

# Q1

## Consolidated Interim Report of CeoTronics AG for the first quarter of fiscal year 2010/2011



## Key Group Figures

| € thousand<br>(if not indicated otherwise)              | August 31, 2010<br>(3 months FY 2010/2011) | August 31, 2009<br>(3 months FY 2009/2010) | Change |
|---------------------------------------------------------|--------------------------------------------|--------------------------------------------|--------|
| Revenues                                                | 3,018                                      | 2,822                                      | +6.9%  |
| Investments                                             | 29                                         | 391                                        | -92.6% |
| R&D expenses                                            | 406                                        | 380                                        | +6.8%  |
| EBITDA                                                  | -209                                       | -228                                       | T€ +19 |
| EBIT                                                    | -359                                       | -362                                       | T€ +3  |
| Profit before tax                                       | -398                                       | -396                                       | T€ -2  |
| Profit for the period                                   | -314                                       | -309                                       | T€ -5  |
| Profit attributable to shareholders of<br>CeoTronics AG | -311                                       | -306                                       | T€ -5  |
| Gross cash flow                                         | -164                                       | -175                                       | T€ +11 |
| Cash and cash equivalents                               | 421                                        | 430                                        | -2.1%  |
| Total assets                                            | 15,184                                     | 18,396                                     | -17.5% |
| Equity                                                  | 10,640                                     | 12,847                                     | -17.2% |
| Equity ratio (%)                                        | 70.1                                       | 69.8                                       | +0.3%  |
| Employees as of August 31, 2010                         | 154                                        | 157                                        | -3 MA  |
| Earnings per share (in €)                               | -0.05                                      | -0.05                                      | +0.00  |
| Gross cash flow per share (in €)                        | -0.03                                      | -0.03                                      | +0.00  |



## Consolidated Interim Report of CeoTronics AG for the first Quarter 2010/2011

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## Letter from the Board of Management

Ladies and Gentlemen,  
Dear Shareholders,

In the first quarter of fiscal year 2010/2011 (the summer months of June, July, and August), the CeoTronics Group generated revenues of €3,018 thousand (previous year: €2,822 thousand). These are the highest first-quarter revenues in the past three fiscal years.

Clearly positive revenue developments compared with the previous year were recorded by CeoTronics AG (+26.1%), CT-Video GmbH (+33.1%), CeoTronics Switzerland (+58.9%), and CeoTronics U.S.A. (+83.6%) – in each case after consolidation and translation to euros.

The first quarter of 2010/2011 closed with EBIT of €-359 thousand (previous year: €-362 thousand), a loss before tax of €398 thousand (previous year: €396 thousand) and a consolidated loss of €314 thousand (previous year: €309 thousand). Gross cash flow amounted to €-164 thousand (previous year: €-175 thousand).

The special effects (consultancy costs in relation with the segment change, FREP process, etc., and exchange rate losses) in Q1 2010/2011 amounted to well over €100 thousand. Without these special effects, the administrative costs (these

also include the consultancy costs) would have not changed compared to last year and the consolidated result in Q1 would have been much better.

Consolidated equity fell by €2,207 thousand year-on-year to €10,640 thousand (€12,847 thousand) due, among other things, to impairment losses in connection with CeoTronics U.S.A. in the fourth quarter of fiscal year 2009/2010. Nevertheless, the equity ratio as of August 31, 2010 increased to 70.1% (previous year: 69.8%)

The consolidated order backlog as of August 31, 2010 fell, as expected, by 52.4% compared with the prior-year figure. The prior-year comparative figure was unusually high as several major orders were recorded in the first quarter of 2009/2010. The largest single order in CT-Video GmbH's history, worth approximately €1.5 million, deserves mention here.

In September 2010, the German Armed Forces decided to commission CeoTronics to supply products and services amounting to approximately €600 thousand. In addition, CeoTronics was commissioned by the federal states of Berlin and Thuringia to supply a total of 150 CT-Bluetooth Adapters.

Since December 2009 CeoTronics uses short-term working („Kurzarbeit“), to better match the working hours to temporary under-utilization of production capacities and to relieve the cost structure. Due to these measures CeoTronics could yet refrain from reducing the number of staff. In the niche market of CeoTronics it is sometimes very difficult to find suitable personnel. Moreover, the training phase, depending on the field of work, up to its full capacity, often takes longer than six months. It is therefore the vital interest of the company, to hold dedicated and well qualified staff, not only in good times but in bad times. With this behavior CeoTronics may spontaneously respond to increased orders and exploit each revenue/sale potential.

At this place we would like to thank our employees for their loyalty to CeoTronics their solidarity with each other and the exemplary team spirit.

The impact of global economic and financial crisis has reached CeoTronics late. At times the great majority of other companies reported job declines by up to 80% and were in great financial distress, CeoTronics still showed a high turnover and comfortable order backlogs.

CeoTronics has not jet left the crisis entirely left behind. Nevertheless, we can already see that, our flexible cost structure, our strong corporate finance and the focus on priority tasks, were the main factors that allowed CeoTronics to hold the course even in “unfavorable weather conditions”.

Our goal is, to speed up in the fiscal second half of the year 2010/2011. In the presence of an appropriate work load CeoTronics will be able to consequently suspend the short-time working, at least in part, at the end of the calendar year 2010.

The Board of Management, including on behalf of our 154 employees, would like to sincerely thank Mr. Hans-Dieter Günther for his entrepreneurial courage, his commitment, and his inspiration during his time as Managing Partner (1985-1998), Chairman of the Board of Management (1998-2003), and Chairman of the Supervisory Board (2003-2010). Mr. Matthias Löw took over as Chairman of the Supervisory board as of September 1, 2010. We look forward to working together.

In fiscal year 2010/2011, CeoTronics plans to generate a significant year-on-year increase in revenues and positive earnings. In keeping with tradition, CeoTronics expects to issue more concrete revenue and earnings forecasts for the current fiscal year in January 2011 at the time of publication of its interim results for the first half of the year.

Rödermark, October 8, 2010



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

# Group Management Report as of August 31, 2010

## Our Market

CeoTronics specializes in high-end communications under difficult conditions and develops, produces, and sells audio, video, and data communications solutions. The primary requirement in this niche market is to 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 audio and video networks that can be set up in seconds and used on the move.

CeoTronics' customer base includes well-known companies in industry, the service sector and sports, airlines, airports, and ground handling service companies as well as firefighters, civil defense, and rescue services.

A particular strength of CeoTronics AG is the development and supply of custom communications solutions for the German State and Federal Police, customs authorities, and the army, navy, and air force. A wide range of systems is available in this field. Fully and partially covert communication systems as well as miniature radio cameras are used for the wireless digital transfer of video images during undercover investigations and for preserving evidence.

CeoTronics' priority markets appear to have put the global economic and financial crisis behind them. However, economic growth to date has only been weak and economic output has not yet recovered to pre-crisis levels.

Many priority markets still need to increase the budgets of security authorities and organizations, which have been reduced over the course of many years, i.e., to adapt them to the necessary investments and staffing requirements. Many industrial companies will invest in new communication systems that accelerate work processes and increase occupational safety again.

The global threat posed by international terrorism has not waned. As a result, the military also has to meet these challenges by upgrading the equipment of its special forces units.

Government security and law enforcement agencies in a number of priority European markets already began switching from analog to digital radio years ago. As a result, CeoTronics' subsidiaries in Spain, France, and Switzerland recorded sustained revenue increases, in some cases more than doubling their revenues.

Preparations are being made for the switch in several other priority European markets. CeoTronics expects large investments in Germany on the part of 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 will offer additional revenue potential. This also applies to replacement and follow-on orders in those markets that switched to digital radio years ago.

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

Since 1999, CeoTronics has manufactured and sold over 50,000 systems for connection to the new digital Tetra/Tetrapol radios. Our experience in adapting communications accessories to digital radios is a major competitive advantage.

## Business Developments

In the first three months of fiscal year 2010/2011 (June 1 to August 31, 2010), CeoTronics increased its revenues as against the prior-year period by €196 thousand or 6.9%, from €2,822 thousand to €3,018 thousand. These are the highest first-quarter revenues in the past three fiscal years.



Expressed in euros after consolidation, revenues increased substantially at CeoTronics AG (+26.1%), CT-Video (+33.1%), CeoTronics Switzerland (+58.9%), and CeoTronics U.S.A. (+83.6%). CeoTronics Spain (-42.2%), CeoTronics France (-86.2%), and CeoTronics Poland (-61.4%) were unable to match the previous year's level of revenues.

The share of revenues generated outside Germany decreased to 42.3% in the first three months of fiscal year 2010/2011 (previous year: 61.2%). The proportion accounted for by Germany increased correspondingly to 57.7% (previous year: 38.8%) due in particular to larger deliveries to the federal states of Berlin and Thuringia as part of the switch to digital radio.

The consolidated order backlog as of August 31, 2010, fell as expected by 52.4% year-on-year. The prior-year comparative figure was unusually high as several major orders were recorded in the first quarter of 2009/2010. The largest single order in CT-Video GmbH's history, worth approximately €1.5 million and which has now been delivered and invoiced in full, deserves mention here.

## Results of Operations

The first quarter closed with EBITDA of €-209 thousand (previous year: €-228 thousand), EBIT of €-359 thousand (previous year: €-362 thousand), a loss before tax of €398 thousand (previous year: a loss of €396 thousand), and a consolidated loss of €314 thousand (previous year: loss of €309 thousand). This resulted in earnings per share of €-0.05, as in the prior year.

The special effects (consultancy costs in relation with the segment change, FREP process, etc., and exchange rate losses) in Q1 2010/2011 amounted to well over €100 thousand. Without these special effects, the administrative costs (these also include the consultancy costs) would have not changed compared to last year and the consolidated result in Q1 would have been much better.

The share of the consolidated loss for the period attributable to shareholders of the parent amounted to €311 thousand for the first three months of fiscal year 2010/2011 (previous year:

€306 thousand). Gross cash flow amounted to €-164 thousand (previous year: €-175 thousand).

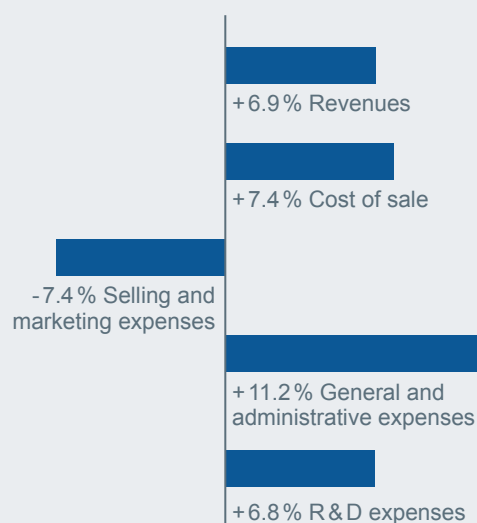
The cost of sales increased by 0.2% from 51.7% in the previous year to 51.9% due to changes in the order structure.

Operating expenses (excluding cost of materials) accounted for 20.5% of revenues, down from 23.5% in the previous year.

Selling and marketing expenses as a percentage of revenues amounted to 30.5% in the first three months of fiscal year 2010/2011 (previous year 35.2%). Absolute costs (€920 thousand) were reduced by €73 thousand compared with the prior-year period (€993 thousand). This was due in particular to savings made in employee expenses.

General and administrative expenses increased by €39 thousand to €386 thousand. The additional costs were mainly a result of increased legal and consulting expenses. These costs now account for a slightly increased 12.8% of revenues (previous year: 12.3%).

Research and development costs increased by 6.8% year-on-year. The rise in these costs is due in particular to higher employee expenses at CT-Video. The ratio of research and development costs to revenues is 13.5%, as in the prior year.



## Investments and Depreciation

CeoTronics prepared itself in good time to meet future challenges by investing in employee capacity, markets, technologies, developments, and production techniques and processes

Investments in the first three months of fiscal year 2010/2011 totaled €29 thousand (previous year: €391 thousand).

## Net Assets and Financial Position

Cash and cash equivalents of €421 thousand are approximately the same as in the previous year (€430 thousand). Gross cash flow of €- 164 thousand is approaching the prior-year level (€- 175 thousand).

As of August 31, 2010, equity fell by €2,207 thousand, from €12,847 thousand to €10,640 thousand. The main reasons for the decrease in equity were the impairment loss on the goodwill of CeoTronics U.S.A at the end of fiscal year 2009/2010 (€643 thousand) and the deferred tax assets no longer recognized on CeoTronics U.S.A.'s loss carryforward amounting to €280 thousand. Nevertheless, the equity ratio rose to 70.1% (previous year: 69.8%), due in particular to significant reduction in the financial liabilities to €2,865 thousand (previous year: €3,502) and the decrease in total assets.

## Workforce Development

The number of staff (including trainees) declined from 157 as of August 31, 2009 to 154 as of August 31, 2010.

The total number of staff for all German CeoTronics' sites remained unchanged at 140.



## CeoTronics' Shares

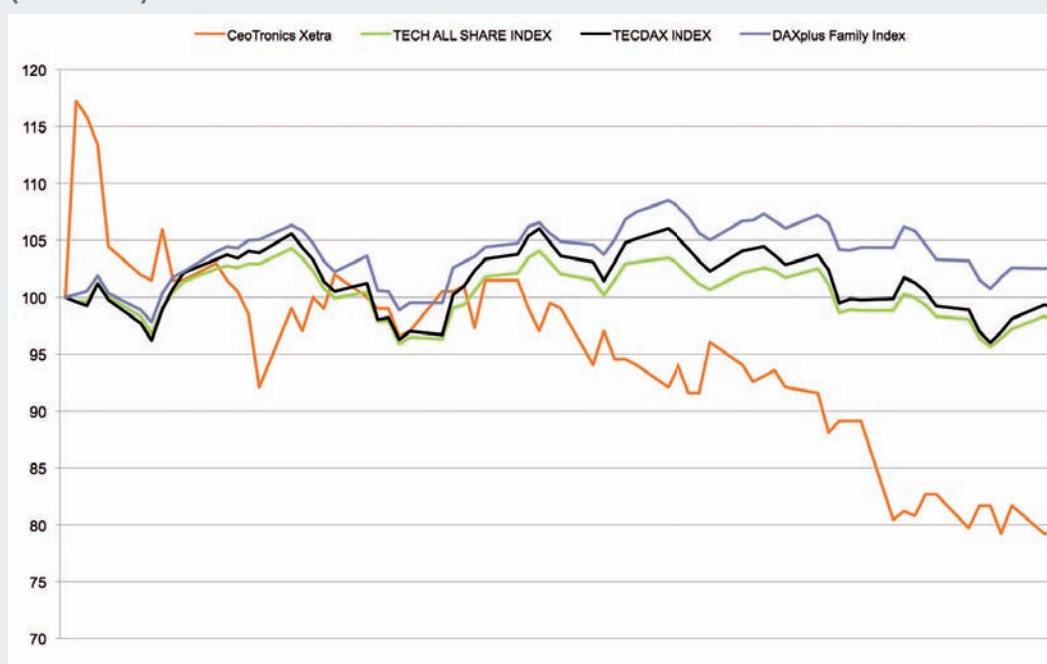
The stock markets in Germany moved within a narrow range during the reporting period (June 1 to August 31, 2010).

Against the general trend, the price of CeoTronics shares dropped by 20.8% during the reporting period, while the benchmark indices TECDAX (-0.8%), Technology All Share (-2.0%), and DAXplus Family Index (+2.6%) were virtually unchanged.

As announced in the Annual Report for the past fiscal year 2009/2010, CeoTronics will switch from the Prime Standard to the Entry Standard. The Entry Standard is the stock market segment best tailored to CeoTronics and its corporate and personnel structure. The segment switch will be implemented effective February 25, 2011.

To ensure the continuity of financial reporting, the Company will continue to use International Financial Reporting Standards (IFRSs) for financial reporting. Going forward, CeoTronics will publish a condensed half-yearly report and, as usual, a comprehensive annual report for the entire fiscal year.

### The price performance of CeoTronics' shares (ISIN DE0005407407/WKN 540740) compared with benchmark indices for the period from June 1, 2010 to August 31, 2010 (indexed)



Source: DZ Bank

## Report on expected developments

### a.) Market and sector development

CeoTronics expects the global economy to recover slowly in fiscal years 2010/2011 and 2011/2012. The continued low level of capital spending by companies worldwide and the ongoing strained situation on the labor markets in many countries are preventing a quick return to the growth rates seen before the global economic crisis. However, the economic stimulus programs implemented by the leading industrial nations and the stable development recorded by the emerging markets should have a positive effect.

Europe, continues to be affected by the budgetary and debt crisis in Greece, Spain, Portugal, Italy and Ireland with the consequences on the investment behavior.

Germany seems to be one of the few major nations to emerge stronger from the crisis. Economic growth in 2010 exceeds expectations and the unemployment rate has now fallen below pre-crisis levels. Especially German exporters take advantage from the beginning recovery. In addition governmental economic measures show their effect.

The investment backlog should gradually start to ease after the entire sector suffered from a reluctance to invest, especially on the part of public-sector customers, in the past fiscal year.

Germany's switch to digital radio, which started in fiscal year 2009/2010, offers the sector substantial revenue potential. Preparations are also being made in Northern Europe to switch to digital radio. In Germany, CeoTronics also expects major investments to be made by security authorities and organizations, the German Armed Forces, firefighters, and industry. The market launch of the new generation of Tetrapol radios in countries that have already switched to digital radio will offer additional revenue potential. This also applies to replacements and follow-on orders in those markets that switched to digital radio years ago.

### b.) Corporate development

CeoTronics will not change its strategy, even in economically difficult times. The Company has prepared itself in good time in past fiscal years to meet future challenges by making targeted investments in employee capacity, technologies, market development, new developments, and production techniques and processes, and has made the necessary investments.

To this extent, CeoTronics has laid the foundations to profit from the recovery in the overall economy as well as from the end to muted spending by public-sector customers, and the switch to digital radio in particular.

### c.) Opportunities from business development up to May 31, 2011

The switch to digital radio by the police, firefighters, and industrial enterprises in Germany and Northern Europe as well as the switch to a new generation of digital radio equipment in Switzerland, and possibly also in Spain, will offer CeoTronics substantial market potential for audio products in fiscal year 2010/2011.

Apart from the European markets that are profiting from the switch to digital radio, North America is the market with the greatest sales potential for CeoTronics' products. Our successful sales and improved visibility in the United States resulting from our sales activities and marketing investments to date reinforce the assumption that CeoTronics U.S.A. can further increase its revenues in the current fiscal year. The expansion of the product portfolio to include CT-MultiCom – for firefighters, among others – and CT-ClipCom Digital – for SWAT teams, for example – as well as the establishment of a stronger indirect sales channel will contribute to this.

CT-Video systems will play an even more important role in fighting crime and terrorism in future. Evidence to support this assumption can be seen from public authority investments in monitoring areas at risk – especially those that are temporarily endangered – and in securing video evidence, as well as CT-Video GmbH's product innovations.



d.) Risks to business development up to May 31, 2011

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

If the launch of digital radio and the switch to a new generation of digital radio devices in Spain and Switzerland are not continued and implemented in the near future, there is a risk that the CeoTronics companies in Spain and Switzerland will not be able to maintain the level of revenues seen in recent years in fiscal year 2010/2011.

Despite every effort being made, a continued decline in the revenues and earnings trend in France in fiscal year 2010/2011 cannot be ruled out.

Competitors, radio manufacturers and dealers, and importers are stepping up their efforts to penetrate CeoTronics' markets – especially Germany – using cheap products from Asia, among other things, in order to win tenders during the switch to digital radio. CeoTronics will remain positioned in the premium segment and will continue to attempt to keep price acceptance and the appreciation of its products and systems at a high level by offering outstanding quality and performance. Nonetheless, we will offer more economical standard products and components at the expense of European content in specific competitive situations and where the cheapest entry-level price is the key driver for customers.

In some cases, the CeoTronics sales companies outside Germany only have one or a maximum of two sales representatives. Equally, the markets in the Benelux countries, Southern Europe, Southeastern Europe, and Northern Europe only have one area sales manager each. This could result in temporary shortages having an impact on revenue and income development, for example in the case of illness. CeoTronics will try to strengthen the indirect sales channel in these markets to minimize these risks. In addition, CeoTronics is seeking to increase CeoTronics AG's international sales team in the medium term

to temporarily strengthen staff capacities in these markets on the one hand and to be better positioned to enter new markets outside of Europe and North America on the other.

A renewed recession or a delay in the economic recovery in CeoTronics' priority markets could negatively affect Group development.

In its letter of August 31, 2010, the German Financial Reporting Enforcement Panel (FREP) announced that it had identified errors in the annual and consolidated financial statements for fiscal year 2008/2009. CeoTronics AG does not concur with these findings. Therefore a second will be carried out by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Authority). Details of the FREP examination are given in the disclosures in the Annual Report for fiscal year 2009/2010. CeoTronics AG believes that the outcome of the examination will not have any more material adverse effects on the earnings of future reporting periods after the impairment losses in the financial statements for fiscal year 2009/2010.

e.) Outlook

CeoTronics expects a further increase in U.S. market revenues in fiscal year 2010/2011. According to current planning, annual earnings will be negative.

In the rest of Europe, the migration to the new generation of digital radios in Switzerland and possibly Spain will be key factors contributing to rising revenues and earnings in fiscal year 2010/2011.

The start of the switch to digital radio, the new projects we are working on, our product innovations, and our order backlog as of August 31, 2010 justify a positive outlook for fiscal year 2010/2011 in Germany, with a significant increase in revenues and annual earnings that are in positive territory.

CeoTronics will continue to profit from the switch to digital radio in Germany and Europe in fiscal year 2011/2012, as well as from greater investment in internal and external security.



According to our current information and estimates, revenues and earnings for the year will rise further. The same also applies to the U.S. market, with the aim here being to further reduce losses.

CeoTronics is currently aiming to achieve the planned revenue increases in the coming fiscal years with its existing workforce. In addition, CeoTronics intends to maintain investments at a high level to defend its market leadership.

In keeping with tradition and in line with the principle of the continuity of financial reporting, CeoTronics expects to announce its revenue and earnings forecasts for fiscal year 2010/2011 (approximate figures, in euros) in January 2011, when it publishes its interim results for the first half of the year. By then, there should be enough information to give a reliable forecast.

It is not currently possible to issue detailed multi-year projections for the CeoTronics Group, as many parameters cannot be estimated reliably and the global economic climate is uncertain. Providing information about potential revenues, EBIT, and earnings ranges for periods of two or more years would not improve transparency since the spread is too wide. This is due, among other things, to the role played by the switch to digital radio, which could potentially have substantial positive or negative effects.

Rödermark, October 8, 2010  
CeoTronics AG



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



Berthold Hemer  
Deputy Chairman of the Board of  
Management, CTO



Günther Thoma  
Chief Operating Officer, COO

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\* CT-DECT GateCom: The Digital Communication System for Push-Back, Ground Handling, Maintenance and De-Icing.

 **CeoTronics**  
Audio · Video · Data Communication



# Consolidated Financial Statements as of August 31, 2010

## Consolidated Balance Sheet as of August 31, 2010

IFRS, unaudited

| <b>Assets in € thousand</b>    | <b>Quarterly report<br/>(closing date of the<br/>current quarter)<br/>August 31, 2010</b> | <b>Annual report<br/>(closing date of last<br/>annual report)<br/>Mai 31, 2010</b> |
|--------------------------------|-------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| <b>Current assets</b>          |                                                                                           |                                                                                    |
| Cash and cash equivalents      | 421                                                                                       | 358                                                                                |
| Trade receivables              | 1,447                                                                                     | 2,396                                                                              |
| Inventories                    | 4,758                                                                                     | 4,648                                                                              |
| Other current assets           | 636                                                                                       | 409                                                                                |
| <b>Total current assets</b>    | <b>7,262</b>                                                                              | <b>7,811</b>                                                                       |
| <b>Noncurrents assets</b>      |                                                                                           |                                                                                    |
| Property, plant, and equipment | 6,273                                                                                     | 6,359                                                                              |
| Intangible assets              | 278                                                                                       | 309                                                                                |
| Goodwill                       | 628                                                                                       | 634                                                                                |
| Trade receivables              | 196                                                                                       | 247                                                                                |
| Deferred tax assets            | 547                                                                                       | 457                                                                                |
| <b>Total noncurrent assets</b> | <b>7,922</b>                                                                              | <b>8,006</b>                                                                       |
| <b>Total assets</b>            | <b>15,184</b>                                                                             | <b>15,817</b>                                                                      |



## Consolidated Balance Sheet as of August 31, 2010

IFRS, unaudited

| <b>Equity and liabilities</b> in € thousand                 | <b>Quarterly report</b><br>(closing date of the<br>current quarter)<br>August 31, 2010 | <b>Annual report</b><br>(closing date of last<br>annual report)<br>Mai 31, 2010 |
|-------------------------------------------------------------|----------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| <b>Current liabilities</b>                                  |                                                                                        |                                                                                 |
| Current financial liabilities                               | 126                                                                                    | 747                                                                             |
| Trade payables                                              | 443                                                                                    | 286                                                                             |
| Advance payments received                                   | 99                                                                                     | 36                                                                              |
| Provisions                                                  | 493                                                                                    | 762                                                                             |
| Current tax payables                                        | 48                                                                                     | 51                                                                              |
| Other current liabilities                                   | 512                                                                                    | 244                                                                             |
| <b>Total current liabilities</b>                            | <b>1,721</b>                                                                           | <b>2,126</b>                                                                    |
| <b>Noncurrent liabilities</b>                               |                                                                                        |                                                                                 |
| Noncurrent financial liabilities                            | 2,739                                                                                  | 2,744                                                                           |
| Deferred tax liabilities                                    | 84                                                                                     | 84                                                                              |
| <b>Total noncurrent liabilities</b>                         | <b>2,823</b>                                                                           | <b>2,828</b>                                                                    |
| <b>Equity</b>                                               |                                                                                        |                                                                                 |
| Subscribed capital                                          | 6,600                                                                                  | 6,600                                                                           |
| Capital reserves                                            | 4,471                                                                                  | 4,471                                                                           |
| Retained earnings                                           | 16                                                                                     | 16                                                                              |
| Cumulative other recognized income and expense              | -175                                                                                   | -253                                                                            |
| Net retained profit                                         | -330                                                                                   | -19                                                                             |
| <b>Equity attributable to shareholders of CeoTronics AG</b> | <b>10,582</b>                                                                          | <b>10,815</b>                                                                   |
| Minority interest                                           | 58                                                                                     | 48                                                                              |
| <b>Total equity</b>                                         | <b>10,640</b>                                                                          | <b>10,863</b>                                                                   |
| <b>Total equity and liabilities</b>                         | <b>15,184</b>                                                                          | <b>15,817</b>                                                                   |



## Consolidated Income Statement as of August 31, 2010

IFRS, unaudited

| € thousand                                    | Quarterly report<br>(current quarter)<br>June 1, 2010 -<br>August 31, 2010 | Quarterly report<br>(current quarter)<br>June 1, 2009 -<br>August 31, 2009 |
|-----------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------|
| <b>Revenues</b>                               | <b>3,018</b>                                                               | <b>2,822</b>                                                               |
| Cost of sales                                 | -1,568                                                                     | -1,460                                                                     |
| <b>Gross profit</b>                           | <b>1,450</b>                                                               | <b>1,362</b>                                                               |
| Selling and marketing expenses                | -920                                                                       | -993                                                                       |
| General and administrative expenses           | -386                                                                       | -347                                                                       |
| Research and development expenses             | -406                                                                       | -380                                                                       |
| Other operating income and expenses           | -97                                                                        | -4                                                                         |
| Impairment of goodwill                        | 0                                                                          | 0                                                                          |
| <b>Operating profit/loss (EBIT)</b>           | <b>-359</b>                                                                | <b>-362</b>                                                                |
| Interest income / expense                     | -39                                                                        | -34                                                                        |
| <b>Loss before tax</b>                        | <b>-398</b>                                                                | <b>-396</b>                                                                |
| Income tax expense                            | 84                                                                         | 87                                                                         |
| <b>Loss for the period</b>                    | <b>-314</b>                                                                | <b>-309</b>                                                                |
| Consolidated profit/loss attributable to:     |                                                                            |                                                                            |
| Minority interest                             | -3                                                                         | -3                                                                         |
| Shareholders of CeoTronics AG                 | -311                                                                       | -306                                                                       |
| Earnings per share (basic) in €               | -0.05                                                                      | -0.05                                                                      |
| Earnings per share (diluted) in €             | -0.05                                                                      | -0.05                                                                      |
| Weighted average shares outstanding (basic)   | 6,599,994                                                                  | 6,599,994                                                                  |
| Weighted average shares outstanding (diluted) | 6,599,994                                                                  | 6,599,994                                                                  |

## Consolidated Statement of Comprehensive Income as of August 31, 2010

IFRS, unaudited

| € thousand                                            | Quarterly report<br>(current quarter)<br>June 1, 2010 -<br>August 31, 2010 | Quarterly report<br>(current quarter)<br>June 1, 2009 -<br>August 31, 2009 |
|-------------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------|
| <b>Loss for the period</b>                            | <b>-314</b>                                                                | <b>-309</b>                                                                |
| Exchange differences on translating foreign operating | 91                                                                         | 12                                                                         |
| <b>Total</b>                                          | <b>-223</b>                                                                | <b>-297</b>                                                                |
| Consolidated profit/loss attributable to:             |                                                                            |                                                                            |
| Minority interest                                     | 10                                                                         | -16                                                                        |
| Shareholders of CeoTronics AG                         | -233                                                                       | -281                                                                       |





## Consolidated Cash Flow Statement as of August 31, 2010

IFRS, unaudited

| € thousand                                                   | Year-to-date<br>(current fiscal year)<br>June 1, 2009 -<br>August 31, 2010 | Year-to-date<br>(previous year)<br>June 1, 2009 -<br>August 31, 2010 |
|--------------------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------|
| <b>Cash flow from operating activities</b>                   |                                                                            |                                                                      |
| Profit before tax                                            | -398                                                                       | -396                                                                 |
| Income tax expense                                           | 84                                                                         | 87                                                                   |
| <b>Profit for the period</b>                                 | <b>-314</b>                                                                | <b>-309</b>                                                          |
| Dereciation, amortization, and impairment losses             | 150                                                                        | 134                                                                  |
| <b>Gross cash flow</b>                                       | <b>-164</b>                                                                | <b>-175</b>                                                          |
| <b>Changes in assets and liabilities</b>                     |                                                                            |                                                                      |
| Change in trade receivables                                  | 1,000                                                                      | 239                                                                  |
| Change in inventories                                        | -110                                                                       | 84                                                                   |
| Change in other assets                                       | -227                                                                       | -393                                                                 |
| Change in trade payables                                     | 157                                                                        | -333                                                                 |
| Change in advance payments received                          | 63                                                                         | 1                                                                    |
| Change in other provisions                                   | -269                                                                       | -397                                                                 |
| Change in tax payables                                       | -3                                                                         | -51                                                                  |
| Change in other current liabilities                          | 268                                                                        | 178                                                                  |
| Change in deferred tax assets                                | -90                                                                        | -75                                                                  |
| <b>Total changes in assets and liabilities</b>               | <b>789</b>                                                                 | <b>-747</b>                                                          |
| <b>Net cash provided by/used in operating activities</b>     | <b>625</b>                                                                 | <b>-922</b>                                                          |
| <b>Cash flow from investing activities</b>                   |                                                                            |                                                                      |
| Payments to acquire intangible assets                        | 0                                                                          | -16                                                                  |
| Payments to acquire property, plant, and equipment           | -29                                                                        | -375                                                                 |
| Change in foreign currency differences                       | 2                                                                          | 10                                                                   |
| Disposal of noncurrent assets (net carrying amounts)         | 0                                                                          | 1                                                                    |
| <b>Net cash uses in investing activities</b>                 | <b>-27</b>                                                                 | <b>-380</b>                                                          |
| <b>Cash flow from financing activities</b>                   |                                                                            |                                                                      |
| Change in current financial liabilities                      | -621                                                                       | 1,184                                                                |
| Change in noncurrent financial liabilities                   | -5                                                                         | -30                                                                  |
| Dividend payment to minority interest                        | 0                                                                          | 0                                                                    |
| Dividend payment to shareholders of CeoTronics AG            | 0                                                                          | 0                                                                    |
| <b>Net cash provided by financing activities</b>             | <b>-626</b>                                                                | <b>1,154</b>                                                         |
| <b>Change in cash and cash equivalents</b>                   | <b>-28</b>                                                                 | <b>-148</b>                                                          |
| Effect of exchange rate changes on cash and cash equivalents | 91                                                                         | 12                                                                   |
| Cash and cash equivalents at beginning of period             | 358                                                                        | 566                                                                  |
| Cash and cash equivalents at end of period                   | 421                                                                        | 430                                                                  |



## Statement of Changes in Equity as of August 31, 2010

IFRS, unaudited

| € thousand                        | Equity attributable to shareholders of CeoTronics AG |                  |                             |                         |                                            |                              | Total  | Minority interests | Total equity |
|-----------------------------------|------------------------------------------------------|------------------|-----------------------------|-------------------------|--------------------------------------------|------------------------------|--------|--------------------|--------------|
|                                   | Subscribed capital                                   | Capital reserves | Statutory retained Earnings | Other retained Earnings | Net retained profit/net accumulated losses | Currency translation reserve |        |                    |              |
| <b>Balance at May 31, 2010</b>    | 6,600                                                | 4,471            | 16                          | 0                       | -19                                        | -253                         | 10,815 | 48                 | 13,863       |
| Total                             |                                                      |                  |                             |                         | -311                                       | 78                           | -233   | 10                 | -223         |
| <b>Balance at August 31, 2010</b> | 6,600                                                | 4,471            | 16                          | 0                       | -330                                       | -175                         | 10,582 | 58                 | 10,640       |
| <b>Balance at May 31, 2009</b>    | 6,600                                                | 4,471            | 16                          | 870                     | 1,160                                      | -47                          | 13,070 | 74                 | 13,144       |
| Total                             |                                                      |                  |                             |                         | -306                                       | 25                           | -281   | -16                | -297         |
| <b>Balance at August 31, 2009</b> | 6,600                                                | 4,471            | 16                          | 870                     | 854                                        | -22                          | 12,789 | 58                 | 12,847       |

The equity ratio of the CeoTronics Group was 70.1 % as of August 31, 2010 (previous year 69.8%).

There were no material changes to equity compared with the last annual financial statements.



## Notes to the Consolidated Quarterly Report

### Accounting policies

The unaudited (interim) consolidated financial statements of CeoTronics AG as of August 31, 2010 were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. This interim report complies with IAS 34 Interim Financial Reporting.

The quarterly report was prepared using the accounting, measurement, and consolidation principles applied in the preparation of the full-year consolidated financial statements as of May 31, 2010. Further details can be found in the Annual Report for fiscal year 2009/2010.

### Consolidated group structure and shareholdings

There were no changes in the consolidated Group structure in the first three months of fiscal year 2010/2011.

The following companies are included in the consolidated financial statements:

- CT-Video GmbH, (Lutherstadt Eisleben, Germany)
- CeoTronics S.L. (Madrid, Spain)
- CeoTronics AG (Rotkreuz, Switzerland)
- CeoTronics S.A.R.L. (Brie Comte Robert, France)
- CeoTronics Ltd. (Aberdeen, United Kingdom)
- CeoTronics, Inc. (Virginia Beach, U.S.A.)
- CeoTronics Sp. z o.o. (Lodz, Poland)

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 under IFRSs.

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



## Consolidated Segment Reporting

The CeoTronics Group's segment reporting is based on its internal organizational and reporting structure. The segment reporting format is geographic (management approach). The segment structure is based on the country of origin, i.e., the domicile of the operating company in question:

- Germany comprises CeoTronics AG (Germany) and CT-Video GmbH.

- Rest of Europe consists of CeoTronics Spain, CeoTronics France, CeoTronics Switzerland, and CeoTronics Poland.
- Rest of world comprises CeoTronics U.S.A.

The intersegment transfer prices are calculated using the resale price method, which is based on the resale price at which the foreign subsidiaries sell the products acquired from CeoTronics AG (Germany) on the market.

|                                                   | Germany             |                     | Rest of Europe      |                     | Rest of world       |                     | Consolidation       |                     | Group               |                     |
|---------------------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| € thousand                                        | Q1<br>2010/<br>2011 | Q1<br>2009/<br>2010 | Q1<br>2010/<br>2011 | Q1<br>2009/<br>2010 | Q1<br>2010/<br>2011 | Q1<br>2009/<br>2010 | Q1<br>2010/<br>2011 | Q1<br>2009/<br>2010 | Q1<br>2010/<br>2011 | Q1<br>2009/<br>2010 |
| <b>Revenues</b>                                   |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| External customers                                | 2,408               | 1,444               | 445                 | 1,288               | 165                 | 90                  | 0                   | 0                   | 3,018               | 2,822               |
| Between segments                                  | 359                 | 767                 | 3                   | 1                   | 5                   | 5                   | -367                | -773                | 0                   | 0                   |
| <b>Segment revenues</b>                           | <b>2,767</b>        | <b>2,211</b>        | <b>448</b>          | <b>1,289</b>        | <b>170</b>          | <b>95</b>           | <b>-367</b>         | <b>-773</b>         | <b>3,018</b>        | <b>2,822</b>        |
| of which major customers                          | 992                 | 0                   | 0                   | 0                   | 0                   | 0                   | 0                   | 0                   | 992                 | 0                   |
| <b>Costs and Expenses</b>                         |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Cost of sales                                     | 1,600               | 1,556               | 310                 | 686                 | 76                  | 49                  | -418                | -831                | 1,568               | 1,460               |
| Selling and marketing expenses                    | 727                 | 731                 | 145                 | 201                 | 61                  | 62                  | -13                 | -1                  | 920                 | 993                 |
| Administrative expenses                           | 316                 | 269                 | 60                  | 58                  | 21                  | 20                  | -11                 | 0                   | 386                 | 347                 |
| R&D expenses                                      | 406                 | 381                 | 0                   | 0                   | 0                   | 0                   | 0                   | -1                  | 406                 | 380                 |
| <b>EBIT/segment profit or loss</b>                | <b>-256</b>         | <b>-263</b>         | <b>-57</b>          | <b>-97</b>          | <b>9</b>            | <b>-38</b>          | <b>-55</b>          | <b>36</b>           | <b>-359</b>         | <b>-362</b>         |
| Net interest expense                              |                     |                     |                     |                     |                     |                     |                     |                     | -39                 | -34                 |
| Tax expense                                       |                     |                     |                     |                     |                     |                     |                     |                     | 84                  | 87                  |
| <b>Profit/loss</b>                                |                     |                     |                     |                     |                     |                     |                     |                     | <b>-314</b>         | <b>-309</b>         |
| <b>Assets and Liabilities</b>                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Segment assets                                    | 17,500              | 21,488              | 1,813               | 3,645               | 966                 | 1,620               | -5,694              | -8,357              | 14,585              | 18,396              |
| Segment liabilities                               | 4,243               | 5,379               | 1,427               | 2,773               | 2,717               | 2,602               | -3,927              | -5,205              | 4,460               | 5,549               |
| Investments                                       | 29                  | 391                 | 0                   | 0                   | 0                   | 0                   | 0                   | 0                   | 29                  | 391                 |
| Depreciation, amortization, and impairment losses | 138                 | 124                 | 8                   | 0                   | 4                   | 3                   | 0                   | 0                   | 150                 | 127                 |



The following table provides additional information on revenues at company level.

| € thousand                          | Q1<br>2010/2011 | Q1<br>2009/2010 |
|-------------------------------------|-----------------|-----------------|
| <b>Revenues by Productsegments</b>  |                 |                 |
| Audio                               | 2,295           | 2,198           |
| Video                               | 586             | 479             |
| Service                             | 137             | 145             |
| <b>Total revenues</b>               | <b>3,018</b>    | <b>2,822</b>    |
| <b>Revenues by customer country</b> |                 |                 |
| Germany                             | 1,742           | 1,095           |
| Rest of Europe                      | 1,024           | 1,615           |
| Rest of World                       | 252             | 112             |
| <b>Total revenues</b>               | <b>3,018</b>    | <b>2,822</b>    |

# Executive Bodies

## Changes in the Company's executive bodies

There were no changes in the Company's executive bodies in the first three months of 2010/2011.

Shareholdings of the members of the executive bodies as of August 31, 2010:

|                                            |                     | CeoTronics shares<br>ISIN DE0005407407/WKN 540740 (quantity)        |         |
|--------------------------------------------|---------------------|---------------------------------------------------------------------|---------|
| <b>Board of Management</b>                 |                     |                                                                     |         |
| Chairman of the Board of Management        | Thomas H. Günther   | 28,494                                                              |         |
| Deputy Chairman of the Board of Management | Berthold Hemer      | 513,150                                                             |         |
| Chief Operating Officer                    | Günther Thoma       | 18,066                                                              |         |
| <b>Supervisory Board</b>                   |                     |                                                                     |         |
| Chairman                                   | Hans-Dieter Günther | 1,113,600                                                           |         |
| Deputy Chairman                            | Horst Schöppner     | Held personally                                                     | 10      |
|                                            |                     | Other attributable shares held by Schöppner Vermögensverwaltung GbR | 810,400 |
|                                            |                     | Total                                                               | 810,410 |
| Member                                     | Stephan Haack       | 0                                                                   |         |

The total number of CeoTronics AG shares at the reporting date amounted to 6,599,994.

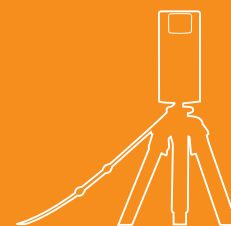
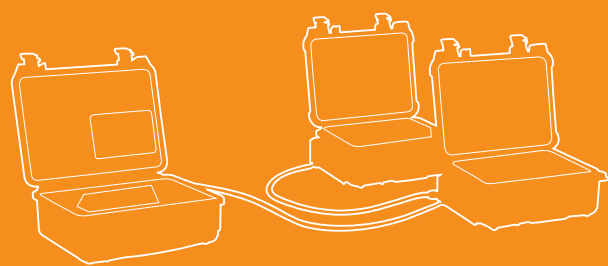
The Chairman of the Supervisory Board, Hans-Dieter Günther, resigned for health reasons on August 31, 2010. He has been replaced from September 1, 2010 by Matthias Löw, Rodgau, who was previously an alternate member of the Supervisory Board.

## Related party disclosures

No significant related party transactions were conducted in the first three months of 2010/2011.



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