418	387
<b>Total current assets</b>		<b>9,480</b>	<b>11,755</b>
<b>Noncurrent assets</b>			
Property, plant, and equipment	13	6,091	5,683
Intangible assets	13	355	297
Goodwill	13	1,269	1,198
Trade receivables	10	374	553
Deferred tax assets	14	572	519
<b>Total noncurrent assets</b>		<b>8,661</b>	<b>8,250</b>
<b>Total assets</b>		<b>18,141</b>	<b>20,005</b>



## IFRS Balance Sheet – Equity and Liabilities

€thousand	Note	May 31, 2009	May 31, 2008
<b>Current liabilities</b>			
Current financial liabilities	15	260	1,423
Trade payables	16	682	656
Advance payments received		37	41
Provisions	17	1,177	1,400
Current tax payables		252	662
Other current liabilities	18	418	693
<b>Total current liabilities</b>		<b>2,826</b>	<b>4,875</b>
<b>Noncurrent liabilities</b>			
Noncurrent financial liabilities	15	2,087	2,163
Deferred tax liabilities	19	84	0
<b>Total noncurrent liabilities</b>		<b>2,171</b>	<b>2,163</b>
<b>Equity</b>			
Subscribed capital	20	6,600	6,600
Capital reserves	20	4,471	4,471
Retained earnings	20	886	886
Cumulative other recognized income and expense		-47	52
Net retained profit		1,160	898
<b>Equity attributable to shareholders of CeoTronics AG</b>	20	<b>13,070</b>	<b>12,907</b>
Minority interest	21	74	60
<b>Total equity</b>		<b>13,144</b>	<b>12,967</b>
<b>Total equity and liabilities</b>		<b>18,141</b>	<b>20,005</b>

## IFRS Income Statement

€thousand	Note	2008/2009	2007/2008
<b>Revenues</b>	22	<b>18,815</b>	<b>21,318</b>
Cost of sales	23	-9,132	-10,599
<b>Gross profit</b>		<b>9,683</b>	<b>10,719</b>
Selling and marketing expenses		-4,610	-4,548
General and administrative expenses		-1,579	-1,562
Research and development expenses	24	-1,709	-1,542
Other operating income and expenses	27	221	-281
<b>Operating profit (EBIT)</b>		<b>2,006</b>	<b>2,786</b>
Interest income/expense	28	-100	-118
<b>Profit before tax</b>		<b>1,906</b>	<b>2,668</b>
Income tax expense	29	-627	-833
<b>Profit for the period</b>		<b>1,279</b>	<b>1,835</b>
Profit for the period attributable to: Minority interest	31	13	16
Shareholders of CeoTronics AG	31	1,266	1,819
<b>Earnings per share (basic) in €</b>		<b>0.19</b>	<b>0.28</b>
<b>Earnings per share (diluted) in €</b>		<b>0.19</b>	<b>0.28</b>

## IFRS Cash Flow Statement

€thousand	2008/2009	2007/2008
<b>Cash flow from operating activities</b>		
Profit before tax	1,906	2,668
Income tax expense	-627	-833
<b>Profit for the period</b>	<b>1,279</b>	<b>1,835</b>
Depreciation, amortization, and impairment losses	527	521
<b>Gross cash flow</b>	<b>1,806</b>	<b>2,356</b>
<b>Changes in assets and liabilities</b>		
Change in trade receivables	2,645	-1,710
Change in inventories	-502	-556
Change in other assets	-31	-146
Change in trade payables	26	-158
Change in advance payments received	-4	-167
Change in other provisions	-222	342
Change in tax payables	-410	-154
Change in other current liabilities	-275	357
Change in deferred tax assets	-53	1
Change in deferred tax liabilities	84	0
<b>Total changes in assets and liabilities</b>	<b>1,258</b>	<b>-2,191</b>
<b>Net cash provided by operating activities</b>	<b>3,064</b>	<b>165</b>
<b>Cash flow from investing activities</b>		
Payments to acquire intangible assets	-159	-183
Payments to acquire property, plant, and equipment	-834	-403
Change in currency translation adjustments	-71	110
Disposal of noncurrent assets (net carrying amounts)	0	19
<b>Net cash used in investing activities</b>	<b>-1,064</b>	<b>-457</b>
<b>Cash flow from financing activities</b>		
Change in current financial liabilities	-1,164	1,132
Change in noncurrent financial liabilities	-76	-142
Dividend payment to minority interest	-15	0
Dividend payment to shareholders of CeoTronics AG	-990	-660
<b>Net cash used in financing activities</b>	<b>-2,245</b>	<b>330</b>
<b>Change in cash and cash equivalents</b>	<b>-245</b>	<b>38</b>
Effect of exchange rate changes on cash and cash equivalents	-97	87
Cash and cash equivalents at beginning of period	908	783
Cash and cash equivalents at end of period	566	908

## IFRS Statement of Changes in Equity

	Equity attributable to shareholders of CeoTronics AG							
€ thousand	Subscribed capital	Capital reserves	Retained earnings	Net retained profit	Cumulative other recognized income and expense	Total	Minority interest	Total equity
<b>Balance at May 31, 2007</b>	<b>6,600</b>	<b>4,471</b>	<b>16</b>	<b>609</b>	<b>-36</b>	<b>11,660</b>	<b>45</b>	<b>11,705</b>
Profit for the period			870	949		1,819	16	1,835
Dividend distribution				-660		-660	0	-660
Currency translation adjustments					88	88	-1	-87
Change in minority interest				0		0	0	0
<b>Balance at May 31, 2008</b>	<b>6,600</b>	<b>4,471</b>	<b>886</b>	<b>898</b>	<b>52</b>	<b>12,907</b>	<b>60</b>	<b>12,967</b>
Profit for the period				1,267		1,267	12	1,279
Dividend distribution				-990		-990	-15	-1,005
Currency translation adjustments					-99	-99	2	-97
Change in minority interest				-15		-15	15	0
<b>Balance at May 31, 2009</b>	<b>6,600</b>	<b>4,471</b>	<b>886</b>	<b>1,160</b>	<b>-47</b>	<b>13,070</b>	<b>74</b>	<b>13,144</b>

## IFRS Statement of Changes in Noncurrent Assets

	Cost						Cumulative depreciation, amortization, and impairment losses					Carrying amounts	
€ thousand	June 1, 2008	Currency translation adjustments.	Additions	Disposals	Reclassifications	May 31, 2009	June 1, 2008	Currency translation adjustments	Additions	Disposals	May 31, 2009	May 31, 2009	May 31, 2008
<b>Property, plant, and equipment</b>													
Land, land rights, and buildings, including buildings on third-party land	5,262	0	2	0	0	5,264	515	0	103	0	618	4,646	4,747
Technical equipment and machinery	2,032	1	270	23	0	2,280	1,610	1	166	23	1,754	526	422
Other equipment, operating and office equipment	1,740	-4	206	20	0	1,922	1,312	-4	156	20	1,444	478	428
Prepayments and assets under construction	86	0	356	0	0	442	0	0	0	0	0	442	86
	9,120	-3	834	43	0	9,908	3,437	-3	425	43	3,816	6,092	5,683
<b>Intangible assets</b>													
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	659	-1	159	5	0	812	392	-1	102	5	488	324	267
Prepayments on intangible assets	30	0	0	0	0	30	0	0	0	0	0	30	30
	689	-1	159	5	0	842	392	-1	102	5	488	354	297
<b>Goodwill</b>	1,293	79	0	0	0	1,372	95	8	0	0	103	1,269	1,198
	11,102	75	993	48	0	12,122	3,924	4	527	48	4,407	7,715	7,178

# Notes to the Consolidated Financial Statements of CeoTronics AG for Fiscal Year 2008/2009

## Basis of Preparation and Accounting Policies

### (1) Business Activities/Information on the Company

CeoTronics AG, domiciled in 63322 Rödermark, Germany (Adam-Opel-Strasse 6), is the parent company of the CeoTronics Group and a listed stock corporation incorporated under the laws of Germany. The Company is entered in the commercial register of the Offenbach District Court (number HRB 34104).

The Company's business activities comprise the development, design, production, and sale of electronic audio, video, and data communication systems, personal protective equipment with and without communications facilities, as well as wholesale and retail trading of these systems and other electronic devices, including their import and export, and all related activities in any form.

CeoTronics AG, Rödermark (hereafter "CeoTronics AG") and CT-Video GmbH, Lutherstadt Eisleben ("CT-Video GmbH") are production and sales companies.

The

- CeoTronics S.à.r.l., Brie Comte Robert/France ("CeoTronics France")
- CeoTronics AG, Rotkreuz/Switzerland ("CeoTronics Switzerland")
- CeoTronics S.L., Madrid/Spain ("CeoTronics Spain")
- CeoTronics Sp. z o.o., Lodz/Poland ("CeoTronics Poland")
- CeoTronics Inc., Virginia Beach, Virginia/U.S.A. ("CeoTronics U.S.A.")

subsidiaries are solely sales companies.

Our subsidiaries in Spain, Poland, and the U.S.A. offer local after-sales service.

The subsidiaries primarily sell the products developed by the parent company.

The majority of subsidiaries restrict their sales activities mainly to the countries in which they are domiciled. The parent company predominantly sells its products in Germany and in countries in which it is not represented by a subsidiary.

CeoTronics AG and its subsidiary CT-Video GmbH also undertake research and development activities.

### (2) Basis of Preparation of the Consolidated Financial Statements

CeoTronics AG is a parent within the meaning of section 290 of the HGB (German Commercial Code).

The consolidated financial statements of CeoTronics AG and its subsidiaries were prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), reflecting the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union. The requirements of German commercial law under section 315a(1) of the HGB were also complied with. All IFRSs issued by the IASB that were valid at the date of preparation of the accompanying consolidated financial statements and applied by CeoTronics AG were endorsed by the European Commission for application in the EU. The consolidated financial statements prepared by CeoTronics AG therefore comply with the IFRSs as adopted by the EU, and the supplementary requirements of German commercial law under section 315a(1) of the HGB.

The consolidated financial statements were prepared in euros. Unless otherwise indicated, all amounts are presented in thousands of euros (€ thousand). The balance sheet is classified by the maturities of assets and liabilities. Assets and liabilities that will be sold, used in the normal course of business, or settled within twelve months are classified as current. Liabilities are classified as current if they will be settled within twelve months of the reporting date. The income statement has been prepared using the function of expense method. Items of the



balance sheet and income statement that have been combined to enhance the clarity of presentation are explained in the notes. The accompanying consolidated financial statements comply with the supplementary disclosure provisions of section 315a(1) of the HGB.

The annual financial statements of the companies included in the consolidated financial statements have been prepared as of the reporting date of the consolidated financial statements and are based on uniform accounting policies (IAS 27).

The authorization to publish the consolidated financial statements resolved by the Board of Management on August 14, 2009 was approved by the Supervisory Board on August 14, 2009.

**International Financial Reporting Standards (IFRSs) and Interpretations (IFRICs) required to be applied for the first time in the past fiscal year**

The following new Interpretations or amendments to existing Interpretations became effective in fiscal year 2008/2009:

- Amendment to IAS 39 and IFRS 7 with regard to the reclassification of financial assets, required to be applied retrospectively from July 1, 2008.

The application of the above-mentioned Interpretations had no direct effects on the consolidated financial statements of CeoTronics AG.

**International Financial Reporting Standards (IFRSs) and Interpretations (IFRICs) that are issued but not yet required to be applied**

The IASB has issued the following IFRSs and IFRICs as well as amendments to existing Standards that were not required to be applied during CeoTronics AG's past fiscal year and that CeoTronics AG did not adopt prior to their effective date in the preparation of its consolidated financial statements as of May 31, 2009:

- The amendment to IAS 1 Presentation of Financial Statements is required to be applied for the first time for fiscal years beginning on or after January 1, 2009.
- The amendment to IAS 23 Borrowing Costs is required to be applied for the first time for fiscal years beginning on or after January 1, 2009.
- The amendment to IAS 27 Consolidated and Separate Financial Statements is required to be applied for the first time for fiscal years beginning on or after July 1, 2009.
- The amendments to IAS 32 and IAS 1 regarding financial instruments and their presentation in the financial statements are required to be applied for the first time for fiscal years beginning on or after January 1, 2009.
- The amendment to IFRS 1 and IAS 27 relating to the cost of investments in subsidiaries is required to be applied for the first time for fiscal years beginning on or after July 1, 2009.
- The amendment to IFRS 2 Share-based Payment is required to be applied for the first time for fiscal years beginning on or after January 1, 2009.
- The amendment to IFRS 3 Business Combinations is required to be applied for the first time for fiscal years beginning on or after July 1, 2009.
- IFRS 8 Operating Segments is required to be applied for the first time for fiscal years beginning on or after January 1, 2009.
- IFRIC 12 Service Concession Arrangements is required to be applied for the first time for fiscal years beginning on or after April 1, 2009.
- IFRIC 13 Customer Loyalty Programs is required to be applied for the first time for fiscal years beginning on or after January 1, 2009.
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements, and their Interaction is required to be applied for the first time for fiscal years beginning on or after January 1, 2009.
- IFRIC 15 Agreements for the Construction of Real Estate is required to be applied for the first time for fiscal years beginning on or after January 1, 2010.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation is required to be applied for the first time for fiscal years beginning on or after July 1, 2009.

- The Improvements to IFRSs are required to be applied for the first time for fiscal years beginning on or after January 1, 2009 (Article 1 paragraph 2 and 4-8) or July 1, 2009 (Article 1 paragraphs 1 and 3).

With the exception of IFRS 8 (Operating Segments), the above-mentioned Standards and Interpretations will not have any significant effects on the presentation of CeoTronics AG's consolidated financial statements.

### (3) Basis of Consolidation, Shareholdings

All companies that are directly or indirectly controlled by CeoTronics AG are consolidated from the date on which CeoTronics AG obtains control. They are deconsolidated as of the date when CeoTronics AG ceases to have control.

The consolidated financial statements as of May 31, 2009 include the annual financial statements of CeoTronics AG and of the seven subsidiaries listed in the following (hereafter together the "CeoTronics Group"):

CT-Video GmbH was formed in fiscal year 1999/2000 and has been domiciled in Lutherstadt Eisleben, Germany, since that time.

CeoTronics Switzerland was originally formed in 1988 as a global export organization also responsible for sales in Switzerland. Since 1997, it has operated solely as a sales company in Switzerland.

Effective May 31, 1996, CeoTronics AG acquired the remaining 33% interest in CeoTronics France; the company was formed in 1986. This interest was initially consolidated as of May 31, 1996.

CeoTronics UK was acquired as a sales company in 1986 and subsequently renamed CeoTronics Ltd. CeoTronics GB's sales activities ended as of March 31, 2007 and were taken over by CeoTronics AG.

CeoTronics U.S.A. was formed as a sales branch in 1992. Local production commenced in 1996. In 2000, the company acquired the Audio Accessory Division of DTC Inc., Nashua/ U.S.A.

CeoTronics Spain recommenced its sales activities in 1998. The company was formed in 1992. It was initially consolidated as of December 1, 1998.

	Equity interest	Equity	Profit/loss	Currency
CT-Video GmbH, Lutherstadt Eisleben/Deutschland	100%	1,880	201	EUR thou.
CeoTronics AG, Rotkreuz/Switzerland	100%	355 536	229 354	EUR thou. CHF thou.
CeoTronics S.à.r.l., Brie Comte Robert/France	100%	-328	14	EUR thou.
CeoTronics Ltd., Aberdeen/United Kingdom	100%	0 0	-1 -1	EUR thou. GBP thou.
CeoTronics Inc., Virginia Beach, Virginia/U.S.A.	100%	-954 -1,347	-168 -232	EUR thou. USD thou.
CeoTronics S.L., Madrid/Spain	100%	778	444	EUR thou.
CeoTronics Sp. z o.o., Lodz/Poland	75%	148 666	52 205	EUR thou. PLN thou.



CeoTronics AG acquired a 75% interest in CeoTronics Poland in fiscal year 2001/2002. The company was initially consolidated as of June 1, 2002. AACOM-CeoTronics Sp. z o.o. was renamed CeoTronics Sp. z o.o. as of June 1, 2007.

#### **(4) Consolidation Methods**

##### **Acquisition accounting**

Subsidiaries in which the parent directly or indirectly holds the majority of shares and hence of the voting power are consolidated in accordance with the principles of acquisition accounting. The write-downs of interests in Group companies and the reversal of such write-downs in the single-entity financial statements of CeoTronics AG are eliminated in the consolidated financial statements.

Acquisition accounting uses the purchase method of accounting, under which the cost of the shares acquired is eliminated against the parent's share of the equity of the subsidiary at the date of acquisition. All identifiable assets, liabilities, and contingent liabilities are recognized at their fair values and included in the consolidated balance sheet. Any excess of cost over the fair value of the net assets attributable to the Group is recognized as goodwill.

As a rule, the date of initial consolidation is the date of formation or of the acquisition of the subsidiary concerned.

We account for the 25% minority interest in CeoTronics Sp. z o.o., Lodz, Poland, by deducting the minority interest and the resulting effects on profit or loss within equity in the balance sheet, in the income statement, the cash flow statement, and the statement of changes in equity.

The carrying amount of goodwill remains in the balance sheet and is tested for impairment at least once a year on completion of the annual planning process and written down if necessary. Impairment losses on goodwill are not reversed.

##### **Consolidation of intercompany balances**

Receivables and liabilities between Group companies are eli-

minated. There were no material differences resulting from the consolidation of intercompany balances.

##### **Elimination of intercompany profits**

The intercompany profits of €374 thousand (previous year: €230 thousand) from intercompany transactions contained in the carrying amounts of finished goods as of May 31, 2009 were also eliminated. Because of the increase in intercompany profits, a consolidation adjustment of €144 thousand (previous year: €8 thousand) was recognized as an expense as of the reporting date.

##### **Consolidation of income and expenses**

Revenues from intercompany deliveries, other income and expenses from intragroup settlements, and investment and interest income were eliminated in the course of consolidation.

##### **(5) Impairment Testing – Procedures and Effects**

Impairment tests on assets in the CeoTronics Group compare the carrying amounts of the individual cash-generating units with their recoverable amounts, i.e., the higher of the asset's net selling price and its value in use. Reflecting the definition of a cash-generating unit, the CeoTronics Group's strategic business units are used as cash-generating units. In most cases, these are the individual subsidiaries themselves.

In those cases where the carrying amount of the cash-generating unit is higher than its recoverable amount, an impairment loss is recognized in the amount of the difference. The goodwill of the strategic business unit concerned is then written down by the amount of these impairment losses.

The calculation of value in use is based on the present value of estimated future cash flows expected to arise from the continuing use of the strategic business unit. The estimation of future cash flows is based on the CeoTronics Group's planning, using a six-year planning horizon (up to fiscal year 2014/2015 inclusive). For periods beyond this planning horizon, no growth compared with the final year specifically included in the planning is assumed.

Reflecting the volatility of CeoTronics AG shares, the discount rate applied is currently 9%.

#### **(6) Estimates and Assumptions**

Preparation of the consolidated financial statements in accordance with IFRSs requires management to make estimates and assumptions that affect the recognition and measurement of certain items in the consolidated balance sheet and the consolidated income statement. We believe that our estimates and assumptions are reasonable under the circumstances. However, actual amounts could differ materially from the estimates and assumptions.

Estimates are necessary in particular for:

- the measurement of the fair values of assets and liabilities in the course of acquisitions and business combinations;
- the assessment of the need for, and the measurement of, impairment losses and write-downs;
- the recognition and measurement of tax, warranty, and litigation risks;
- determining the need for write-downs of inventories;
- determining the recoverability of deferred tax assets.

#### **(7) Foreign Currency Translation**

In accordance with IAS 21 The Effects of Changes in Foreign Exchange Rates, the annual financial statements of Group companies prepared in foreign currencies are translated into euros using the functional currency concept on the basis of the modified closing rate method. The functional currency is the currency of the primary economic environment in which the companies operate. The presentation currency of the consolidated financial statements is the euro; this corresponds to the functional currency of the parent, CeoTronics AG.

Balance sheet items are translated at the closing rate, and income statement items are translated at the average rate for the fiscal year. The equity accounts of the subsidiaries are measured at historical exchange rates. The foreign currency differences arising from the application of different exchange

rates are taken directly to equity and presented in a separate account in equity (cumulative other recognized income and expense).

Foreign currency receivables and liabilities in balance sheets prepared in euros were measured at the closing rate. Gains and losses from the translation of items denominated in foreign currencies in the individual financial statements are recognized in profit or loss.

The relevant exchange rates as of May 31, 2009 and May 31, 2008 and for fiscal years 2008/2009 and 2007/2008 were:

	USD/EUR	GBP/EUR	CHF/EUR	PLN/EUR
Closing rate at May 31, 2009	1.4127	0.8743	1.5103	4.5145
Closing rate at May 31, 2008	1.5504	0.7870	1.6278	3.3733
Change in €	-8.9%	+11.1%	-7.2%	+33.8%
Average rate for fiscal year 2008/2009	1.3840	0.8504	1.5450	3.9128
Average rate for fiscal year 2007/2008	1.4536	0.7252	1.6330	3.6425
Change in €	-4.8%	+17.3%	-5.4%	+7.4%

#### (8) Significant Accounting Policies Fair value of financial instruments

Due to their short-term nature, the carrying amounts of cash and cash equivalents, trade receivables, other current assets, trade payables, other current liabilities, and provisions correspond approximately to their fair values. The carrying amounts of the Company's other liabilities also correspond approximately to their fair values because they either have short maturities and/or the interest rates reflect the market conditions at which the Company could obtain refinancing.

#### Cash and cash equivalents

The Company accounts for all highly fungible investments with a maturity of three months or less as cash and cash equivalents. Cash and cash equivalents comprise bank balances, checks and cash-in-hand, and time deposits with a maximum original maturity of three months. Cash and cash equivalents are recognized at their nominal value.

#### Receivables and other current assets

Trade receivables and other current assets are carried at their principal amount or at the lower fair value after deduction of impairment losses. An impairment loss is recognized for trade receivables if there is evidence indicating that the amounts

receivable are not collectible in full. The amount of the impairment loss is calculated as the difference between the carrying amount of the receivables and the estimated future cash flows from those receivables. The impairment loss is recognized in profit or loss.

Write-downs are recognized to take account of the general credit risk. Such write-downs are based on past experience, factors derived from the age structure of receivables, and on management's analysis of the reported assets.

The Company's trade receivables are not collateralized.

#### Inventories

Inventories include raw materials, consumables, and supplies; work in progress and finished goods; and goods purchased and held for resale.

The FIFO (first-in, first-out) consumption tracking method is applied.

Purchased work in progress is measured at cost. Internally generated finished goods and work in progress are measured at fully absorbed cost. In accordance with IFRSs, fully absorbed

cost includes direct material costs, direct labor costs, and production overheads. Production overheads include all expenses attributable to the production process. They are calculated on the basis of standard costing. Standard costs are continually adapted to the actual costs and correspond approximately to the actual costs. Borrowing costs are not included in the carrying amounts of inventories.

Appropriate valuation allowances are charged for inventory risks resulting from excessive storage periods or reduced marketability. Write-downs are reversed if the reasons for the original write-down no longer apply. Write-downs are reversed up to a maximum of depreciated cost.

#### **Deferred taxes**

In accordance with IAS 12 Income Taxes, deferred tax assets and liabilities are recognized for all temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base, and for consolidation adjustments recognized in profit or loss. Deferred tax assets are also recognized for tax loss carryforwards. Deferred tax assets are only recognized for deductible temporary differences and tax loss carryforwards where it is probable that sufficient taxable profit will be available in future periods.

Deferred taxes are calculated on the basis of the tax rates that apply or are expected to apply in the individual countries to the period when the asset is realized or the liability is settled.

In accordance with IAS 1.70, deferred taxes are classified as noncurrent.

#### **Intangible assets and goodwill**

Purchased intangible assets (excluding goodwill) are carried at cost and reduced by straight-line amortization over an expected standard useful life of between three and five years. The "Intangible assets" item mainly comprises software.

Impairment losses are recognized if there are indications that the carrying amount of the intangible asset is impaired. Impair-

ment losses are reversed if the reasons for impairment losses recognized in prior years no longer apply; reversals of impairment losses are recognized in Other income.

At CeoTronics AG, development costs do not satisfy the criteria for capitalization under IAS 38 Intangible Assets and are recognized in profit or loss in the period in which they are incurred.

In accordance with IAS 38 and IFRS 3 Business Combinations, goodwill resulting from initial consolidation and from business combinations is regarded as having an indefinite useful life. Goodwill is tested for impairment at least once a year at year-end, and also whenever there is an indication that the carrying amount of goodwill may be impaired. If the impairment tests confirm that the impairment is expected to be permanent, the impairment loss is recognized in profit or loss. IAS 36 Impairment of Assets prohibits the reversal of impairment losses on goodwill.

#### **Property, plant, and equipment**

In accordance with IAS 16 Property, Plant, and Equipment, items of property, plant, and equipment are carried at cost (including directly attributable transaction costs) less depreciation. Preventive maintenance expenditures that do not increase the value of the assets or prolong their useful lives are treated as expenses of the period. Normal repair and corrective maintenance expenditures are recognized as expenses in the year in which they are incurred.

Gains or losses on the disposal of items of noncurrent assets are recognized in Other operating income or expenses. Borrowing costs are not included in the carrying amounts of items of property, plant, and equipment. Items of property, plant, and equipment are depreciated on a straight-line basis over their standard useful lives. Property, plant, and equipment must be assessed for impairment at each reporting date, and an impairment test must be performed if there are indications that an asset is impaired. An asset is impaired if its carrying amount is higher than its value in use or recoverable amount. Any impairment loss must be recognized in profit or loss.

Impairment losses are reversed if the reasons for impairment losses recognized in prior years no longer apply; reversals of impairment losses are recognized in Other income.

For reasons of materiality, assets costing between €150 and €1,000 are depreciated in an omnibus item over five years irrespective of their useful lives.

The useful lives applied are shown in the following overview:

	Useful life in years
Buildings	50
Leasehold improvements	10, max. remaining term of the lease
Technical equipment and machinery	4 to 8
Other equipment, operating and office equipment	4 to 10
Office furniture and equipment	4 to 10
Motor vehicles	4 to 6
Assets costing €150 to €1,000 (omnibus item)	5

#### Government grants

CT-Video GmbH receives investment grants for the purchase of certain long-lived assets. In accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the grants are deducted in full directly from the carrying amount of the asset in the year in which they are received. Grants are recognized in profit or loss through the lower amounts of depreciation or amortization over the useful life of the assets due to the reduced carrying amounts. Government grants are recognized only if there is sufficient assurance that the Company will satisfy the conditions attached to the grant.

#### Leases

##### Operating leases

Leases in which substantially all risks and rewards incidental to ownership of an asset remain with the lessor are classified as operating leases. Payments received in connection with an operating lease are recognized in the income statement on a straight-line basis over the term of the lease.

##### Finance leases

Leases that transfer substantially all the risks and rewards incidental to ownership of the asset to the lessee are classified as finance leases.

The lessee recognizes the assets at cost and depreciates them over their useful life. The financial liabilities are recognized in the same amount. The monthly lease payment is apportioned between the finance charge recognized in the income statement, which is allocated to each period of the lease term, and the reduction of the outstanding liability.

The lessor recognizes the lease payments for the entire lease term as revenues in the year of delivery, discounted to the present value. The discount factor is 5.0%. The payments from the lessee that are outstanding at the balance sheet date are also discounted and reported in trade receivables. The monthly installments to be paid by the lessee are broken down over the term of the lease into a finance charge, which is recognized as income in the income statement, and the reduction of the outstanding trade receivables.

##### Hire-purchase

A number of assets were purchased under hire-purchase arrangements, which are accounted for in the same way as finance leases.

##### Liabilities

Liabilities are recognized at their repayment amounts.

### Provisions

Under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, provisions are recognized for present obligations to third parties arising from past events that are more likely than not to result in an outflow of resources embodying economic benefits. Provisions are measured at the best estimate of the expenditure required to settle the obligation. Where provisions will not be settled for at least one year and the amount and timing of settlement can be estimated reliably, the noncurrent portion of the provision is discounted to arrive at the present value. Income from the reversal of provisions is presented in 'Other operating income' in the income statement.

Provisions for warranties are recognized on the basis of past experience. The historical data is based on the average amount of warranty expenditures in recent years.

### Revenue recognition

Revenues are generated largely from the sale of products. In accordance with IAS 18 Revenue, revenue (net of value added tax and sales allowances) is generally recognized at the time of delivery to the customer – or, if contractually agreed – at the time of technical acceptance of the equipment by the customer. Delivery is deemed to be completed when the risks associated with title pass to the buyer.

### Cost of sales

Cost of sales comprises the cost of the goods and services sold. In addition to directly attributable materials and labor costs, it also includes indirect production overheads, including depreciation of production facilities and write-downs of inventories. Cost of sales also includes additions to warranty provisions. Income from the reversal of previous write-downs of inventories reduces cost of sales.

### Research and development expenses

Significant expenditures are incurred regularly for research and development projects established in anticipation of future revenues. These expenses are recognized in profit or loss and reflect in-process research and development.

Research and development expenses are reported separately in the income statement because of their significance for the Company.

### Borrowing costs

In accordance with IAS 23 Borrowing Costs, borrowing costs are recognized as an expense in the period in which they are incurred (benchmark method).

### Income tax expense

All liabilities and assets from income taxes arising during a tax year are recognized in the consolidated financial statements in accordance with the relevant tax legislation.

In accordance with IAS 12 Income Taxes, deferred taxes are accounted for using the balance sheet liability method on the basis of the tax rates expected to apply when the assets are realized or the liabilities are settled. Deferred tax assets are recognized for the expected tax benefits of tax loss carryforwards for which it is probable that sufficient taxable profit will be available in future periods, and for temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base.

Income tax expense comprises payable and recoverable taxes for the reporting period, plus or minus the amount of changes in deferred tax assets and liabilities. The effect of changes in the tax rate on deferred tax assets or liabilities is recognized in profit or loss for the period in which the change becomes law.

### Earnings per share

Basic and diluted earnings per share are calculated in accordance with IAS 33 Earnings per Share. Basic earnings per share are calculated on the basis of the weighted average number of no-par value shares outstanding in the fiscal year. Diluted earnings per share are calculated on the basis of the weighted average number of no-par value shares outstanding in the period, including potential no-par value shares from the exercise of all stock options.



### Options on virtual shares

CeoTronics AG operated option plans for virtual shares for senior executives and specialist employees that expired in fiscal year 2007/2008. The aim of the plans was to strengthen the identification of senior executives and specialist employees with the Company by allowing them to participate in the Company's success. The plans were designed to grant the option holders a cash settlement measured as the amount of the difference between the exercise price and the share price of CeoTronics shares at the exercise date.

In accordance with IFRS 2 Share-based Payment, the Company recognized the difference between the exercise price and the expected market price of the shares at the time of exercise as an employee expense, and allocated it ratably in the income statement over the term of the stock options. Exercise of stock options at the earliest possible date was assumed. The calculation was based on the share price of CeoTronics shares at the relevant reporting date.

### Segment reporting

In accordance with IAS 14 Segment Reporting, information on the operating business is presented classified by certain segments.

The primary segment reporting format in the CeoTronics Group is geographic.

### Consolidated Balance Sheet Disclosures

#### (9) Cash and Cash Equivalents

€thousand	May 31, 2009	May 31, 2008
Cash and bank balances	566	908

This item contains balances on current accounts, overnight or time deposits, and cash-in-hand.

#### (10) Trade receivables

Trade Receivables Trade receivables are composed of the following items:

€thousand	May 31, 2009	May 31, 2008
Trade receivables, gross	4.005	6.629
less: valuation allowances	-54	-33
Trade receivables, net	3.951	6.596

Trade receivables include receivables from finance leases amounting to €553 thousand. In fiscal year 2006/2007, CeoTronics entered into a lease that must be classified as a finance lease with a customer in Spain. The order has a total volume of €1,231 thousand and a term of 72 months. The lessee was granted the option of acquiring the products for €110 thousand after the lease expires.

The reconciliation of the gross value of the order at the reporting date to the present value of the minimum lease payments outstanding at the reporting date is as follows:

€thousand	
Gross value of the order at the reporting date	667
Discount factor: 5.0%	-114
<b>Present value of the order at the reporting date</b>	<b>553</b>

The maturities of the lease payments break down as follows:

€thousand	Gross value	Present value
Less than 1 year	205	179
1 to 5 years	462	374
More than 5 years	0	0
<b>Total amounts at the reporting date</b>	<b>667</b>	<b>553</b>

The other receivables included in trade receivables are due within one year. Valuation allowances of €31 thousand (previous year: €1 thousand) were recognized as general and administrative expenses in fiscal year 2008/2009.

#### (11) Inventories

Inventories are broken down as follows:

€thousand	May 31, 2009	May 31, 2008
Raw materials, consumables, and supplies	5	6
Work in progress	2,575	3,542
Finished goods	2,339	869
<b>Inventories, net</b>	<b>4,919</b>	<b>4,417</b>

Impairment losses of €360 thousand (previous year: €298 thousand) to obtain the lower fair value were recognized in cost of sales in the fiscal year.

The geographic breakdown of impairment losses was as follows:

€thousand	Fiscal year 2008/2009	Fiscal year 2007/2008
Germany	310	247
Rest of Europe	3	3
Rest of world	47	48
<b>Total impairment losses on inventories</b>	<b>360</b>	<b>298</b>

#### (12) Other Current Assets

€thousand	May 31, 2009	May 31, 2008
Current tax receivables	226	257
Claims on employees	12	19
Prepaid expenses	104	94
Miscellaneous	76	17
<b>Total other current assets</b>	<b>418</b>	<b>387</b>

**(13) Noncurrent Assets**

Changes in noncurrent assets are presented separately in the Statement of Changes in Noncurrent Assets.

**Investments**

CeoTronics AG's key investments in fiscal year 2008/2009 focused in particular on new tools (€278 thousand), machinery and equipment (€216 thousand), operating and office equipment (€94 thousand), software (€86 thousand), licenses (€62 thousand), and hardware (€54 thousand).

At CT-Video GmbH, €121 thousand was invested in particular in expanding the production facility and €11 thousand in software and licenses.

**Goodwill**

In accordance with IFRS 3 Business Combinations, goodwill is not amortized, but written down for impairment. The carrying amount net of impairment losses is tested for impairment once

a year and written down to the fair value if there are indications that goodwill is impaired.

**Goodwill from initial consolidation**

Effective May 31, 1996, CeoTronics AG acquired the remaining 33% interest in CeoTronics France; the company was formed in 1986. This interest was initially consolidated as of May 31, 1996. The difference resulting from this initial consolidation was classified in full as goodwill. Goodwill amounted to €79 thousand at the date of initial consolidation. The current carrying amount is €47 thousand. In fiscal year 1998/1999, CeoTronics AG also acquired all shares of A & C Achats et Communication S.à.r.l., Pontault-Combault/France. This company was initially consolidated as of April 1, 1999. A & C Achats et Communication S.à.r.l., Pontault-Combault/France, was merged with CeoTronics France. The difference of €323 thousand resulting from initial consolidation was classified in full as goodwill. The current carrying amount is €275 thousand.

As of May 31, 2009, goodwill resulting from initial consolidation or business combinations was attributable to the following cash-generating units:

€thousand	Opening balance sheet	Impairment losses FY 2008/2009	Currency translation adjustments	Carrying amounts at year-end
Goodwill from initial consolidation				
CeoTronics France	322	0	0	322
CeoTronics Spain	13	0	0	13
CeoTronics Poland	134	0	0	134
<b>Total</b>	<b>469</b>	<b>0</b>	<b>0</b>	<b>469</b>
Goodwill from business combinations				
CeoTronics U.S.A.	729	0	71	800
<b>Total</b>	<b>729</b>	<b>0</b>	<b>71</b>	<b>800</b>
<b>Goodwill</b>	<b>1,198</b>	<b>0</b>	<b>71</b>	<b>1,269</b>

CeoTronics Spain recommenced its sales activities in 1998. The company was formed in 1992. It was initially consolidated as of December 1, 1998. The difference resulting from this initial consolidation was classified in full as goodwill. Goodwill amounted to €16 thousand at the date of initial consolidation. The current carrying amount is €13 thousand.

CeoTronics AG acquired a 75% interest in CeoTronics Poland in fiscal year 2001/2002. The company was initially consolidated as of June 1, 2002. The difference resulting from initial consolidation was classified in full as goodwill. Goodwill amounted to €134 thousand at the date of initial consolidation. The current carrying amount is also €134 thousand.

#### Goodwill from business combinations

The goodwill at CeoTronics U.S.A. results from the acquisition of the audio business of DTC Inc., Nashua/U.S.A. The enterprise value calculated on the basis of the planning data for 2009/2010 to 2014/2015 is higher than the carrying amount. No further impairment losses were therefore recognized.

#### Government grants

Government grants amounting to €4 thousand (previous year: €8 thousand) were received by CT-Video GmbH in fiscal year 2008/2009 to acquire long-lived assets. CT-Video GmbH received grants amounting to €31 thousand to build a new production facility (previous year: €0 thousand) and €6 thousand for participating at trade fairs (previous year: €7 thousand).

#### (14) Deferred Tax Assets

Deferred tax assets are composed of the following items:

€thousand	May 31, 2009	May 31, 2008
<b>Deferred tax assets on tax loss carryforward at CeoTronics U.S.A.</b>		
Gross	561	561
less: valuation allowance	-281	-281
Net	280	280
Deferred tax assets on tax loss carryforward at CeoTronics France	142	147
Deferred tax assets due to elimination of intercompany profits	150	92
<b>Total deferred tax assets</b>	<b>572</b>	<b>519</b>

In fiscal years 1997/1998, 1998/1999, and 1999/2000, the Company had already recognized deferred tax assets for the loss carryforward at the U.S. company amounting to €561 thousand, as required by IFRSs, provided that the loss carryforward is recoverable. On the basis of this year's loss, no further deferred tax assets were recognized for the loss carryforward of the U.S. company in fiscal year 2008/2009. The Company has now accumulated a loss carryforward of more than €3 million. In fiscal year 2008/2009, other measures to increase revenues were taken that will have a positive effect on earnings in coming fiscal years. As the Board of Management is forecasting an increase in revenues for the coming years, it is expecting sustained positive earnings during these periods, against which the tax loss carryforwards can be utilized. The deferred tax asset for the loss carryforward at the U.S. subsidiary amounting to a total of €561 thousand (previous year: €561 thousand) has been written down by 50% for reasons of prudence.

As in the prior years, CeoTronics France closed fiscal year 2008/2009 with positive earnings. Management assumes that the tax loss carryforwards will also continue to be available for utilization in future. The deferred tax asset for the loss carryforward amounts to €142 thousand (previous year: €147 thousand).

Deferred taxes of €58 thousand (previous year: €2 thousand) were recognized for consolidation adjustments in the income statement in fiscal year 2008/2009. Other temporary differences between the IFRS carrying amounts and the tax base of assets and liabilities are insignificant. No deferred taxes were therefore recognized for temporary differences in the reporting period or in the prior year.

German corporations are subject to corporate income tax and trade tax. Both are forms of income tax. In Germany, the corporate income tax rate for retained and distributed profits amounts to a standard 15% as from calendar year 2008, plus 5.5% solidarity surcharge; this is the tax rate applicable under IFRSs when calculating deferred taxes. Trade tax in Germany is levied on the Company's taxable profit, adjusted by eliminating certain income that is not subject to trade tax and by adding back certain types of expenses that are non-deductible for trade tax purposes. The effective trade tax rate depends on which municipality the Company operates in. The average trade tax rate during the reporting period was approximately 12%.

A tax rate of 37% was applied when calculating deferred taxes on the loss carryforward of CeoTronics U.S.A.

The tax expense for fiscal year 2008/2009 of €627 thousand is based on the positive earnings of the majority of companies. This led to a further reduction in tax loss carryforwards and to the recognition of income tax provisions at individual companies.

Deferred taxes were recognized for timing differences resulting from consolidation adjustments recognized in profit or loss. This led to deferred tax assets in the amount of €150 thousand (previous year: €92 thousand).

## (15) Financial Liabilities

€thousand	May 31, 2009	May 31, 2009
<b>Current</b>		
Bank overdrafts	117	1.248
Bank loans	128	124
Leasing companies	17	51
<b>Total</b>	<b>260</b>	<b>1.423</b>
<b>Noncurrent</b>		
Bank loans	2,032	2.156
Leasing companies	55	7
<b>Total</b>	<b>2,087</b>	<b>2.163</b>
<b>Total financial liabilities</b>	<b>2,347</b>	<b>3.586</b>

In fiscal year 2006/2007, CeoTronics AG, Rödermark, took out a loan amounting to €2,100 thousand to finance the acquisition of a previously rented property in Rödermark. The loan matures on October 31, 2016 and bears interest at 4.81% per annum. The remaining amount of the loan as of May 31, 2009 is €1,877 thousand.

In fiscal year 2001/2002, CT-Video GmbH, Lutherstadt Eisleben, took out a loan of €390 thousand to finance the acquisition of a plot of land, the erection of a building, and investments in operating equipment. The loan matures on March 31, 2020 and bears interest at 5.25% per annum. The land, including the buildings erected on it, has been pledged as collateral to secure the loan. As contractually agreed, redemption of the loan commenced on September 30, 2005. Because of the positive interest rate developments, the loan was rescheduled on March 3, 2006. The interest rate now agreed is 4.5% until January 31, 2016. Provided that principal repayments remain constant, the loan will be fully repaid by March 31, 2020. The remaining amount of the loan as of May 31, 2009 is €286 thousand.

The interest expenses for all liabilities to banks and leasing companies totaled €144 thousand in fiscal year 2008/2009 (previous year: €154 thousand).

The Group has access to adequate lines of credit from several banks.

The following table shows the due dates of financial liabilities:

€thousand	
2009/2010	260
2010/2011	146
2011/2012	165
2012/2013	143
2013/2014	144
Thereafter	1,489
<b>Total</b>	<b>2,347</b>

#### (16) Trade Payables

Trade payables of €682 thousand as of May 31, 2009 are due within one year (previous year: €656 thousand).

**(17) Provisions**

The breakdown of other provisions is presented in the following overview:

€thousand	June 1, 2008	Utilization	Reversals	Additions	May 31, 2009
<b>Current provisions</b>					
<b>Provisions for employee expenses</b>					
Claims for outstanding vacation entitlements and overtime	301	301	0	300	300
Employee bonuses	415	410	5	297	297
Management bonuses	286	286	0	274	274
	<b>1,002</b>	<b>997</b>	<b>5</b>	<b>871</b>	<b>871</b>
<b>Other provisions</b>					
Legal and consulting fees and year-end closing costs	112	108	4	76	76
Warranty provisions	167	0	69	9	107
Miscellaneous	119	98	21	123	123
	<b>398</b>	<b>206</b>	<b>94</b>	<b>208</b>	<b>306</b>
<b>Total provisions</b>	<b>1,400</b>	<b>1,203</b>	<b>99</b>	<b>1,079</b>	<b>1,177</b>

Provisions are recognized for the expected costs of warranty claims on the basis of past experience and reflect current trends expressed as a percentage of revenues. Differences between the actual and expected expenditures result in changes in estimates and are recognized in profit or loss for the period in which the change has arisen.

**(18) Other Current Liabilities**

€thousand	May 31, 2009	May 31, 2008
Current tax payables	313	637
Social security liabilities	31	21
Miscellaneous	74	35
<b>Other current liabilities</b>	<b>418</b>	<b>693</b>

The other current liabilities are due within one year.

**(19) Deferred Tax Liabilities**

Deferred tax liabilities (€84 thousand) result from valuation allowances on receivables of €300 thousand from CeoTronics U.S.A., which were recognized at CeoTronics AG for tax purposes but eliminated in the consolidated financial statements due to the consolidation of intercompany balances.

**(20) Equity**

Changes in equity are presented in the Statement of Changes in Equity.

**Subscribed capital**

The subscribed capital of CeoTronics AG amounts to €6,599,994.00 and is composed of 6,599,994 shares with a notional value of €1.00 per share.

**Authorized capital**

The General Meeting on November 4, 2005 authorized the Board of Management, with the approval of the Supervisory Board, to increase the share capital in the period up to November 3, 2010 by an aggregate amount of up to €3,299,994.00 by issuing no-par value bearer shares against cash or non-cash contributions on one or more occasions, and to issue the corresponding number of no-par value shares. The Board of Management is authorized, with the approval of the Supervisory Board, to disapply shareholders' preemptive rights to the issue in the following cases:

- for fractions to round the amounts of capital increases;
- in the case of capital increases against cash contributions, if the capital increase does not exceed ten percent of the share capital (currently 659,999 shares) and the issue price is not materially lower than the applicable stock exchange price. The applicable stock exchange price is the average price of the Company's shares in floor trading in Frankfurt (or a comparable successor system) during the last three trading days before the resolution by the Board of Management to issue new shares. If the new shares are subscribed by an underwriter with a simultaneous commitment by the underwriter to offer the new shares for sale to one or more third parties designated by the Company, the issue price under this authorization shall be the amount payable by the third party or parties;
- if the capital is increased against non-cash contributions for the purpose of acquiring companies, parts of companies, or investments in companies.

The Board of Management was authorized, with the approval of the Supervisory Board, to determine the further details of the rights attached to the shares and the other details of the capital increases and their implementation.

The resolution of November 4, 2005 was entered in the commercial register on January 3, 2006.

**Capital reserves**

The capital reserves contain the premium from shares issued at the time of the Company's IPO in 1998.

**Retained earnings**

Amounts have been appropriated to the legal reserve of CeoTronics AG in accordance with section 150(2) of the AktG (German Stock Corporation Act); the reserve totaled €15,813.87 as of May 31, 2009.

As part of the appropriation of net profit for fiscal year 2007/2008, €870,000.00 was appropriated to other retained earnings in accordance with section 58(2) of the AktG. No additional amounts were appropriated to other retained earnings in fiscal year 2008/2009.

**Equity ratio**

The equity of the CeoTronics Group as of May 31, 2009 amounted to €13,144 thousand (previous year: €12,967 thousand), producing an equity ratio of 72.5% (previous year: 64.8%).

**Dividend distributions**

Profit distributions are based on the net income reported in the annual financial statements of CeoTronics AG, including any accumulated losses brought forward and any appropriations to, or withdrawals from, reserves (net retained profit/net accumulated losses). Due to a number of factors, including adjustment items for IFRS purposes, these amounts differ from the amounts reported in the consolidated financial statements. The annual financial statements of CeoTronics AG reported net retained profit of €2,679 thousand as of May 31, 2009.



### Proposal on the appropriation of net profit

By way of a resolution dated August 14, 2009, the Board of Management proposed to the Supervisory Board to recommend a dividend of €0.10 per share to the shareholders at the General Meeting.

### (21) Minority Interest

The minority interest in companies of the CeoTronics Group relates to a 25% minority interest in CeoTronics Sp. z o.o. The minority interest of €74 thousand as of May 31, 2009 (previous year: €60 thousand) is presented directly in equity.

### (22) Revenues

At €18,815 thousand, revenues in 2008/2009 decreased by 11.7% as against the previous year (€21,318 thousand). €18,297 thousand was generated by the sale of goods and €518 thousand by other services.

Changes in revenues by region are presented in the segment reporting in note 32.

### (23) Cost of sales

Cost of sales fell to €9,132 thousand in the reporting period (previous year: €10,599 thousand). The ratio of cost of sales to revenues is now 48.5% (previous year: 49.7%).

The revenues disclosed above were partially offset by aggregate cost of materials amounting to €6,047 thousand in fiscal year 2008/2009 (previous year: €7,484 thousand). The ratio of cost of materials to revenues is thus 32.1% (previous year: 35.1%). Cost of materials includes impairment losses of €360 thousand (previous year: €298 thousand).

### (24) Research and Development Expenses

In fiscal year 2008/2009, the CeoTronics Group implemented projects that will only lead to revenues in future periods. In accordance with IFRSs, these expenditures were recognized as expenses in the current period.

Although these projects thus reduced the Group's earnings in the reporting period, management believes that these expenditures will be amortized in the medium term because of the tremendous market potential for the resulting products.

### (25) Employee Expenses

€thousand	Fiscal year 2008/2009	Fiscal year 2007/2008
Wages and salaries	6,630	6,348
Social security, post-employment, and other employee benefit expenses	1,147	1,104
<b>Total employee expenses</b>	<b>7,777</b>	<b>7,452</b>
of which in respect of old age pensions	32	34

An average aggregate of 154 (previous year: 147) employees were employed in the CeoTronics Group in the year under review.

### (26) Depreciation, Amortization, and Impairment Losses

Amortization of €102 thousand (previous year: €32 thousand) was charged on intangible assets. €14 thousand of this is recognized in cost of sales, €18 thousand in selling and marketing expenses, €16 thousand in general and administrative expenses, and €54 thousand in research and development expenses.

Depreciation of €425 thousand (previous year: €442 thousand) was charged on items of property, plant, and equipment.

**(27) Other Operating Income and Expenses**

This item is broken down as follows:

€thousand	Fiscal year 2008/2009	Fiscal year 2007/2008
Other operating income	322	48
Other operating expenses	-101	-329
<b>Other operating income and expenses</b>	<b>221</b>	<b>-281</b>

Other operating income relates primarily to income from the reversal of provisions (€99 thousand) and exchange rate gains of €141 thousand.

Other operating expenses relate in particular to exchange rate losses of €41 thousand, to valuation allowances on receivables (€31 thousand), and to other taxes (€19 thousand).

**(28) Interest Income and Expense**

Net interest expense is composed of the following items:

€thousand	Fiscal year 2008/2009	Fiscal year 2007/2008
Interest and similar income	44	36
Interest and similar expenses	-144	-154
<b>Net interest expense</b>	<b>-100</b>	<b>-118</b>

Interest income relates primarily to overnight and term deposits.

Interest expenses are composed mainly of mortgage interest and the short-term utilization of credit lines.

**(29) Income Tax Expense**

Tax expenses relate to corporate income tax, the solidarity surcharge, and municipal trade tax (computed on the basis of the trade tax multiplier at the domicile of the Company) at the German companies, and to comparable income taxes at the foreign companies.

In Germany, the corporate income tax rate was 15.0%, as in the previous year, the solidarity surcharge was 5.5% on the corporate income tax liability, and the municipal trade tax rate was equivalent to 12.3%. The corresponding income tax rates outside Germany in the fiscal year were between 15% and 37%.

The tax expense is composed of the following items:

€thousand	Fiscal year 2008/2009	Fiscal year 2007/2008
<b>Current taxes</b>		
Germany	374	565
Abroad	222	266
<b>Total</b>	<b>596</b>	<b>831</b>
Deferred taxes	31	2
<b>Income tax expense</b>	<b>627</b>	<b>833</b>

The reconciliation of the expected tax expense at the applicable tax rate in Germany (based on pre-tax profit) to the effective tax expense is presented in the following table. To arrive at the expected tax expense, the profit before tax is multiplied by a tax rate of 28.2% (previous year: 28.1%). This is composed of a corporate income tax rate of 15.0%, a municipal trade tax rate of 12.3%, and a solidarity surcharge of 5.5%.

€thousand	Fiscal year 2008/2009	Fiscal year 2007/2008
Profit before tax	1.906	2.668
Tax income at the applicable tax rate (28.2%; previous year: 28.1%)	537	750
Difference due to foreign tax rates	-33	-15
Benefit of tax loss carry-forwards	-5	-3
Non-deductible expenses	25	-3
Effect on deferred taxes	136	102
Effect of consolidation adjustments	-31	-2
Other differences	-2	4
<b>Tax expense reported in consolidated financial statements</b>	<b>627</b>	<b>833</b>

## Other Disclosures

### (30) Cash Flow Disclosures

For the purposes of the cash flow statement, CeoTronics AG defines cash investments with a maximum original maturity of three months as cash equivalents. There is no restricted cash or cash equivalents.

The format of the cash flow statement complies with IAS 7 Cash Flow Statements, and classifies cash flow into cash flow from operating, investing, and financing activities.

Cash flow from investing and financing activities is derived from cash payments and receipts, while cash flow from operating activities is derived indirectly from profit for the period.

### (31) Earnings per Share

	Fiscal year 2008/2009	Fiscal year 2007/2008
Profit for the period attributable to shareholders of the parent (€thousand)	1,266	1,819
Weighted average number of shares	6,599,994	6,599,994
<b>Earnings per share (€)</b>	<b>0.19</b>	<b>0.28</b>

In accordance with IAS 33 Earnings per Share, basic earnings per share are computed by dividing 'Profit for the period attributable to shareholders of the parent' by the weighted average number of shares outstanding in the year.

As in the prior year, all shares of the Company were outstanding in fiscal year 2008/2009.

### (32) Segment Reporting

Segment reporting was prepared in accordance with IAS 14 Segment Reporting. The Company assesses the performance of the subsidiaries on the basis of their pre-tax profit. The accounting policies applicable to geographic segment reporting are identical to those described in note 8.

The information is presented for two segments. The primary segment describes the geographic breakdown by country of origin (domicile of the company in question), while the secondary segment contains the geographic breakdown by customer domicile.

The Company's product groups are comparable in terms of both the production process used and the marketing methods. Internal and external reporting primarily follows geographic criteria. At present, only revenues are recorded separately by product and product group. Please refer to the explanations in the Group management report for information on revenues by product and product group.

The segment information is presented by region in the following.

#### Revenues

Revenues are attributable as follows to the various regions in the primary segment (by country of origin) in fiscal years 2008/2009 and 2007/2008:

€thousand	Fiscal year 2008/2009	Fiscal year 2007/2008
Germany	10,387	12,955
Rest of Europe	8,201	7,910
Rest of world	227	453
<b>Third-party revenues</b>	<b>18,815</b>	<b>21,318</b>

The breakdown in the secondary segment (by customer country) is as follows:

€thousand	Fiscal year 2008/2009	Fiscal year 2007/2008
Germany	8,756	10,158
Rest of Europe	9,559	10,632
Rest of world	500	528
<b>Third-party revenues</b>	<b>18,815</b>	<b>21,318</b>

#### Profit or loss for the year

Profit or loss for the year is attributable as follows to the various regions (primary segment) in fiscal years 2008/2009 and 2007/2008:

€thousand	Fiscal year 2008/2009	Fiscal year 2007/2008
Germany	251	1,428
Rest of Europe	1,177	742
Rest of world	-149	-335
<b>Profit for the period</b>	<b>1,279</b>	<b>1,835</b>

#### Segment assets

Segment assets are attributable as follows to the various regions (primary segment) as of May 31, 2009 and May 31, 2008:

€thousand	Fiscal year 2008/2009	Fiscal year 2007/2008
Germany	11,883	15,090
Rest of Europe	4,351	3,347
Rest of world	1,907	1,568
<b>Total segment assets</b>	<b>18,141</b>	<b>20,005</b>

### Segment Liabilities

Segment liabilities are attributable as follows to the various regions (primary segment) as of May 31, 2009 and May 31, 2008:

€thousand	Fiscal year 2008/2009	Fiscal year 2007/2008
Germany	4,159	6,440
Rest of Europe	801	574
Rest of world	37	24
<b>Total segment liabilities</b>	<b>4,997</b>	<b>7,038</b>

### Noncurrent assets

Noncurrent assets are attributable as follows to the various regions (primary segment) as of May 31, 2009 and May 31, 2008:

€thousand	Fiscal year 2008/2009	Fiscal year 2007/2008
Germany	6,329	5,850
Rest of Europe	536	578
Rest of world	850	750
<b>Total noncurrent assets</b>	<b>7,715</b>	<b>7,178</b>

### Investments

Investments are attributable as follows to the various regions (primary segment) in fiscal years 2008/2009 and 2007/2008:

€thousand	Fiscal year 2008/2009	Fiscal year 2007/2008
Germany	933	540
Rest of Europe	25	37
Rest of world	36	9
<b>Total investments</b>	<b>994</b>	<b>586</b>

### Depreciation, amortization, and impairment losses

Depreciation, amortization, and impairment losses are attributable as follows to the various regions (primary segment) in fiscal years 2008/2009 and 2007/2008:

€thousand	Fiscal year 2008/2009	Fiscal year 2007/2008
Germany	484	477
Rest of Europe	32	40
Rest of world	11	4
<b>Total depreciation, amortization, and impairment losses</b>	<b>527</b>	<b>521</b>

### (33) Litigation

Neither CeoTronics AG nor any of its subsidiaries are currently involved in pending court or arbitration proceedings that could materially affect the net assets, financial position, and results of operations of the Group.

**(34) Disclosure of Auditors' Fees**

The following fees were agreed or recognized as expenses for the statutory auditors in fiscal years 2008/2009 and 2007/2008:

€thousand	Fiscal year 2008/2009	Fiscal year 2007/2008
Fees for audits of financial statements	58	62
Fees for other assurance and advisory services	0	0
Fees for tax advisory services	4	7
Fees for other services provided to the Company or to its subsidiaries	2	0
<b>Total</b>	<b>64</b>	<b>69</b>

**(35) Other Financial Commitments**

There are other financial commitments resulting from rental and leasing agreements, as well as commitments entered into under master agreements and outstanding purchase orders relating to the purchase of goods.

Future obligations under operating leases and rental agreements at May 31, 2009 amounted to:

€thousand	
For fiscal year 2009/2010	282
For fiscal year 2010/2011	191
For fiscal year 2011/2012	70
For fiscal year 2012/2013	24
For fiscal year 2013/2014	0
Thereafter	0
<b>Total future rental and lease obligations</b>	<b>567</b>

Future commitments resulting from master agreements and outstanding purchase orders relating to the purchase of goods amounted to €980 thousand at May 31, 2009. The entire amount relates to fiscal year 2009/2010.

The following amounts relating to rental and leasing agreements were incurred in the reporting period and the prior year:

€thousand	Fiscal year 2008/2009	Fiscal year 2007/2008
Building rent	91	82
Motor vehicle leases	167	150
<b>Total rental and lease expenses</b>	<b>258</b>	<b>232</b>

**(36) Stock Option Plans**

CeoTronics AG's final stock option plans were exercised in fiscal year 2007/2008. There are currently no plans to launch new stock option plans.

**(37) Hedging Policy and Risk Management****Price and currency risk**

The CeoTronics Group is exposed to price and currency fluctuations because of its international business operations. 87% of all revenues are generated in euros, and the remaining 13% are generated in foreign currency (U.S. dollars, Polish zloty, and Swiss francs). Because the consolidated financial statements are prepared in euros, fluctuations between the euro and the corresponding foreign currencies have a not insignificant effect on the level of revenues and of individual income and expense items. Currency risks are mitigated by operating business locations in the corresponding countries; in addition to generating revenues in foreign currency, they also incur expenses in the same currency. No specific currency hedging transactions have been entered into in the past.

### Market risk

As a rule, the CeoTronics Group is not significantly dependent on individual customers (10% of Group revenues). However, the partial delivery of a major order totaling €3,091 thousand in the past fiscal year meant that an aggregate of 18.2% of total Group revenues was generated with a single customer. The revenue structure is expected to normalize in the coming years.

As a rule, the share of the aggregate procurement volume of the CeoTronics Group attributable to individual suppliers is also less than 10%. The above-mentioned major order resulted in the 10% threshold also being exceeded in this area in one case during the past fiscal year. However, the Group's supplier structure will also normalize in the coming years. Secondary sources have also been developed for the majority of assemblies/components, or can be activated within a very short period.

Because of the strongly competitive environment, the CeoTronics Group is faced with the need to continuously upgrade existing products and to drive forward the development of new products. The goal is to reinforce or extend the Company's existing technical lead over its competitors. The high degree of innovation in, and advanced technology of, CeoTronics products reduces price pressure and thus limits the price risk to the CeoTronics Group. In the past, the high level of research and development expenditures incurred to achieve this have always been amortized in the short to medium term.

### Interest rate risk

Interest rate risk, i.e., the risk of exposure to possible fluctuations in the value of financial instruments because of changes in market rates of interest, may in particular affect medium- and long-term fixed-rate receivables and liabilities. There are no medium- and long-term interest-bearing receivables in the Group. In addition to the existing loan for a property in Lutherstadt Eisleben, a loan to finance the acquisition of a property in Rödermark amounting to €2,100 thousand was raised in fiscal year 2006/2007. The fixed-interest period for the existing loans does not expire until 2016. Provided that principal is repaid on

schedule, the remaining value of the loans after expiration of the fixed-interest period will be €1,141 thousand. No interest rate hedging contracts have been entered into so far due to the long term of the fixed-interest period and the long remaining maturity of the loans.

### Liquidity risk

In many cases, CeoTronics AG makes advance payments for substantial materials purchases, especially for large contracts, although the contracts themselves are not invoiced and settled until months later. To mitigate the resulting liquidity risk, CeoTronics AG has reached agreement with banks on several lines of credit. This safeguards adequate liquidity in the Group at all times.

### Default risk

The carrying amount of financial assets is the maximum value at risk if business partners do not meet their contractual payment obligations. To keep the default risk to a minimum, CeoTronics AG has established a comprehensive receivables management system that ensures that credit rating information is obtained or historical data – and in particular payment patterns – from the existing business relationship is used to avoid payment default. If default risks are identified for individual financial assets, these risks are taken into account in the form of valuation allowances. In fiscal year 2008/2009, bad debts amounted to €31 thousand or 0.16% of revenues (previous year: €1 thousand or 0.005% of revenues).

**(38) Employees**

An average of 154 employees were employed in the CeoTronics Group in fiscal year 2008/2009 (previous year: 147). The breakdown by function was as follows:

	Fiscal year 2008/2009	Fiscal year 2007/2008
Operations	78	77
Sales and marketing	42	38
Research and development	14	12
Administration	20	20
<b>Total employees</b>	<b>154</b>	<b>147</b>

The number of employees in the Group is broken down by region as follows:

	Fiscal year 2008/2009	Fiscal year 2007/2008
Germany	138	132
U.S.A.	4	3
Spain	4	4
France	3	3
Poland	3	3
Switzerland	2	2
<b>Total</b>	<b>154</b>	<b>147</b>

Employee expenses amounted to €7,777 thousand in fiscal year 2008/2009, compared with €7,452 thousand in the prior year.

**(39) Executive Bodies and Remuneration****Board of Management**

The members of the Board of Management in fiscal year 2008/2009 were:

**Chairman**

Thomas H. Günther,  
Businessman, Rödermark

**Deputy Chairman**

Berthold Hemer,  
Diplom-Ingenieur, Schaafheim

**Member**

Günther Thoma,  
Technischer Betriebswirt, Schöllkrippen

In accordance with Article 10 of the Articles of Association, the Company is represented by two members of the Board of Management or by one member of the Board of Management and a Prokurist (authorized signatory). The Supervisory Board is authorized to grant sole right of representation to one member or individual members of the Board of Management and/or to exempt this member/these members from the restrictions of section 181 of the BGB (German Civil Code).

The General Meeting on November 4, 2005 resolved that the salaries and other remuneration components will not be disclosed individually for each member of the Board of Management in the annual financial statements and consolidated financial statements of CeoTronics. This also applies to benefit commitments to the members of the Board of Management in the event of termination of their activities. The resolution is effective for the fiscal year beginning June 1, 2005 and for the four subsequent fiscal years until May 31, 2010.

The total remuneration of the Board of Management in fiscal year 2008/2009 amounted to €787 thousand (previous year: €709 thousand). The total remuneration comprises fixed salary components of €585 thousand (previous year: €557 thousand) and variable remuneration components of €202 thousand

### Supervisory Board

In accordance with Article 11 of the Articles of Association, the Supervisory Board has at least three members who are elected by the General Meeting. The members of the Supervisory Board in the period under review were:

#### Chairman

Hans-Dieter Günther,  
Businessman, Rödermark

#### Deputy Chairman

Horst Schöppner,  
Diplom-Kaufmann, Rödermark

#### Member

Stephan Haack,  
Lawyer and Notary, Kronberg

Hans-Dieter Günther has been Chairman of the Supervisory Board of Rhein-Main-Factoring AG, Rodgau, since January 12, 2004. There are no further memberships of supervisory bodies as defined by section 125(1) sentence 3 of the AktG

Stephan Haack has been Chairman of the Supervisory Board of Integrata AG, Stuttgart, since March 23, 2009. There are no further memberships of supervisory bodies as defined by section 125(1) sentence 3 of the AktG

The total remuneration of the Supervisory Board in fiscal year 2008/2009 amounted to €103 thousand (previous year: €85 thousand), of which €44 thousand (previous year: €44 thousand) related to fixed remuneration and €59 thousand (previous year: €41 thousand) related to variable components. The members of the Supervisory Board receive the above amounts plus value added tax at the statutory rate.

### (40) Related Party Disclosures

#### Shareholdings of the members of the executive bodies

The members of the executive bodies held the following shares of CeoTronics AG:

Function	Name	CeoTronics shares (ISIN DE 0005407407/WKN 540740) (quantity)	
		May 31, 2009	May 31, 2008
<b>Board of Management</b>			
Chairman of the Board of Management	Thomas H. Günther	28,494	28,494
Deputy Chairman of the Board of Management	Berthold Hemer	513,150	513,150
Chief Operating Officer	Günther Thoma	18,066	18,066
<b>Supervisory Board</b>			
Chairman	Hans-Dieter Günther	1,113,600	1,113,600
Deputy Chairman	Horst Schöppner	655,410	655,410
Member	Stephan Haack	0	0

During and at the end of fiscal year 2008/2009, no members of CeoTronics AG's executive bodies held options on shares of CeoTronics AG.

(previous year: €94 thousand). In the previous year, an additional €58 thousand was paid following the exercise of virtual stock options.

**Notification in accordance with section 21(1) of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act)**

On April 25, 2008, Highclere International Investors, London, UK, notified CeoTronics AG in accordance with section 21(1) of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) that its holdings of shares of CeoTronics AG had exceeded the notification threshold of 5%.

On August 23, 2006, Horst Schöppner, Rödermark, notified CeoTronics AG in accordance with section 21(1) of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) that his holdings of shares of CeoTronics AG had fallen below the notification threshold of 10%.

**Other service relationships**

A son of CeoTronics AG's Chairman of the Supervisory Board runs an advertising agency as a sole proprietor. The Company used its services in fiscal year 2008/2009 for placing advertisements with a total value of €13 thousand, and purchased other services.

The daughter of a member of the Supervisory Board is the owner of a translation agency from which the Company purchased services in the amount of €9 thousand in fiscal year 2008/2009.

The brother of a member of the Board of Management operates a printing service from which the Company purchased services in the amount of €8 thousand in fiscal year 2008/2009.

Less than €1 thousand was outstanding at the reporting date under the above service relationships.

CeoTronics AG granted no loans to members of the Board of Management or the Supervisory Board.

**(41) Events after the Balance Sheet Date**

In accordance with IAS 10 Events after the Balance Sheet Date, events after the balance sheet date are favorable and unfavorable events that occur between the balance sheet date and the date when the financial statements are authorized for issue.

In July 2009, CeoTronics was commissioned to deliver CeoTronics AG CT-DECT communication systems and CT-Video GmbH wireless video transmission systems worth approximately €1.7 million to a foreign special forces unit (explosive ordnance disposal). CeoTronics plans to deliver and invoice most of these systems in fiscal year 2009/2010.

**(42) Declaration of Conformity with the German Corporate Governance Code**

The Board of Management and the Supervisory Board have published the Declaration of Conformity on compliance with the provisions of the German Corporate Governance Code in accordance with section 161 of the AktG on the Internet ([www.ceotronics.com](http://www.ceotronics.com)), and have thus made it permanently accessible to shareholders.


Rödermark, August 14, 2009

CeoTronics AG

Audio • Video • Data Communication



Thomas H. Günther  
Chairman of the Board of Management  
and Chief Executive Officer



Berthold Hemer  
Deputy Chairman of the Board of Management  
and Chief Technology Officer



Günther Thoma  
Chief Operating Officer

[www.ceotronics.com](http://www.ceotronics.com)



\*CT-DECT JetCom-System: The most advanced noise protection helmet with wireless digital duplex communication system for ground handling und maintenance.

 **CeoTronics**  
Audio · Video · Data Communication



## Responsibility Statement

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

Rödermark, August 14, 2009  
CeoTronics AG  
Audio • Video • Data Communication



Thomas H. Günther  
Chairman of the Board of Management  
and Chief Executive Officer



Berthold Hemer  
Deputy Chairman of the Board of Management  
and Chief Technology Officer



Günther Thoma

Chief Operating Officer

### Auditors' Report

We have audited the consolidated financial statements – comprising the balance sheet, income statement, statement of changes in equity, cash flow statement, and the notes – and the group management report prepared by CeoTronics Aktiengesellschaft Audio • Video • Data Communication, Rödermark, for the fiscal year from June 1, 2008 to May 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code) is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

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

management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

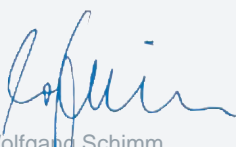
In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a(1) of the HGB and give a true and fair view of the net assets, financial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

Eschborn, August 14, 2009

UWP Unitreu GmbH  
Wirtschaftsprüfungsgesellschaft



Harald Hoffmann  
Wirtschaftsprüfer



Wolfgang Schimm  
Wirtschaftsprüfer



## Condensed HGB Balance Sheet of CeoTronics AG Germany – Assets

€thousand	May 31, 2009	May 31, 2008
Intangible assets	308	243
Tangible assets	5,174	4,875
Financial assets	4,603	4,328
<b>Fixed assets</b>	<b>10,085</b>	<b>9,446</b>
Inventories	3,401	3,147
Trade receivables	594	4,535
Receivables from affiliated companies	3,492	3,084
Other assets	315	188
Cash funds	9	300
<b>Current assets and prepaid expenses</b>	<b>7,811</b>	<b>11,254</b>
<b>Total assets</b>	<b>17,896</b>	<b>20,700</b>

## Condensed HGB Balance Sheet of CeoTronics AG Germany – Equity and Liabilities

€thousand	May 31, 2009	May 31, 2008
Subscribed capital	6,600	6,600
Capital reserves	4,181	4,181
Revenue reserves	886	886
Net retained profit/net accumulated losses	2,679	2,824
<b>Equity</b>	<b>14,346</b>	<b>14,491</b>
Provisions for taxes	77	183
Other provisions	860	1,103
<b>Provisions</b>	<b>937</b>	<b>1,286</b>
Liabilities to banks	2,002	3,099
Advances received	0	19
Trade payables	310	487
Liabilities to affiliated companies	113	689
Other liabilities	188	629
<b>Liabilities</b>	<b>2,613</b>	<b>4,923</b>
<b>Total equity and liabilities</b>	<b>17,896</b>	<b>20,700</b>

## Condensed HGB Income Statement of CeoTronics AG Germany

€thousand	2008/2009	2007/2008
<b>Sales</b>	<b>14,307</b>	<b>16,890</b>
Cost of sales	-7,680	-9,344
<b>Gross profit</b>	<b>6,627</b>	<b>7,546</b>
Research and development expenses	-1,469	-1,319
Selling and marketing expenses	-3,084	-3,236
General and administrative expenses	-1,215	-1,238
Other operating expenses	-620	-79
Other taxes	-6	-8
Other operating income	293	213
<b>Operating result (EBIT)</b>	<b>526</b>	<b>1,879</b>
Net financial and investment income	608	381
<b>Result before income taxes</b>	<b>1,134</b>	<b>2,260</b>
Taxes on income	-289	-516
<b>Net income for the year</b>	<b>845</b>	<b>1,744</b>

**Executive Bodies of the Company****Supervisory Board:**

Chairman  
Hans-Dieter Günther  
Businessman, Rödermark

Deputy Chairman  
Horst Schöppner  
Diplom-Kaufmann, Rödermark

Member  
Stephan Haack  
Lawyer and notary, Kronberg

**Board of Management:**

Chairman  
Thomas H. Günther  
Businessman, Rödermark

Deputy Chairman  
Berthold Hemer  
Diplom-Ingenieur, Schaafheim

Member  
Günther Thoma  
Technischer Betriebswirt, Schöllkrippen

**Financial Calendar**

Annual earnings press conference in Rödermark	August 27, 2009
Analyst meeting in Rödermark	August 27, 2009
Publication of preliminary revenue and order backlog figures for the first 3 months of fiscal year 2009/2010	Calendar week 36, 2009
Report on 1st quarter as of August 31, 2009	October 9, 2009
General Meeting	November 6, 2009
Publication of preliminary revenue and order backlog figures for the first 6 months of fiscal year 2009/2010	Calendar week 49, 2010
Report on 2nd quarter as of November 30, 2009	January 13, 2010
Publication of preliminary revenue and order backlog figures for the first 9 months of fiscal year 2009/2010	Calendar week 9, 2010
Report on 3rd quarter as of February 28, 2010	March 25, 2010
End of fiscal year 2009/2010	May 31, 2010
Publication of preliminary revenue and order backlog figures for the full fiscal year 2009/2010	Calendar week 22, 2010
Annual report 2009/2010	August 13, 2010
Annual earnings press conference in Rödermark	August 26, 2010
Analyst meeting in Rödermark	August 26, 2010
Publication of preliminary revenue and order backlog figures for the first 3 months of the fiscal year 2010/2011	Calendar week 35, 2010
Report on 1st quarter as of August 31, 2010	October 8, 2010
General Meeting 2010	November 5, 2010



### Forward-looking statements

This Annual Report contains forward-looking statements that reflect the current views of CeoTronics AG's Board of Management.

These statements were made to the best of the Company's knowledge and are based on the Company's current plans, estimates, projections, and expectations. They are therefore subject to risks and uncertainties that could cause actual results to differ from expected results.

The forward-looking statements are only valid at the time of publication of this Annual Report and cannot be guaranteed.

CeoTronics AG assumes no obligation to the public to update or correct forward-looking statements. This does not affect the Company's statutory obligation to fulfill its information and reporting duties.

### Trademarks

All brand names, trademarks, or product names mentioned in this Annual Report are the property of their respective owners. This applies in particular to DAX, GEX, Prime Standard, Technology All Share, and Xetra, which are registered trademarks and the property of Deutsche Börse AG; TETRA, which is a brand of TETRA MoU Association Ltd.; and TETRAPOL, which is a brand of EADS TELECOM Corporation France.

**Thomas H. Günther**  
Chairman of the Board of  
Management, CEO

- Finance/controlling
- Marketing/sales
- Personnel
- Compliance
- IT
- Investor relations
- Management of the six foreign subsidiaries

**Berthold Hemer**  
Deputy Chairman of the Board of  
Management, CTO

- Research and development
- Technical directives and standards
- Patents/intellectual property rights

**Günther Thoma**  
Member of the Board of  
Management, COO

- Production
- Purchasing
- Inventories/logistics
- Quality control
- Technical Support
- Export control
- Management of CT-Video GmbH

**Sustainable Value Management**

Pressure to deliver short-term success stories and the constraints imposed by quarterly financial reporting are factors that run counter to stable, continuous corporate development. That's why the CeoTronics Group's management strategies are aligned with long-term value growth. CeoTronics concentrates on its core competencies, occupies attractive niche markets, and makes a careful analysis before investing in technologies, products, markets, and capacity. The recipe for sustainable value management includes such ingredients as risk management; regular analysis of ratios and other financial indicators; tools that create transparency in projects and processes; short decision paths; and goal agreements (not only for revenues and contribution margins, but also relating to organizational and process enhancements, and to reductions in production costs). Some of the other ingredients are revenue and contribution margin analyses (by sales territories, product and customer groups); sales commissions and contribution margin-based bonuses as variable remuneration components; dynamic growth of the product portfolio; innovation management for products and process organization; and cooperation management (in the areas of R&D, production, and sales/marketing).

Unhealthy revenue growth from over-ambitious acquisitions (possibly with an excessive level of leverage), a willingness to take on too many low-margin jobs to pump up revenues, and operating in high-risk markets are all factors that can endanger the substance of a healthy company. That's why CeoTronics will continue to deploy its management capacity and financial resources going forward only after a careful opportunity, risk, and feasibility analysis, and will be equally conscientious in examining new markets.

[www.ct-video.com](http://www.ct-video.com)

# Real Size\*

(RF-Amplifier 10 W)



\* CT-DKOM – Wireless digital COFDM real time video transmission systems for UAV's and UGV's.  
Transmission power of 10 W, operational range of up to 100 km.

[ctv.info@ceotronics.com](mailto:ctv.info@ceotronics.com) • Phone +49 34776 6149-0

 **Video GmbH**  
Video · Audio · Data Communication



Notes



#### Editorial Information

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Audio • Video • Data Communication

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