Annual Report 2005

05

"... continued acceleration of the growth rate marks the first step towards a volume market ..."

PULSION
Medical Systems

Facts and Figures
PULSION 2005

PULSION (GROUP)		2005	Variance in %	2004	2003	2002
		IFRS		IFRS	US-GAAP	US-GAAP
Revenues	EUR million	20.2	24 %	16.3	13.7	11.5
Gross profit	EUR million	14.5	33 %	10.9	9.0	6.9
EBITDA	EUR million	3.8	18 %	3.2	0.7	–2.0
EBIT	EUR million	2.3	32 %	1.7	–0.4	–2.9
Consolidated profit/loss	EUR million	1.9	79 %	1.1	–0.7	–3.3
Cash flows used in operating activities	EUR million	3.3	108 %	1.6	0.8	–3.9
Shareholders' Equity[1]	EUR million	11.3	27 %	8.9	8.2	7.4
Shareholders' Equity percentage[1]	%	57 %		49 %	50 %	38 %
Total assets[1]	EUR million	19.8	9 %	18.1	16,5	19.5
R&D expenses	EUR million	1.3	52 %	0.8	1.1	1.2
Employees (average)	Amount	101	28 %	79	81	88
Revenue per employee	TEUR	200	–3 %	206	169	131
Installed base - PiCCO monitors[1]	Units	4,018	15 %	3,479	2,854	2,474

[1] as of December 31

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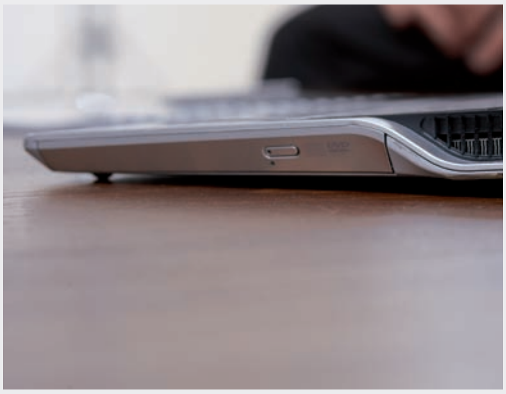


Matthias Bohn
Management Board

Stefan Land
Management Board

“PULSION is today’s most versatile supplier of haemodynamic monitoring products.”

Foreword by the Management Board
Rapid growth – our technologies are making good progress

Dear customers, shareholders and colleagues,

PULSION was able to increase the pace of growth in 2005 from 19% to 24%. Thanks to significant productivity improvements, the net profit rose by as much as 79%. Our core business with disposable products developed particularly favourably and grew by 25%. These figures demonstrate that we are well on the way towards achieving our main objective, which is to set the standard in the field of haemodynamic monitoring of critically ill patients. In Europe, we have already started to make inroads in the volume market: across Europe, approximately 73,000 patients – about half of whom were in Germany, Austria and Switzerland – were monitored using PiCCO-Technology in 2005. Progress is also being made towards entering the market in the USA where the potential for PULSION is greatest.

PiCCO-Technology is the most purposeful technology available at the present time for use in intensive care and during operations, and it is therefore the best alternative to the controversial right-heart catheter. With the aid of a comprehensive range of medically useful results, doctors are able to carry out more thorough and rapid treatment – thus improving hospital efficiency and saving lives.

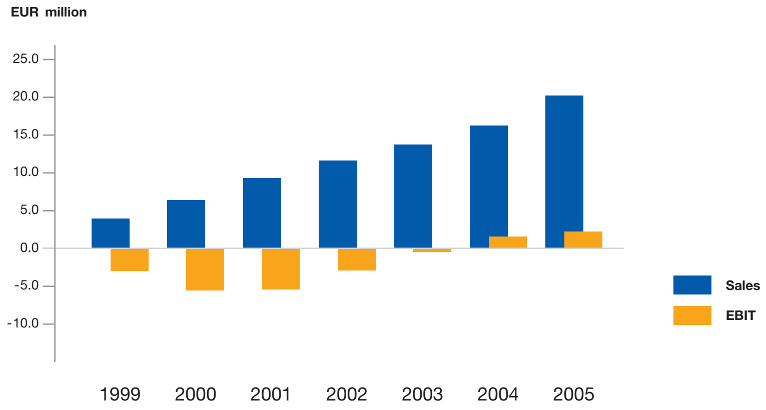
PiCCO-Technology is currently offered as a modular component of the systems marketed by Dräger Medical and Philips, two of the leading manufacturers of patient monitoring systems for use at the bedside, currently commanding over 50% of the worldwide market. Negotiations are also underway with other manufacturers. Our forecast for the next years, therefore, is that our core technology will continue to penetrate the market and that the rate of growth will also continue to increase.

In March, we presented a further PULSION technology under the name CiMON. This technology makes exact measurements of abdominal and thoracic pressure via a gastric feeding tube which requires to be in situ anyway. This method replaces less exact methods used to date, such as palpation, girth measurement and measurement of bladder pressure. It is a useful aid for monitoring and diagnosis and also for the treatment of circulatory instability, sepsis, internal bleeding, major lung damage following abdominal surgery and other life-threatening conditions. Active marketing of CiMON should commence in 2006.

The other recent PULSION-Technologies – CeVOX and LiMON – are also progressing well. They complement PiCCO- Technology by depicting circulatory functions and the condition of other organs which PiCCO does not cover. Like PiCCO, the new technologies can be applied both in the operating theatre and in the intensive care unit.

PULSION is now the world's most versatile supplier of haemodynamic monitoring systems covering the whole range of cardiovascular monitoring functions. Further information about how our technologies interact can be found in the following section of the annual report where PULSION's long-term strategy is outlined.

The increase in reported sales revenue and EBIT reflects PULSION's entry into the volume market and the successful implementation of our business model.



PULSION's progress is also reflected of course in our key performance indicators: the equity ratio has improved from 49 % to 57 %, the cash-flow from operating activities has advanced from EUR 1.6 million to EUR 3.3 million and earnings per share has risen from 14 cents to 21 cents.

Our rapid pace of growth requires an organisational system which is agile, adaptable and competent. For this reason, PULSION started its growth initiative, *PROPULSION*, in November 2005, to look after the main source of potential available to any knowledge-based company, namely its workforce. With effect from the beginning of 2006, several new positions have been created within PULSION. We will also be creating our first trainee posts and setting up a trainee program for university graduates. The new training programs – Executive, Sales and Basic – will provide our staff with additional specialist knowledge, promote individual character and help to boost team spirit and motivation. The medium and long-term objective of *PROPULSION* is to keep the best members of the workforce loyal to the company and to develop their skills consistently.

At this point, we would like to thank our employees for their hard work during the past year. Without you, our company's excellent progress would not have been possible.

Thank you very much!

Yours truly

Matthias Bohn
Management Board

Stefan Land
Management Board

Highlights 2005

PULSION presents CiMON-Technology

In March PULSION presented a new minimally invasive monitoring system which enables pressure within the abdominal and thoracic compartment to be measured continuously using a modified single-use gastric feeding tube. CiMON completes the range of PULSION products providing volume-based, real-time monitoring systems for intensive-care patients.

Further improvements made to PiCCO-Technology

Likewise in March, PULSION presented the 7.0 version of PiCCO-Technology: this version is now able to present accurate measurements of blood passing pathologically from the right to the left chambers of the heart (R-L Shunt). In this way, blood filling the heart and the water contents of the lung can now be accurately measured, even in cases of abnormal blood flow.

Change in management

In March, Dr. Ulrich J. Pfeiffer, the company's founder, and the Chairman of the Management Board, resigned as Chairman and left the Company. The two remaining members of the Management Board have continued on a dual leadership basis since then; in addition to their other commitments, Matthias Bohn has taken responsibility for the marketing and development functions and Stefan Land has taken responsibility for the sales function.

Researchers express doubts about right-heart catheter

The "Pac-Man Study", which casts doubt once again on the usefulness of the right-heart catheter, was published in the August issue of "The Lancet", one of the most authoritative international medical journals; since then the issue has been hotly debated. The findings of a team of US researchers at the University of North Carolina came to similar conclusions.

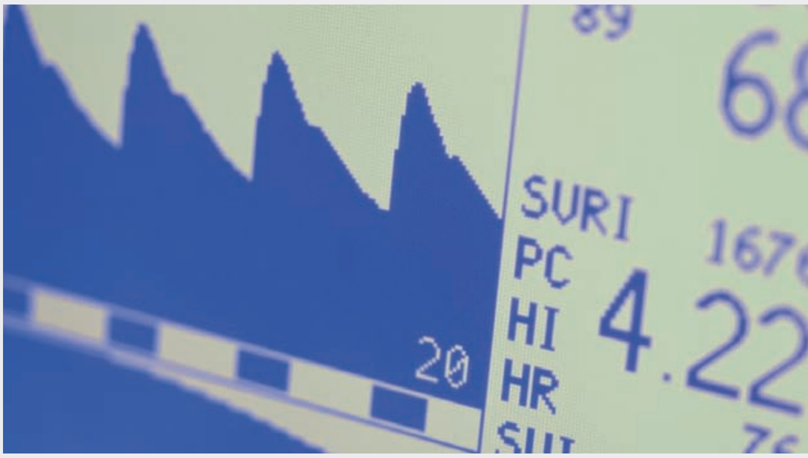
PULSION receives the Innovation & Leadership Award 2005

2005 FROST & SULLIVAN
Patient Monitoring
Technology Innovation & Leadership of the Year Award

In November, PULSION received the Innovation & Leadership Award 2005 for its PiCCO-Technology; this is awarded by the renowned American consultancy and market research company, Frost & Sullivan. This award is made for the combination of innovative technology, on-going improvements and a well-focused market engagement, all of which are reflected in impressive development of reported figures.

CeVOX patent for the US market

PULSION received an important patent for its CeVOX-Technology in December, providing patent protection in the USA. Now that this patent has been issued, it can be expected that CeVOX will now also receive patent protection in Europe and Japan. A resolution relating to the issue of a patent for CeVOX-Technology in Germany has been in place since September 2005.



Haemodynamic monitoring (i.e. the monitoring of cardiovascular functions) is PULSION’s core business.

Business Strategy
PULSION – focus on haemodynamic monitoring

PULSION focuses on the market for haemodynamic monitoring, in other words the monitoring of cardiovascular functions. PULSION products ideally complement each other, which has enabled them to make good inroads into this ever-changing and growing market. Haemodynamic monitoring covers a wide of applications, starting with the measurement of cardiac function and the collection of data on the blood and circulatory system, and extending to monitoring the functions of related organs, such as the lungs, liver, abdominal organs and the brain.

For a glossary of technical terms see page 67.

Haemodynamic data are required, in different forms and varying degrees of detail, for many areas of medicine. PULSION will focus solely with the monitoring of critically ill patients in intensive care units and operating theatres, where accuracy, precision and reliability are of the utmost importance. PULSION is not actively involved in other market segments, such as general healthcare or sports-related medicine.

A close-knit family of products

PULSION is already able to offer the widest range of capabilities for haemodynamic monitoring:

- PiCCO-Technology provides important data on cardiovascular functions, such as cardiac output, the contractility and efficiency of the heart, the blood volume in the chambers of the heart, the water content of the lungs and cardiac afterload.
- CeVOX-Technology carries out continuous monitoring of the central venous oxygen saturation of pre-heart blood. This enables an assessment to be made of the state of the oxygen balance in the body, thus making it possible, amongst other things, to recognise signs of impending sepsis at an early stage and to treat it accordingly.
- LiMON-Technology provides immediate measurements of liver function and of the blood supply to the abdominal organs. LiMON can be applied in intensive care medicine to identify sepsis, septic shock and failure of one or more organs at an early stage, and to monitor the course of these conditions. The related equipment can be used in the operating theatre to monitor liver function during liver surgery or transplant operations.
- CiMON-Technology, sales of which are due to commence in 2006, enables thoracic and abdominal pressure to be monitored continuously. This is particularly important for intensive care patients suffering from circulatory instability, sepsis, internal bleeding or severe lung damage. This technology can be employed both in the intensive care unit and on ordinary wards following major abdominal surgery.

IC-VIEW is yet another very promising area of PULSION technology, a quality control device which provides a means of reducing costs and saving time in operating theatres. IC-VIEW makes it possible to check the perfusion of selected areas of the body or organs using a video camera which shows up the fluorescent properties of ICG-PULSION in the infra-red area. IC-VIEW's main areas of application are plastic surgery, abdominal surgery, vascular surgery and in the treatment of burns.

All of the technologies named above depend on the use of specially developed single-use sterile products – catheters, probes, sensors – or on the use of the diagnostic agent, ICG-PULSION.

PULSION's objective is to achieve the best balance between accurate and meaningful measurements, low risk to the patient and simple application.

Clear tasks ahead for research and development

Over the next years, PULSION will continue to expand and develop its already unique range of methods of haemodynamic measurement. Our aim is to provide physicians, in a straightforward and comprehensible way, with a wide range of measurements as an aid to decision-making. Equipment should be easy to use and flexible, in other words, its use should not require excessive amounts of time to operate and it should also be capable of being used in various applications.

In the medium and long term, we intend to make our technologies even simpler and more user-friendly. Process optimisation and the issue of "invasiveness" (i.e. the extent to which the monitoring process subjects the patient to stress) will play an important role here. PULSION will push ahead with further developments in this direction, as it continues to penetrate the market and grow in size.

Synergy benefits in a worldwide organisation

Medical standards are constantly undergoing change throughout the world. The measurement of vital parameters such as respiration and heart activity has long been established as standard practice in intensive care medicine and surgery. PULSION has introduced new measuring parameters, which provide important diagnostic information, aid in the monitoring of patients in intensive care units and operating theatres and enable medical staff to make decisions based on more reliable information.

That having been said, it can require a long period lead-time and extensive market preparation before new methods and techniques have moved from the medical research phase through to every day use in hospitals and clinics. After lengthy clinical studies to prove that parameters are reliable and make medical sense, it is then necessary to win over, and train, a large number of physicians and nurses to apply the new techniques. This can only be achieved by a well-functioning wide-ranging organisational structure, such as PULSION has already put in place throughout Europe and is now in the process of setting up in the USA and Asia. Once this structure has been established across a region and has gained the trust of many doctors, it can then provide assistance in the process of establishing further measurement parameters within the clinical environment.

All-inclusive systems guarantee continuous business

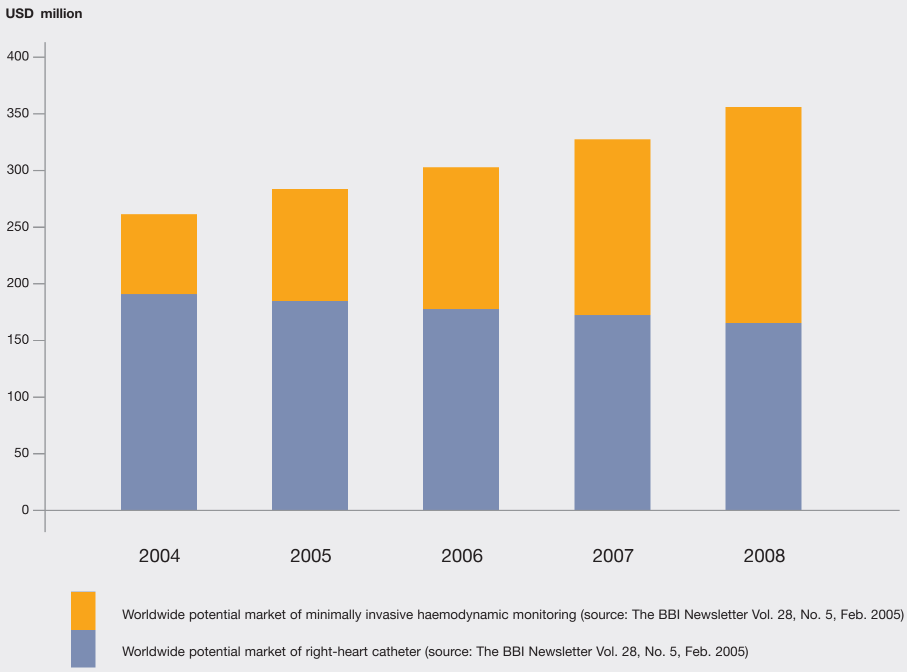
Equipment

Sterile products

Pharmaceuticals

The focus of the PULSION business model on complete systems, safeguarded by a multi-level patent protection, generates continually increasing sales.

Development of worldwide market share of right-heart catheter and minimally invasive haemodynamic monitoring



Business Model and Market
Steady flow of sales revenue from disposable products

PULSION's products are meant for use on a day-to-day basis within the clinic environment, generating medical benefits from their efficient use. We therefore employ extremely accurate measuring techniques to measure values precisely and dependably in operating theatre and intensive care units. PULSION products are simple to operate and therefore save working time for medical and nursing staff. In addition, PULSION's minimally invasive monitoring systems reduce the frequency and severity of complications – which result in higher costs – and at the same time reduce the risks to the patient.

The frequency of applications – and hence the sales volume achieved with disposable products – increases with the growing installed base.

The PULSION business model combines the sale or loan of equipment with the sale of consumable products, in the form of single use products, such as PiCCO catheter kits or CeVOX probes, and pharmaceutical products, such as ICG-PULSION, which is required when using LiMON and IC-VIEW. The business model is underpinned by patent protection at several levels.

Sales of equipment therefore account for only 20% of PULSION's sales revenue and gross profits. More than 80 percent of sales is generated through the consumable products needed for the clinical application of our technologies. PULSION is therefore in a considerably stronger position than traditional manufacturers of medical technological equipment whose existence depends mainly on initial installations of equipment in hospitals and medical practices, investments in replacement items and technical services. By focusing on disposable products, PULSION's business activities are only subject to slight fluctuations and remain largely unaffected by investment cycles in the health-care sector.

Enormous potential and changes to be expected

Demand throughout the world for minimally invasive monitoring devices is constantly on the increase. The US specialist publication, BBI Newsletter, (Volume 28, No. 5, dated February, 2005) estimates that the market for minimally invasive haemodynamic monitoring for use in intensive care medicine will grow annually by 30% through to 2008, whilst sales of right-heart catheters will drop. According to the authors of the BBI Newsletter, the size of the market will increase from an estimated USD 281 million in 2005 to approximately USD 355 million in 2008.

The limitations and potential dangers of the right-heart catheter, the availability of advanced minimally invasive methods for monitoring critically ill patients and the increasing importance attached to efficient clinical practices, are all factors which will contribute to radical changes in this market over the coming years. PULSION intends to make a decisive contribution to this development and to achieve a leading role in the newly distributed market for haemodynamic monitoring.

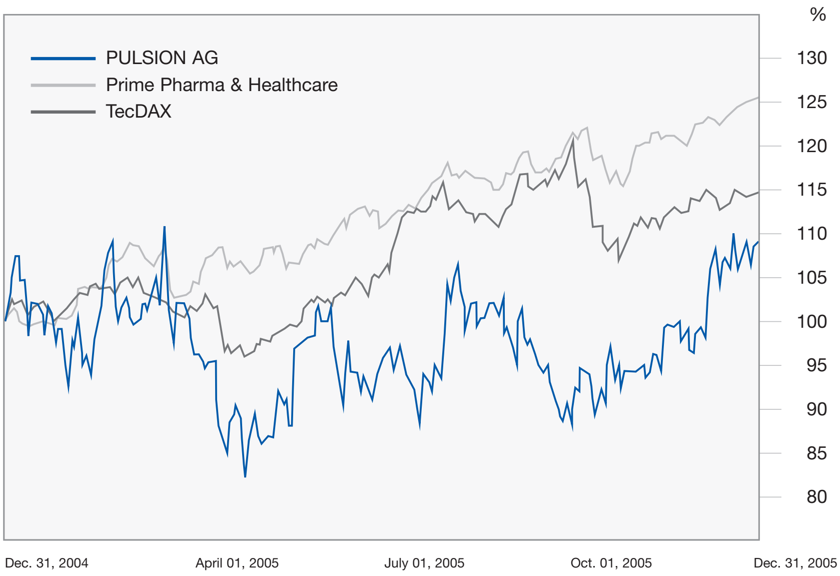
Investor Relations

PULSION stock's performance lags behind the Group's business performance

In 2005, the market price for PULSION stock lagged behind the Group's business performance and the overall performance of the stock market.

Despite the excellent business performance in 2005, the market price of PULSION stock lagged behind the performance of the Prime Pharma & Healthcare (+26 %) sector index and the TecDAX (+15 %). In 2004 PULSION stock had increased 71 % in value, closing at the year-end at EUR 4.88. In 2005, it only achieved single-digit growth of 9 % (based on the Xetra index closing price). This did not adequately reflect the impressive increase in reported sales and earnings. The market price of PULSION stock at the end of the year was EUR 5.31. Nevertheless, the long-term upward trend remains intact and further sharp increases in the market price were registered during the first weeks of 2006.

PULSION stock's liquidity, an important criterion for institutional investors, increased further during the period under report. The daily trading volume (all trading places) rose from 32,000 shares in 2004 to closely 36,000 shares in 2005, clear testimony to the increased tradability of PULSION stock and reward for our efforts.



Development of PULSION stock compared to the Prime Pharma & Healthcare Performance Index and TecDAX (Basis: Xetra-index closing prices from Dec. 30, 2004 to Dec. 30, 2005)

Better information for investors

We continued to expand our investor relations activities in 2005. The objective of our work in this area is to build up a good relationship with investors based on trust and to offer our investors, customers and employees the highest possible degree of transparency at an acceptable level of cost to the Group.

In 2005, PULSION made personal presentations in Europe to potential investors at seven investor information days or "roadshows". In addition to quarterly reports, shareholders were also provided with 19 press releases and 10 ad-hoc announcements on important matters relating to the Group in 2005. We have also completely renewed and expanded the scope of our investor relations website on the Internet.

PULSION's financial statements at December 31, 2005 have been drawn up for the first time in accordance with International Financial Reporting Standards (IFRS). The figures for the financial year 2004 have also been presented in accordance with IFRS to ensure comparability.

Corporate Governance
PULSION complies with the German Corporate Governance Code

In 2005, the Management and Supervisory Boards of PULSION Medical Systems AG signed the Declaration of Compliance with the German Corporate Governance Code, underlining its commitment to running the Group's affairs in a fair and responsible way.

With just one exception, PULSION complied with the recommendations of the "German Government Corporate Governance Code Commission" in 2005. Pulsion does not publish its interim reports within a deadline of 45 days, but within the deadline of 60 days, set by the Frankfurt Stock Exchange (Prime Standard). In 2006, PULSION will move to the 45 day deadline required by the Code.

The Investors' Protection Improvement Act (AnSVG) came into effect on October 30, 2004. This new Act aims to improve investor confidence in order to strengthen Germany's position as a financial center. The Act aims to improve the transparency of information provided to the capital markets and to protect investors against illegal market practices. In particular, it involves regulations relating to insider rules, ad-hoc announcements and manipulation of the market. PULSION has undertaken all necessary measures and adapted its processes and procedures accordingly.

Key data on PULSION stock at December 31, 2005

ISIN-Code (previously WKN)	DE 0005487904 (548790)
Stock market abbreviation	PUS
Stock market segment	Prime Standard
Sector index	Prime Pharma & Healthcare Performance Index
Subscribed capital	EUR 9,495,802
Bearer shares	9,495,802
Closing market price 2004*	EUR 4.88
Closing market price 2005*	EUR 5.31
Highest price (52 weeks)*	EUR 5.47
Lowest price (52 weeks)*	EUR 4.01
Market capitalisation (December 31, 2005)*	EUR 50.4 million
Earnings per share (diluted)	EUR 0.21

*Xetra index closing price

Employees
PROPULSION – our growth initiative

The Internet is becoming more important as a way of reaching candidates. As part of the PROPULSION initiative, the personnel function's internet home-page has also been further improved.

PULSION Medical Systems commenced operations more than ten years ago and has now become one of the world leaders specialising in the area of intelligent medical diagnosis and therapy management systems. This means, on the one hand, that we are in a position to, and indeed must, engage new employees in almost all areas. On the other hand, we are also keen to ensure that those already employed by us are given the opportunity to develop their skills as PULSION emerges as an international leader in its field.

The *PROPULSION* initiative was started at the end of 2005 and has the following objectives:

- A high-profile recruitment campaign will attract the attention of first-rate candidates, thus enabling new posts and vacancies to be filled with top quality personnel.
- From 2006 onwards, we will help employees to develop their personal and professional skills, with a view to retaining their specialist knowledge and know-how within PULSION and to gain the maximum benefit from their potential.
- An attractive trainee programme for university graduates enables us to build up an internal pool of junior management ready to take up leading positions at a later date.
- With its own trainee program, PULSION can create new entry opportunities for motivated young people to join a growing company with international operations.

05

Consolidated Financial Statements (IFRS) of PULSION Medical Systems AG as of December 31, 2005

Report of the Supervisory Board

Dear Shareholders,

During the financial year 2005, the Supervisory Board carried out all its tasks in accordance with the law, Company statutes and its own terms of reference and assured itself of the proper governance of the Company by executive management. It monitored the activities of the Management Board on a regular basis and stood by in its advisory capacity. The Supervisory Board convened 13 times and also held additional telephone conferences. It also remained in close contact with the members of the Management Board throughout the year, and was kept up to date with regard to

- business policies and strategies
- the current position of the enterprise, including its financial position, capital expenditure and personnel issues
- significant developments in the market and competitive environment
- the risks facing the enterprise.

The Supervisory Board was directly involved in decisions of fundamental importance to the enterprise. Any business transactions requiring approval were examined, discussed and authorized by the Supervisory Board.

1. Focus of the Supervisory Board's deliberations

The Supervisory Board's deliberations during 2005 revolved around two main areas of focus:

a) In particular in the first half of 2005, the Supervisory Board dealt with issues relating to the resignation from the Company of Dr. Pfeiffer, the former Chairman of the Management Board. This involved, first and foremost, safeguarding and, where necessary, upholding the Company's legal rights, whilst ensuring business development continuity and reassuring the workforce as to the Company's future. The continued strong performance in 2005 and the Group's positive outlook are clear indicators that these issues were dealt with successfully. Taking all aspects into consideration, it can be stated that Dr. Pfeiffer's departure has, in many ways, also allowed new energies to be released within the enterprise.

b) In particular in the second half of the year, the Management Board, in agreement of the Supervisory Board, devised a modified business strategy, the main contents of which were:
   - I) Focus on haemodynamic monitoring
   - II) Applying a system-based monitoring approach in order to staying ahead of the competition in terms of creating medical added-value and patient benefits
   - III) Accelerating growth in existing core markets
   - IV) Engaging the US American market with limited exposure to risk
   - V) Achieving a 20% share of the world market by 2010.

In addition, numerous other issues were decided in the course of discussions with the Management Board.

2. Corporate governance

The Supervisory Board examined how corporate governance principles could be further developed within the enterprise. In July 2005, the Management Board and Supervisory Board issued a new Declaration of Compliance, which was necessary to modify as result of the changes introduced in March 2006. The Declaration of Compliance is available for inspection on the Company's website.

3. Audit of the annual and consolidated financial statements

The consolidated financial statements have been prepared for the first time in accordance with International Financial Reporting Standards (IFRS). The previous consolidated financial statements had been prepared in accordance with US GAAP. The auditors, PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Munich, have audited the annual and consolidated financial statements of PULSION Medical Systems AG, as well as the Company management report and the Group management report. The auditors described the relevant auditing principles in their Auditors' Report. They concluded that PULSION has fully complied with International Financial Reporting Standards. The consolidated financial statements were given an unqualified audit opinion.

The annual financial statements and Company management report as well as the consolidated financial statements and Group management report, together with the long-form audit reports of the auditors were made available to all members of the Supervisory Board. In the meeting on March 10, 2006, the relevant documents were discussed in detail following the report of the auditors, and in the presence of the auditors.

The Supervisory Board examined the annual financial statements and Company management report, the proposed appropriation of results as well as the consolidated financial statements and Group management report. No objections were raised. The Supervisory Board concurred with the result of the audit. The annual and consolidated financial statements prepared by the Management Board are thus approved and the annual financial statements adopted in accordance with § 172 AktG (German Stock Corporation Act). The Supervisory Board agrees with the management report and the assessment of the enterprise's position and future development presented therein.

4. Personnel matters

Dr. Burkhard Wittek was elected to the Supervisory Board at the Annual General Meeting on June 15, 2005 and on September 13, he succeeded Michael Bourjau as Chairman.

As planned, Michael DuCros ceased to be a member of the Supervisory Board at the close of the Annual General Meeting on June 15. We would like to express our gratitude to Michael DuCros for his steadfast and valuable support over the years.

The Supervisory Board would also like to thank the Management Board and all employees for their dedicated hard-work and excellent cooperation during the financial year 2005. It also wishes them well and every success as they accompany the enterprise's progress during the financial year.

Munich, March 10, 2006

On behalf of the Supervisory Board

Dr. Burkhard Wittek
Chairman

Group Management Report

A Review of the Financial Year

- Pace of growth increased from 19 % in 2004 to 24 % in 2005
- Operating profit (EBIT) up by 32 % to EUR 2.3 million
- New CiMON-Technology presented
- Organizational structure strengthened
- Foundation laid for growth in 2006

PULSION (PULSION Medical Systems AG) was able to increase sales revenue and earnings sharply in 2005, thus demonstrating once again the sustainability of its innovative business model.

PULSION was also able to present its next product, CiMON, to a wide range of experts in 2005. This new technology is capable of making exact measurements of abdominal and thoracic pressure, so that a further product line, with attractive business potential, will become available for the management of critically-ill patients in emergency departments and intensive care units.

Sales rose on a year-on-year basis by 24 % to EUR 20.2 million. Sales of disposable products performed particularly well, rising by 25 % to EUR 13.5 million.

The gross profit percentage improved by 5 percentage points to 72 %. With an EBIT of EUR 2.3 million, and a group net profit (before minority interest) of EUR 2.0 million in 2005, PULSION was able to better even its own expectations.

Capital expenditures, at EUR 3.3 million, remained at the previous year's high level (2004: EUR 3.4 million), enabling progress to be made with a number of important projects and thus contributing to PULSION's future growth.

Net borrowings were reduced by 21 % to EUR 3.7 million, whilst cash liquidity improved from EUR 4.5 million to EUR 4.8 million at the end of 2005.

Financial report

Business environment

Innovative technologies gaining ground

The global market for medical technology totalled approximately EUR 184 billion in 2003. The European market (EUR 55 billion) is the world's second largest market after the USA (EUR 79 billion). At EUR 19 billion, Germany is, after the USA and Japan, the world's third largest single market and by far the largest market in Europe (source: BVMed Annual Report 2004/05).

The main impulses for growth in the healthcare sector are being provided by demographic trends in the major industrial nations of the world, the increasing degree of self-responsibility and health-awareness on the part of patients, and exceedingly strong pressure to rationalize the world's health systems even further. As standards of living improve in previously undeveloped or under-developed regions, the overall market will grow continuously.

Estimates of various sector experts and industry associations for the coming years put average worldwide growth rate in the region of 4-7 % p.a. The main growth regions are seen, amongst others, as China, East Europe and Brazil (source: Sector Focus Medical Technology, November 2005, Nord/LB).

Sales revenue trends

Pace of growth accelerated

PULSION was able to increase group sales in 2005 by EUR 3.9 million to EUR 20.2 million. This 24% increase was all generated by organic growth. Currency factors did not play a role in 2005.

Product lines

Revenue from equipment sales in 2005 rose by an encouraging 21% to EUR 3.7 million. Despite on-going difficult conditions in the health care sector, PULSION is enjoying an increasing level of success in placing its innovative products with clinics and hospitals.

The installed base of PiCCO monitors – in other words the total number of all monitors sold or loaned out – increased by 539 monitors over the course of the year to stand at 4,018 (+15%) units at December 31, 2005. On top of this, the number of PiCCO modules placed on the market via the Company's strategic sales partners (Philips and Dräger Medical) increased to 7,662 units (+13%). The worldwide utilization ratio of PiCCO modules rose in 2005 from 13% to approximately 15%.

With CeVOX, PULSION now possesses another highly promising monitoring technology, which has now reached the marketing phase. This product is forecast to contribute towards revenue growth in the area of equipment and disposable product sales. More than 200 devices have been placed or sold since the end of May 2005 when deliveries were commenced.

The products, LiMON and IC-VIEW, are still at the very beginning of their lifecycle and are generally placed with customers on a loan basis in return for commitments to purchase ICG-PULSION. Whilst the installed base of LiMON rose to 422 units (+22%) by the end of 2005, IC-VIEW saw its installed base increase by only 14% to 84 units (December 31, 2004: 74 units). Following the receipt of approval for ICG-PULSION in a number of important European countries, the Group can now, in stages, begin active marketing of both technologies at a European level.

Revenues by product lines:

in EUR million	2005	2004	Change
Equipment	3.7	3.1	21%
Disposables	13.5	10.8	25%
ICG-PULSION	2.8	2.3	20%
Other	0.2	0.1	74%
Total	**20.2**	**16.3**	**24%**

Revenues from the sale of sterile disposable products, PULSION's strongest area, performed well, rising in 2005 by 25% to EUR 13.5 million. The sales volume of PiCCO catheter kits increased accordingly by 25% from 63,851 units to 79,454 units. Overall, PULSION was able to achieve sharp sales volume growth, almost in line with the increase in sales revenue. This is a clear sign that PULSION is making rapid progress in penetrating the markets with its core technology, PiCCO.

Revenues from the sale of ICG-PULSION increased in 2005 by 20% to EUR 2.8 million. The steep rise in the pace of growth in 2005 was due to the fact that sales of ICG-PULSION were extended to further European countries and as a result of the on-going placement of LiMON and IC-VIEW equipment, both of which require ICG-PULSION. With additional regional approvals now received, it is forecast that sales of ICG-PULSION will continue to grow dynamically in the future.

Regions

The core region of PULSION's sales continued to be Europe, where 93 % of total revenues (EUR 18.8 million) were generated. The growth rate in Europe on a year-on-year basis was therefore an encouraging 27 %. The so-called DACH region (Germany, Austria, Switzerland) with revenues of EUR 9.8 million (+26 %) remained the strongest selling markets for PULSION.

Group sales by geographical region:

in EUR million	2005	2004	Change
DACH*	9.8	7.8	26 %
Europe (excluding DACH)	8.9	6.9	28 %
USA	0.2	0.2	26 %
Australia-Pacific	0.7	0.7	8 %
Other	0.5	0.6	–25 %
Total	**20.2**	**16.3**	**24 %**

* DACH: Germany, Austria, Switzerland

Sales in the USA increased slightly, rising by KEUR 50 to KEUR 245 as a result of PULSION's market preparation strategy. Revenues of sales platform in Australia were also only increased modestly, rising by 8 % to KEUR 0.7 million. Sales of the remaining regions (other) fell by 25 % to EUR 0.5 million.

Earnings

Robust business model bears fruit

PULSION is able to report a significant increase in earnings for the financial year 2005. The gross profit percentage improved by 5 percentage points to 72 % or by EUR 3.6 million to EUR 14.5 million. This increase resulted from the continuous generation of benefits of scale within the production and logistics process, a price optimization strategy and an improved sales mix between the various distribution channels.

Fixed costs were increased sharply by comparison to the previous year. As a result, the cumulative expense for selling, marketing and general administrative functions together with other operating income and expenses (including exchange gains and losses) went up to EUR 11.0 million, or by 31 %, on a year-on-year basis. PULSION continued to invest particularly heavily in selling and marketing in order to create the basis for sustainable future growth and to strengthen the organizational structure. Research and development expenditure was increased in 2005 by 52 % to EUR 1.3 million and rose therefore to over 6 % as a percentage of sales (2004: 5 %).

The profit before tax interest and taxes (EBIT) for the financial year 2005 increased by 32 % to an encouraging EUR 2.3 million (2004: EUR 1.7 million). The profit before taxes (EBT) improved at even faster rate: thanks to the improved net financial result, EBT increased by 43 %, 11 percentage points faster than EBIT (+32 %). The EBT for the financial year 2005 therefore amounted to EUR 2.0 million.

Due to PULSION's improved operating performance, a lower effective tax rate and lower minority interests, net group income (attributable to the shareholders of the group parent company) increased to EUR 1.9 million. This represents an increase of 79 %. Earnings per share before minority interests (diluted) improved therefore from 14 cents to 21 cents.

Assets, liabilities and financial position

Balance sheet structure further improved

PULSION's solid balance sheet structure was further optimized and strengthened in 2005. The consolidated balance sheet total (total assets/total capital employed) stood at EUR 19.8 million at December 31, 2005, up by 9% compared to one year earlier (EUR 18.1 million).

Key financial indicators relating to the balance sheet and financial position:

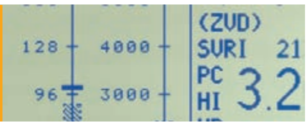
Indicator	Description	Units	Dec. 31, 2005	Dec. 31, 2004	Change
Days of Sales Outstanding	Trade accounts receivable *360 days / Group sales	days	60	76	–21 %
Inventory turnover	Cost of sales / Average level of inventories		2.2	1.9	12 %
Net debt	Liabilities less cash and cash equivalents	EUR m.	3.7	4.7	–21 %
Equity ratio	Equity / Balance sheet total	%	57	49	15 %
Fixed asset coverage	Equity / Fixed assets		1.6	1.5	2 %
Liquid funds	Cash on hand and at bank and available-for-sale financial assets	EUR m.	4.8	4.5	7 %
Net working capital	Current assets less liquid funds and less current liabilities	EUR m.	1.1	0.7	54 %

On the assets side of the balance sheet, non-current assets increased during 2005 from EUR 6.6 million to EUR 8.2 million (+24%). The increase was attributable partly to capital expenditure on intangible assets (+ EUR 1.4 million) – mostly in connection with expenditure for ICG-PULSION, in order to meet US American approval requirements – and partly due to the higher level of deferred tax assets which went up by EUR 0.2 million to EUR 1.0 million. Investments were fully written down (KEUR 63) following the opening of insolvency proceedings on KI Medical Services, Hungary, in which a minority investment is held.

Trade accounts receivable remained almost unchanged at EUR 3.4 million (December 31, 2004: EUR 3.4 million) despite the 24% jump in revenues. This was achieved by optimizing receivables management. Inventories were decreased during the same period from EUR 2.7 million to EUR 2.6 million (-6%). Cash funds went up from EUR 4.5 million at the beginning of the year to EUR 4.8 million at December 31, 2005. At that date, an amount of EUR 0.4 million of cash funds on group bank accounts had been pledged as security (Dec. 31, 2004: EUR 0.5 million).

On the equity and liabilities side of the balance sheet, provisions and liabilities decreased by EUR 0.7 million to stand at EUR 8.5 million at December 31, 2005 (December 31, 2004: EUR 9.2 million). The main factors behind these changes were as follows: Within financial liabilities, a loan from Technologie Beteiligungsgesellschaft mbH (tbg) of EUR 1.2 million was fully repaid in 2005 and further loan repayments of approximately EUR 0.5 million made. Liabilities to banks increased by EUR 0.3 million to EUR 1.2 million, most of which is available on a long-term basis. The increase in trade accounts payable resulted primarily from the higher volume of business (purchases).

Minority interests increased in 2005 by KEUR 84 to KEUR 245. As a result of the profit recorded for 2005, equity increased again and stood at EUR 11.3 million at the year-end (December 31, 2004: EUR 8.9 million). The equity ratio improved accordingly from 49% to 57%.



The financial strength of PULSION improved significantly during the year under report. Cash inflow from operating activities, which represents a core performance indicator to manage the business, increased by a very pleasing 108 % to EUR 3.3 million (2004: EUR 1.6 million). This was primarily brought about by the improvement in earnings and further measures to optimise the level of working capital at the same time that business volumes continued to expand.

The cash flow from investing activities in 2005 totalled EUR 1.8 million (+118 %). The increase was largely due to placing loan equipment in the market and to expenditure incurred in conjunction with the expansion of the coverage of ICG-PULSION approvals. The cash flow from operating activities, net of the cash flow for investing activities (net amount of EUR 1.5 million) was used almost entirely to reduce liabilities.

The cash outflow for financing activities in 2005 totalled EUR 1.1 million (2004: EUR 0.8 million). Overall therefore, PULSION's liquidity rose to EUR 4.8 million, compared to EUR 4.5 million one year earlier.

Capital expenditure

Investing for the future

Total capital expenditure for the financial year 2005 was EUR 3.3 million, almost unchanged on a year-on-year basis (2004: EUR 3.4 million).

Capital expenditure related to the following:

- EUR 1.3 million was invested in the placement of loan equipment on the market, thus allowing hospitals and clinics in low-investment regions to introduce PULSION's technologies in conjunction with purchase volumes agreements for consumable products.
- EUR 1.5 million was invested in intangible assets including
  - EUR 1.1 million to expand approval coverage of ICG-PULSION (Europe and USA)
  - EUR 0.4 million to obtain patents and on product development and software.
- EUR 0.5 million was invested in technical equipment, plant and machinery as well as other equipment, furniture and fixtures.

The capital expenditure ratio (i.e. the ratio of capital expenditure to group sales) remained at a high level of 16 % (2004: 21 %). The continued high level of capital expenditure is intended on the one hand to safeguard and extend the technological lead of PULSION's technologies and to lay the foundation for future growth on the other.

USA

Evaluation phase in progress

The American market is an important region for PULSION's future growth and therefore central to PULSION's core strategy. In 2005, the Company continued its adopted strategy to prepare itself for this all-important market. The main objectives during this phase were to establish PiCCO centers of expertise and to attract study partners in the region.

Some important customers were gained for the centers of expertise during the past financial year and the first study success stories are now on the horizon. PULSION further intensified its focus on the US American market and took the decision in 2005 to implement its active marketing and sales strategy in the coming quarters.

PULSION's operating result (EBIT) is stated after expenses of EUR 0.3 million incurred for the US market preparation measures described above.

Production and purchasing

Reduce risks, exploit opportunities

PULSION's core areas of expertise are product development, the design of key production processes and the marketing of new technologies. PULSION's approach is to keep production depth as low as possible in order to maintain a high level of flexibility whilst, at the same time, keeping the level of risk to a minimum.

Individual components are purchased via an efficient network of longstanding suppliers working to PULSION's high quality requirements. Further measures were taken to expand the network in 2005, with a view – in the light of steadily growing volumes – to achieve an improved second-source strategy for PULSION's core products.

The gross profit margin improved by a further 5 percentage points to 72%. This was achieved by generating benefits of scale, improving the utilization of production capacities and further optimizing the way that the Group's range of products is marketed.

Research and development

The basis of our future success

Research and development (R&D) is one of the mainstays of PULSION's business strategy. Only companies which take a long-term view and pursue a forward-looking technological strategy can hope to grow successfully and profitably.

Important projects were continued in the area of R&D during 2005 and the organizational structure of this function restructured and expanded to safeguard and sharpen PULSION's competitive edge.

In addition to the expansion of PiCCO-Technology (Version 7.0), the completion of the new CeVOX monitoring technology, the development of a new CiMON platform – a system to provide exact measurements of vitally important abdominal and thoracic pressure – the main emphasis was on designing a long-term technology strategy: this was approved in the fourth quarter of 2005 and is expected be put into practise as soon as 2006.

Organizational structure and employees

Investment in human resources creates opportunities

Further developing PULSION's organizational structure was a core task in 2005. It is only possible minimize inefficiency shortcomings, reduce the potential to make mistakes and achieve growth on a long-term profitable basis if an efficient organizational structure is in place with the workload spread over experienced shoulders and if it is tailored to customer needs.

PULSION increased its investment in the subsidiary in France in 2005 by 10% to 100% and, in parallel, expanded the organization there in order to take advantage of the local market potential by installing a countrywide sales team.

The organizational structure at the headquarters in Munich has also been adapted to future needs. In addition, shortcomings in the way long-term improvements are identified have also been eliminated. In this context, the research and development, marketing and quality management and production departments reached a consensus on each other's market requirements and on PULSION's long-term strategy. Key positions have been filled with experienced people with a view to eliminating identified shortcomings as quickly as possible.

This process of adaptation and improvement will be continued worldwide over the coming years in order to underpin the sustainability of PULSION's business model and to create opportunities for long-term growth.

PULSION's dynamic and profitable growth in the past financial year was made possible, above all, by its enterprising and motivated employees, who will of course remain an important factor for PULSION's future commercial success.

In the fourth quarter 2005, PULSION initiated its *PROPULSION* project, aimed at furthering personnel develoment. This initiative is primarily intended to help employees to develop their personal and professional skills and to prepare future junior management in a professional way for the tasks lying ahead of them with PULSION. In addition, a performance-related compensation scheme applying at all levels within the Group as well as a stock option program are intended to tie in the workforce even more to the Group and to leverage further potential for efficiency.

In March, Dr. Ulrich J. Pfeiffer, the Company's founder and Chairman of the Management Board, resigned from his position as Chairman. Since then, the remaining members of the Management Board have been responsible between them for the marketing, selling and development functions.

PULSION had an average of 101 employees in 2005, a 28 % increase compared to the previous year. At December 31, 2005, the workforce stood at 106 employees, 15 % more than one year earlier. Personnel expenses went up from EUR 5.2 million in 2004 to EUR 6.2 million in 2005 (+19 %).

In 2006, the organizational structure will be further strengthened by appointments in key areas, thus enabling all the tasks arising in conjunction with PULSION's growth to be tackled in good time.

Patents and approvals

Getting the basics right

At the end of 2005, PULSION has 138 national patents (December 31, 2004: 118) at its disposal in various countries. This comprises 96 patents held by PULSION and 42 patent rights which have been licensed to it. In addition, PULSION is currently in the process of applying for a further 215 patents (December 31, 2004: 273) in various countries. The patents and patent applications relate to 36 patent groups. The patents are structured on a modular basis to cover processes, equipment and disposable products and the various elements used in existing and future systems. The Company also has 18 registered trade names which are either already in force or have been applied for.

During the financial year 2005, PULSION successfully completed a number of approvals, albeit with some delays incurred in the area of ICG-PULSION due to additional requirements requested by various regulatory authorities. It is planned that further country approvals within the European Union and the approval of ICG-PULSION in the USA will be obtained over the next few years.

Environmental care and quality management

Conversion project on schedule

PULSION's quality management system was certified by Dekra ITS Certification Services GmbH to EN ISO 13485/11.2000 standard for the last time in 2005. In 2006 it will be certified in accordance with EN ISO 13485:2003. Preparations for the conversion were started during the second half of 2005. In accordance with the European Union Directive on medical devices (MDD 93/42/EEC), PULSION is entitled to use the CE label for products brought into use within the European Union. The PULSION quality management system also complies with the requirements of the US American authorities (FDA) and with the Canadian approval directives CM DC AS.

PULSION complies with all relevant environmental care regulations. Neither the production process nor the products themselves pose any direct or indirect risks to the environment

Corporate governance

High on the list of priorities

PULSION is committed to responsible corporate governance and control and takes a long-term approach to value creation. By a combination of efficient cooperation between the Management and Supervisory Boards and open and timely communication in general, PULSION actively endeavours to reinforce the trust placed on it by customers, employees, investors and members of the public alike. Compliance with these principles is therefore a vital aspect of achieving reliable corporate governance at PULSION.

Management Board remuneration system

The total remuneration of the Management Board is determined by finding a reasonable relationship between the duties and work performed by Management Board members and the economic position of the enterprise. The total remuneration of Management Board members comprises a fixed monthly salary and a performance-related variable component. The variable component is determined on the basis of changes in reported sales revenues and earnings for each year and individual targets. As a long-term incentive, Management Board members also receive stock options on PULSION stock in conjunction with the existing stock option programs. Full details of the remuneration of Management Board members are provided in the Notes.

In 2005, PULSION again carefully considered the principles contained in the Corporate Governance Code in its currently valid version. Various decisions were taken and implemented with the approval of the Supervisory Board, resulting in a further reduction in the number of divergences. The only divergence retained in 2005 was the recommended shortened period of time taken for quarterly reporting (45 days). Plans are already underway for PULSION to introduce the shortened period for quarterly reporting in 2006.

The Declaration of Compliance of the Management and Supervisory Boards was modified in July 2005 and posted to the Group's website under www.PULSION.com where it is available for inspection.

Events after the balance sheet date

There have been no significant events after the balance sheet date.

Risk report

Entrepreneurial activities always involve risk

Risk management system

All companies are faced with a two-fold challenge – on the one hand they must promptly recognise economic opportunities and make the best possible use of them; on the other hand, they must be able to identify the risks accompanying every business activity, analyse the effects they may have on the enterprise and, as far as possible, use preventative measures to avoid or stave off dangers which could arise.

Early recognition of risks at all levels of an enterprise is an essential prerequisite for risk management. PULSION is therefore intent on creating the best possible structure for collating and communicating information. PULSION recognises that risk management is part and parcel of running a business. The only way to recognise and evaluate risks systematically at an early stage, and to take the necessary steps against them in good time, is to have an effective and dynamic risk management system.

Under the leadership of PULSION's risk manager, the responsible members of staff carry out regular checks on processes, procedures and developments with regard to the existence of risks. Current and future risks, and the factors influencing them, are reported on an on-going basis to the Management Board and these issues are discussed thoroughly at Board meetings so that appropriate action can be taken in good time.

The risk management manual, which is continually revised to take account of internal and external changes, provides staff with a helpful tool for identifying and correctly evaluating risks and the probability of their occurrence.

Standardised reporting structures which include comparisons with the previous year's actuals, forecasts or estimated figures are an essential feature of the system.

Using the procedures described above, the appropriate measures are taken, either to avoid potential risks which have already been identified, or to minimize the probability of a risk arising and the possible damaging financial effect that it could have.

Market and competition

In general, developments in the MedTech and Life Science sectors are subject to a high degree of technological change; this applies all the more so to the monitoring of critically ill patients. Due to the attractiveness of this market segment, it can be assumed that competition will continue to intensify in the future. There is, therefore, a constant risk that PULSION, by comparison with its competitors, may not react quickly enough to market trends by developing new products or technologies. This could have an adverse impact on the financial position and the results of the enterprise.

PULSION counters these risks by continually further developing its existing technologies and improving patent protection on the one hand, and by continuously observing the market via intermediary organizations and networks on the other.

Product liability

Product liability has always represented a substantial risk for enterprises in the MedTech and life science sector, since patients could, in the worst case, suffer physical injury resulting in substantial product liability claims against the Group.

PULSION counters this risk with a comprehensive Total Quality Management (TQM) system to ensure the highest standards of safety and quality of product. In addition, a product liability insurance policy with international coverage for substantial amounts is in place. Although no material claims relating to product warranty have been brought against PULSION to date, it cannot be ruled out that PULSION will have to face such claims in the future and that the amounts involved could exceed the insured amounts.

Growth and financing

In the light of the further growth which is planned and the investments that this will entail, it is possible that existing cash funds could be reduced in the future, since the operating margins which are currently generated cannot entirely finance the targeted level of growth. In addition, repayments under existing loan agreements could reduce liquidity.

PULSION addresses this risk with a very detailed forecasting and control system, which compares actual and budget figures on a weekly and monthly basis in order to identify variances at an early stage so that counter-measures can be put in place. In addition, PULSION is continually endeavouring to turn short-term interest-bearing liabilities into long-term liabilities.

Approvals

Very strict approval rules – which can differ from country to country – apply in the MedTech sector, particularly for pharmaceutical products (i.e. ICG-PULSION). It is likely that registration requirements will become even more difficult in the future. The failure to obtain new approvals for the Company's products or a delay in obtaining approval could have a negative impact of the future level of PULSION's revenues and earnings.

PULSION works together with experienced external consultants and trains its own staff in the appropriate areas in order to identify and react to potential risks at an early stage.

Purchasing risks

Since PULSION keeps the depth of production at a low level, it is necessary to buy in a relatively large volume of pre-manufactured components and parts. In order to minimize dependency on suppliers, PULSION pursues a second-source policy and also agrees framework agreements with suppliers containing guaranteed supply clauses. In addition, the Group maintains a high level of inventory of key components and materials to enable it to make alternative supply arrangements in the case of the failure of a supplier to deliver.

Credit risk

The Group counters bad debt risk with a tight receivables management system and provides for such risk in the form of specific and general allowances. For export sales, PULSION generally obtains payments in advance to protect the group from bad debts. The risk is mitigated also by the fact that the Group does business with a wide range of customers, many of which are financed by public sector budgets or which are public sector organizations themselves.

Patents and intellectual property

PULSION is not aware of any infringements of patents or other protected industrial rights of third parties. It cannot be ruled out, however, that third parties will not make claims in the future. The patent infringement claim filed by the former Chairman of the Management Board, Dr. Ulrich J. Pfeiffer, in summer 2005 was withdrawn by letter dated November 16, 2005 addressed to the Munich District Court (see ad-hoc announcements dated July 26, 2005 and November 18, 2005). In the event of any such future claims, a negative outcome could impair the net assets, financial position and results of operations of the Company.

In order to safeguard its technological lead, PULSION always submits innovations and improvements for patent protection as quickly as possible and analyzes patents granted in the relevant areas at regular intervals. A modular approach is applied to patent protection, thus providing increased security for the system as a whole.

Personnel

As a manufacturing company in the MedTech and life science industry, PULSION is dependent to a certain extent on personnel with specialist medical know-how. As a rapidly growing enterprise with worldwide operations, it is essential that existing sales and management capacities are optimized and expanded on an on-going basis.

In order to minimize the risk of personnel fluctuation as well as to find and retain good and experienced staff, PULSION has introduced pleasant and modern working conditions, flat hierarchies, flexible work-time arrangements and an appropriate remuneration system, all of which help to motivate staff. In addition, the PROPULSION initiative started by PULSION (see section on Organizational structure and employees) should further strengthen employees' ties to the enterprise in the future.

Warehousing and transportation

Risks relating to warehousing and transportation of products risks are covered by appropriate insurance policies. Delays in sales, however, can lead to increases in inventories which, in turn, adversely affect liquidity.

With the aid of flexible framework agreements with suppliers, and a monthly up-date of worldwide sales forecasts, PULSION endeavours to identify this risk as early as possible and adjust production accordingly.

Information technologies

PULSION's daily operations – and hence the success of the business – depends increasingly on error-free and safe information technology solutions which are permanently on call.

In order to mitigate any resulting risks at an early stage, PULSION utilizes up-to-date hardware and software, with appropriate back-up systems, mirror databases, virus and access protection as well as encryption systems to ensure the integrity of data and systems. Nevertheless, breaches of security and the loss of confidential information cannot be ruled out entirely. Such occurrences could have a negative impact on PULSION's competitive position.

Subsidiaries

PULSION is also indirectly exposed to the risk environment facing the Group's subsidiaries. PULSION could be affected negatively by the statutory and contractual position of Group companies. PULSION counters this risk by integrating subsidiaries into the Group reporting system. In addition to the day-to-day flow of information, meetings are held at a management level on a monthly basis.

Litigation

As a result of its international activities, PULSION is exposed to a variety of legal risks. This includes, in particular, risks relating to product liability, patent, tax and competition law.

At present, there is no knowledge of significant claims or proceedings against PULSION (see also information about the claim withdrawal in the section "Patents and intellectual property" and pending proceedings against the Company disclosed in the financial statements in the note on "Legal disputes and claims for damages").

Forward-looking report

Strategy and opportunities

Making PiCCO the Gold Standard

PiCCO-Technology has the opportunity of becoming the world's leading technology - the Gold Standard – in the field of haemodynamic management of critically ill patients. PULSION wishes to achieve this core objective within a few years. The main thrust of PULSION's strategy is aimed at achieving market penetration for PiCCO-Technology, in combination with the related CeVOX and LiMON technologies and, in the future, with CiMON.

In order to reach the mass market in all relevant areas, PULSION is focusing principally on the following four strategic areas:

- **Increasing coverage:**
  Further licensing arrangements and the integration of PiCCO-Technology into the products of leading manufacturers of patient monitoring systems in order to improve the worldwide availability of PiCCO-Technology.
- **Focus on core markets:**
  Continuous expansion of the European sales organization and clear focus on the world's largest single market – the USA.
- **Intensified marketing:**
  Increased investment for targeted marketing activities and clinical studies in the core areas of the medical technology market.
- **Optimization of PULSION's technologies:**
  Further development and integration of PULSION's core technologies – in combination with increased user-friendliness, flexibility and patient safety.

PULSION possesses, with ICG-PULSION, another product with good prospects. Due to the fact that it is used on the one hand in conjunction with the LiMON and IC-VIEW technologies and also as a separate diagnostic drug in ophthalmology, it is seen as having significant potential. Over the coming years, PULSION will further extend the coverage of the approvals it already holds in specific European Union markets and then expand onto the US American market.

Prospects

Pace of growth planned to accelerate

During the financial year 2005, PULSION has continued to lay the ground for future profitable growth. At the same time, the past year's performance demonstrates that the business model can quickly offer attractive earnings potential once the point of critical mass has been reached. By generating an EBIT-return on sales of 11 % in 2005 and applying rigorous working capital management procedures, the Group was able to spend EUR 2.6 million on capital expenditure (cash outflow) and service EUR 1.1 million (net) of liabilities, whilst at the same time still managing to improve the cash situation slightly.

PULSION will continue along this course in 2006, investing for medium and long-term growth and rigorously implementing its business strategy. The EBIT is forecast to increase to at least EUR 2.7 million and the return on sales (at an EBIT level) is forecast to remain at a double digit level.

Further prerequisites for achieving PULSION's objectives are the motivation and skills of its workforce. For this reason, the development of the personal skills and know-how of our employees at all levels within the enterprise will be intensified and promoted on a professional basis. In this way, PULSION plans to leverage further potential as quickly and efficiently as possible to enable it successfully to continue on its dynamic growth course.

Munich, March 2, 2006
PULSION Medical Systems AG

Matthias Bohn
Member of the
Management Board

Stefan Land
Member of the
Management Board

Consolidated Balance Sheet

ASSETS	Note	Dec. 31, 2005 KEUR	Dec. 31, 2004 KEUR
Non-current assets			
Intangible assets	11	2,241	870
Property, plant and equipment	11	4,674	4,562
Available-for-sale financial assets	13	0	63
Investment property	14	264	281
Trade accounts receivable	16	37	0
Deferred taxes	9	976	790
Total non-current assets		**8,192**	**6,566**
Current assets			
Inventories	15	2,573	2,744
Trade accounts receivable	16	3,325	3,423
Other current assets	17	788	769
Tax receivables		78	80
Available-for-sale financial assets		1,411	0
Cash and cash equivalents*	18	3,413	4,491
Total current assets		**11,588**	**11,507**
Total assets		**19,780**	**18,073**

* including fixed term deposits of EUR 0.4 million (Dec. 31, 2004: EUR 0.5 million) pledged as security

EQUITY AND LIABILITIES

	Note	Dec. 31, 2005 KEUR	Dec. 31, 2004 KEUR
Equity	19		
Subscribed capital		9,496	9,446
Additional paid-in capital		19,886	19,762
Other reserves		(163)	(335)
Accumulated deficit		(18,211)	(20,169)
Minority interests	10	245	161
Total equity		**11,253**	**8,865**
Non-current liabilities			
Provisions	22	56	92
Liabilities to banks	23	698	452
Financial liabilities	24	489	708
Lease liabilities	12	805	777
Other liabilities	25	855	902
Total non-current liabilities		**2,903**	**2,931**
Current liabilities			
Provisions	22	143	125
Convertible bond liabilities	20	0	23
Liabilities to banks	23	469	390
Financial liabilities	24	444	1,718
Trade accounts payable		1,537	1,115
Lease liabilities	12	470	396
Taxes payable	9	156	88
Other liabilities	25	2,405	2,422
Total current liabilities		**5,624**	**6,277**
Total equity and liabilities		**19,780**	**18,073**

The accompanying notes are an integral part of the consolidated financial statements.

Group Income Statement

	Note	2005 KEUR	2004 KEUR
Sales	6	20,197	16,267
Cost of sales	7	(5,737)	(5,363)
Gross profit		**14,460**	**10,904**
Selling and marketing expenses		(8,996)	(6,527)
Research and development expenses		(1,255)	(825)
General and administrative expenses		(3,140)	(2,428)
Other operating expenses	8	(104)	(104)
Other operating income	8	1,214	734
Operating profit		**2,179**	**1,754**
Exchange losses		(59)	(36)
Exchange gains		151	1
Profit before interest and taxes (EBIT)		**2,271**	**1,719**
Interest expenses		(309)	(309)
Interest income		84	21
Profit before taxes (EBT)		**2,046**	**1,431**
Income taxes	9	(10)	(75)
Group net profit (before minority interests)		**2,036**	**1,356**
of which attributable to shareholders of the group parent company		1,911	1,066
of which attributable to minority interests		125	290
Earnings per share			
Undiluted - ordinary operations after taxes	28	0.21	0.14
Diluted - ordinary operations after taxes	28	0.21	0.14
Average number of shares in circulation (undiluted)		9,495,802	9,446,052
Average number of shares in circulation (diluted)		9,531,752	9,495,315

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Cash Flow Statement

		2005 KEUR	2004 KEUR
CASH FLOW FROM OPERATING ACTIVITIES	Group net profit	1,911	1,066
	Minority interests	138	290
	Dividends	(54)	(145)
	Amortization and depreciation of intangible assets and property, plant and equipment	1,487	1,464
	Change in receivables	61	(169)
	Change in inventories	(202)	(13)
	Income taxes received	124	0
	Change in other assets and liabilities	(443)	(1,108)
	Other non-cash income and expenses	237	184
	Cash flow from operating activities	**3,259**	**1,569**
CASH FLOW FROM INVESTING ACTIVITIES	Purchase of intangible assets and property, plant and equipment	(2,557)	(1,851)
	Proceeds from disposal of intangible assets and property, plant and equipment	793	1,043
	Cash flow from investing activities	**(1,764)**	**(808)**
CASH FLOW FROM FINANCING ACTIVITIES	Payments into equity capital	98	7
	Proceeds from raising current and non-current loans	500	56
	Repayments of bank borrowings	(156)	(345)
	Repayments of financial liabilities	(1,480)	(843)
	Interest received	66	60
	Interest paid	(214)	(199)
	Proceeds from finance leases	583	1,065
	Repayments of finance leases	(480)	(613)
	Cash flow from financing activities	**(1,083)**	**(812)**
CASH FUNDS AT THE END OF THE PERIOD	Decrease/increase in cash funds	412	(51)
	Cash funds at the beginning of the period	3,976	4,027
	Cash funds at the end of the period	**4,388**	**3,976**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity and Analysis of Changes in Fixed Assets

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Subscribed capital Shares	Subscribed capital KEUR	Additional paid-in capital KEUR
Balances at January 1, 2004	**9,442,802**	**9,443**	**19,753**
Exchange differences		0	0
Group net profit		0	0
Total result for the period		**0**	**0**
Dividends		0	0
Employee share option programs	3,250	3	8
Equity component of convertible bonds	0	0	1
Balances at December 31, 2004	**9,446,052**	**9,446**	**19,762**
Exchange differences		0	0
Group net profit		0	0
Total result for the period		**0**	**0**
Dividends		0	0
Contributions to reserves		0	0
Losses assumed		0	0
Employee share option programs	25,750	26	90
Equity component of convertible bonds	24,000	24	34
Balances at December 31, 2005	**9,495,802**	**9,496**	**19,886**

ANALYSIS OF CHANGES IN FIXED ASSETS IN 2005

	Historical Cost				
	Jan. 1, 2005 EUR	Translation differences EUR	Additions EUR	Disposals EUR	Dec. 31, 2005 EUR
Intangible assets					
Purchased intangible assets	291,079	50	162,414	5.200	448,343
Internally generated intangible assets	859,931	0	1,380,428	0	2,240,359
	1,151,010	**0**	**1,542,842**	**5,200**	**2,688,702**
Property, plant and equipment					
Technical equipment, plant and machinery	448,087	0	204,137	89,417	562,807
Other equipmnet, furniture and fittings	5,520,526	70,200	1,019,527	638,578	5,971,675
Finance leases	2,846,378	0	503,124	61,355	3,288,147
	8,814,991	**70,200**	**1,726,788**	**789,350**	**9,822,629**
Investment property	379,459	0	0	0	379,459
Investments: Equity investments	62,559	0	0	0	62,559
	10,408,019	**70,250**	**3,269,630**	**794,550**	**12,953,349**

ANALYSIS OF CHANGES IN FIXED ASSETS IN 2004

	Jan. 1, 2004 EUR	Translation differences EUR	Additions EUR	Disposals EUR	Dec. 31, 2004 EUR
Intangible assets					
Purchased intangible assetse	286,166	0	4,942	29	291,079
Internally generated intangible assets	184,495	0	675,436	0	859,931
	470,661	**0**	**680,378**	**29**	**1,151,010**
Property, plant and equipment					
Technical equipment, plant and machinery	215,749	0	249,223	16,885	448,087
Other equipmnet, furniture and fittings	5,155,671	–7,965	1,602,477	1,229,657	5,520,526
Finance leases	1,930,256	0	916,122	0	2,846,378
	7,301,676	**–7,965**	**2,767,822**	**1,246,542**	**8,814,991**
Investment property	379,459	0	0	0	379,459
Investments: Equity investments	62,559	0	0	0	62,559
	8,214,355	**–7,965**	**3,448,200**	**1,246,571**	**10,408,019**

The accompanying notes are an integral part of the consolidated financial statements.

Accumulated deficit KEUR	Other reserves KEUR	Minority interests KEUR	Total KEUR
–21,235	**–313**	**107**	**7,755**
0	–22	–91	–113
1,066	0	290	1,356
1,066	**-22**	**199**	**1,243**
0	0	–145	–145
0	0	0	11
0	0	0	1
– 20,169	**– 335**	**161**	**8,865**
0	172	0	172
1,911	0	125	2,036
1,911	**172**	**125**	**2,208**
0	0	–54	–54
0	0	60	60
47	0	–47	0
0	0	0	116
0	0	0	58
– 18,211	**–163**	**245**	**11,253**

		Accumulated depreciation			**Carrying amounts**	
Jan. 1, 2005 EUR	Translation differences EUR	Additions EUR	Disposals EUR	Dec. 31, 2005 EUR	Dec. 31, 2005 EUR	Dec. 31, 2004 EUR
259,670	49	56,900	289	316,330	132,013	31,409
21,197	0	109,868	0	131,065	2,109,294	838,734
280,867	**49**	**166,768**	**289**	**447,395**	**2,241,307**	**870,143**
184,189	0	99,245	8,848	274,586	288,221	263,898
2,969,932	2,669	721,695	339,375	3,354,921	2,616,754	2,550,594
1,099,022	0	420,405	0	1,519,427	1,768,720	1,747,356
4,253,143	**2,669**	**1,241,345**	**348,223**	**5,148,934**	**4,673,695**	**4,561,848**
98,703	0	16,451	0	115,154	264,305	280,756
0	0	62,559	0	62,559	0	62,559
4,632,713	**2,718**	**1,487,123**	**348,512**	**5,774,042**	**7,179,307**	**5,775,306**

Jan. 1, 2004 EUR	Translation differences EUR	Additions EUR	Disposals EUR	Dec. 31, 2004 EUR	Dec. 31, 2004 EUR	Dec. 31, 2003 EUR
236,553	0	23,117	0	259,670	31,409	49,613
461	0	20,736	0	21,197	838,734	184,034
237,014	**0**	**43,853**	**0**	**280,867**	**870,143**	**233,647**
138,591	0	46,500	902	184,189	263,898	77,158
2,251,924	0	1,000,100	282,092	2,969,932	2,550,594	2,903,747
736,634	0	362,388	0	1,099,022	1,747,356	1,193,622
3,127,149	**0**	**1,408,988**	**282,994**	**4,253,143**	**4,561,848**	**4,174,527**
87,194	0	11,509	0	98,703	280,756	292,265
0	0	0	0	0	62,559	62,559
3,451,357	**0**	**1,464,350**	**282,994**	**4,632,713**	**5,775,306**	**4,762,998**

Notes to the Consolidated Financial Statements

1. Business and nature of operations

PULSION Medical Systems AG, Munich, Germany, ("PULSION", "PULSION AG" or the "Company") was established in 1990. In June 2001, the Company completed its initial public offering on the Neuer Markt in Frankfurt, Germany and is now listed on the Prime Standard of the Frankfurt Stock Exchange. PULSION develops, manufactures and sells systems worldwide to monitor, diagnose and manage the physical parameters of seriously ill and intensive care patients in hospitals. PULSION also produces and markets intravenous diagnostics and specific sterile disposable items for monitoring patients.

The PULSION Group employed 106 and 92 people worldwide as at December 31, 2005 and 2004, respectively, of whom 84 and 74 respectively worked at the headquarters and production facility of PULSION AG in Munich.

These consolidated financial statements were released by the Management Board on March 2, 2006 for approval by the Supervisory Board.

2. General comments

The consolidated financial statements of PULSION and its subsidiaries have been prepared for the first time in accordance with International Financial Reporting Standards (IFRS) and Interpretations, as issued by the International Accounting Standard Boards (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), respectively.

For the purposes of preparing the first IFRS consolidated financial statements, all International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) of the International Financial Reporting Interpretations Committee / Standing Interpretations Committee (IFRIC/SIC), which were mandatory for the financial year, were applied.

The following IFRS and IFRIC have not been adopted by PULSION before their mandatory date of application:

Mandatory application from January 1, 2006 onwards:

- IFRS 6: Exploration for and Evaluation of Mineral Resources
- IFRIC 4: Determining whether an Arrangement contains a Lease
- IFRIC 5: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation
- IFRIC 6: Liabilities arising from participating in a Specific Market - Waste Electrical and Electronic Equipment
- IFRIC 7: Applying the Restatement Approach under IAS 29

Mandatory application from January 1, 2007 onwards:

- IFRS 7: Financial Instruments: Disclosures

From today's perspective, the mandatory application of the above-listed Standards from January 1, 2006 and January 1, 2007 onwards respectively, will not have any material impact on PULSION's consolidated financial statements.

PULSION AG is a parent company as defined by § 290 of the German Commercial Code (HGB). As a result of the fact that it has issued equity securities on the capital market, PULSION AG is required pursuant to § 315a (1) HGB (in conjunction with Article 4 of the Regulation of the European Parliament and Council dated July 19, 2002) to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU, taking account of the acquisition cost principle. In order to ensure that the consolidated financial statements so prepared are equivalent in informational value to consolidated financial statements prepared in accordance with German law, various disclosures and details required by German law are provided in addition to the disclosure requirements of IFRS.

The date of first time adoption of IFRS is January 1, 2004. The effect of first-time adoption of IFRS is presented in the form of reconciliations.

The balance sheet is classified in accordance with IAS 1 on the basis of the current/non-current distinction; the income statement is presented using the cost of sales method.

3. Accounting principles and policies

Assets and liabilities are measured in the consolidated financial statements on the basis of their amortised historical cost. Unless otherwise stated, the accounting policies described below were applied consistently for each of the accounting periods presented.

Critical estimates used for accounting and measurement: The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that can have an impact on the amounts reported in the financial statements and accompanying notes. The estimates and assumptions relate principally to the group-wide determination of economic useful lives of tangible and intangible assets, the recognition and measurement of provisions and the recoverability of future tax benefits. Deferred tax assets on tax losses available for carryforward are recognized only to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized. Actual results could differ from those estimates.

Basis of consolidation: The consolidated financial statements comprise all subsidiaries over which PULSION has control. Control is realized at each of the subsidiaries by holding a majority of the voting power. There are no associates.

Receivables and payables of consolidated group entities are offset against each other. The carrying amount of assets acquired from other group entities is reduced to take account of any intercompany profits or losses; these assets are therefore measured at group acquisition or manufacturing cost.

Intercompany sales are eliminated. All other intercompany income and expenses are offset against each other. Deferred tax is recognized on consolidation adjustments which have an income statement impact if the tax effect is expected to reverse in future financial years.

Foreign currency translation: The consolidated financial statements are drawn up in Euro, PULSION's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Gains and losses arising from settling such transaction are recognized in profit or loss.

For operations outside of Germany that prepare financial statements in currencies other than the Euro, results of operations and cash flows are translated at average annual exchange rates, and assets and liabilities are translated at closing rates. Translation differences resulting from applying different exchange rates are recognised in profit and loss in the case of monetary items and directly in equity (in other reserves) in the case of non-monetary items.

Cash and cash equivalents and current investments: Cash and cash equivalents comprise cash and bank balances, including short-term deposits with an original term of up to three months.

Financial assets: PULSION holds the following categories of financial assets:

Receivables: Receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They arise when the Group makes cash, goods or services available to a debtor, where the Group has no intention of trading the resulting balances. They are classified as non-current assets to the extent that they are not due later than 12 months after the balance sheet date. All other receivables are classified as non-current assets. Receivables are measured on initial recognition at their fair value, which will normally correspond to the nominal value. Subsequent to initial recognition, allowances are recognized on receivables on the basis of the likelihood of incurring losses on those balances.

Available-for-sale financial assets: Available-for-sale financial assets are non-derivative financial assets which are designated as available for sale and are not classified as receivables, or one of the other categories described below. The minority interest in KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu, Hungary, and marketable securities are allocated to this category.

All purchases and sales of marketable securities are measured at their trade-date fair value (market price) and, subsequent to initial recognition, at their fair value. Gains and losses arising from changes in market prices are recognized initially directly in equity. In the event of a significant loss in value of a lasting nature, losses are recognized in profit or loss. Gains and losses previously recognized directly in equity are recognized in profit or loss on disposal of the relevant assets.

Inventories: Inventories are stated at the lower of acquisition/manufacturing cost or net realisable value. Net realisable value is defined as the estimated selling price in the ordinary course of business less necessary variable costs to complete the sale. Manufacturing cost comprises the direct cost of production material and wages and a proportion of production overheads, including depreciation. Acquisition and manufacturing cost are computed using the weighted average method. Borrowing costs are not recognized as a component of asset, since PULSION does not have any qualifying assets. Inventory write-downs are recognised in the case of risks for slow moving or obsolescent items.

Property, Plant and Equipment: Property, plant and equipment are stated at acquisition/manufacturing cost less accumulated depreciation. Acquisition/manufacturing cost includes all costs directly attributable to an acquisition. Subsequent costs are only recognized as part of the cost of the asset or – if relevant – as a separate asset, if it is probable that future economic benefits will flow to the Group and if the cost of the asset can be measured reliably. All other repair and maintenance costs are recognized as expense in the period in which they are incurred. Borrowing costs are not capitalized since PULSION does not have any qualifying assets. Monitors recognized as inventories in quarterly reports have been reclassified retrospectively to property, plant and equipment.

Depreciation is determined using the straight-line method over the estimated useful lives of the assets. The estimated useful lives for property, plant, and equipment are as follows:

Buildings	25 years
Leasehold improvements	5-10 years
Other factory and office equipment	3-10 years
Assets leased under finance leases	7.5 years

Useful lives are reviewed at each reporting date and amended where necessary.

Property, plant and equipment are periodically reviewed for impairment whenever circumstances and situations change such that there is an indication that the respective carrying amounts of such assets may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds the estimated recoverable amount. The recoverable amount is defined as the higher of an asset’s fair value less costs to sell and its value in use.

Investment property: The real estate presented as investment property relates to rented residential accommodation and offices which are held to earn rentals and are not used by the Group for operational purposes. Investment property is measured at acquisition cost less scheduled depreciation and impairment losses. Scheduled depreciation is computed using the straight-line method over the estimated useful life of the asset. The useful life of the investment property is 25 years. The fair value of investment property was determined on the basis of a discounted forecast of net cash flows up to the end of the asset's useful life within the business, applying a discount factor that reflects current market assessments of the uncertainty in the amount and timing of cash flows.

Intangible assets: Software, development projects, approvals and patents have finite useful lives and are measured initially at cost. The cost of development projects includes borrowing costs. Scheduled amortization is computed using the straight-line method over the estimated useful lives of the asset. The estimated useful lives for the various classes of intangible assets are as follows:

Internally generated intangible assets	5-20 years
Purchased intangible assets	3-5 years

Research and development costs are expensed as incurred. The following items are excluded from this general rule:

a) Expenditure on development projects which are in the so-called application development phase and which meet the criteria for recognition set out in IAS 38.57. The normal useful live for the business in this case is 5 years.
b) Expenditure on approvals in Europe and the USA. These costs are depreciated on a straight-line basis over periods of between 5 and 15 years, commencing on the date of market introduction.
c) Expenditure to obtain patents. Once a patent has been issued, it is amortized straight-line over a useful life of 20 years. An impairment loss is recognized when efforts to obtain the patent are discontinued.

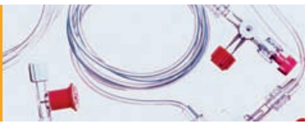
These items are recognized in accordance with IAS 38 as internally generated intangible assets. Intangible assets are periodically reviewed for impairment whenever circumstances and situations change such that there is an indication that the respective carrying amounts of such assets may not be recoverable. If the carrying value exceeds the estimated amount of undiscounted future cash flows before interest and tax, an impairment loss, measured as the difference between the fair value and the recoverable amount, is recognized. No impairment losses were recognized in the financial years 2005 and 2004.

Leases

As the lessee under finance leases: PULSION finances a part of its manufactured medical equipment via sale-and-lease-back transactions. Lease classification is based on IAS 17.

All existing leases are based on a standardized framework agreement and have a lease term of 48 months. PULSION can acquire the leased assets under a favourable purchase option at the end of the term or continue to lease the assets. Due to the favourable purchase option the lease back is classified as a finance lease. Accordingly, the sale to the lease company does not lead to the recognition of sales and cost of sales. The excess of the sales proceeds (as invoiced to the leasing company) over cost is deferred under other liabilities and amortized over the lease term (IAS 17.59).

The transaction is therefore accounted for as a financing transaction, with the equipment remaining in property, plant and equipment and subjected to scheduled depreciation.



Lessor: The Group makes equipment available to customers on the following terms:

a) Free-of-charge rental: Equipment is made available to customers free of charge on condition that they agree to purchase minimum volumes of disposable products. Ownership of the equipment remains with the Company. The equipment is depreciated over 90 months and the depreciation expense is presented as a sales expense.
b) Rental agreement with purchase option: These contracts usually have a term of 3 years and contain a favourable purchase option. Sales revenue is recognized when the contracts are concluded since economic ownership is transferred to the customer. Legal ownership of the equipment remains with the Company until expiry of the contract term.

Provisions: In accordance with IAS 37, a provision is recognized when the entity has a present obligation to a third party as a result of a past event, it is probable that on outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at their settlement amount. Provisions for warranties are recognized and measured on the basis of the Group's past experience of the level of costs necessary to settle warranty obligations. Provisions for onerous contracts are recognized when the unavoidable costs of meeting obligations under a contract exceed the economic benefits expected to be received under it. If a number of similar obligations exist, the probability of incurrence is determined on the basis of the overall group of these obligations.

Financial liabilities: Financial liabilities are measured on initial recognition at their fair value. Subsequent to initial recognition, they are measured at amortised cost. Finance lease liabilities are measured initially at the present value of future lease payments and reduced in subsequent periods by the repayment portion of lease payments. The fair value of the debt component of a convertible bond is determined using the market interest rate for a comparable non-convertible bond. This is recognized as a liability at amortized cost until the bond is converted.

Borrowing costs: In accordance with IAS 23.20, borrowing costs are capitalized in the case of construction of qualifying assets.

Revenue and cost recognition: Revenue from product sales is recognized when delivery has occurred or services have been rendered, the seller's price is fixed or determinable, and collectibility is probable. Service revenues are generally recognized at the time of performance. Sales revenue is stated after deduction of rebates, customer bonuses and settlement discount.

Product-related expenses: As a result of various market and product-related factor, such as general economic conditions, competitive intensity and the purchasing practises of customers, the Company uses promotional measures to control selling prices. Advertising expenses and sales promotion as well as sales-related expenses are expensed when incurred. Provisions for warranty costs are recognized.

Income taxes: Income tax expense represents the aggregate amount of current and deferred tax expense. Current tax expense is measured on the basis of taxable profit for the fiscal year and relates to German corporation tax, German trade municipal tax and foreign income taxes.

The deferred tax expense in accordance with IAS 12 results from taxable temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax bases of those assets and liabilities used to compute taxable income. This involves the use of the liability method. Deferred taxes are measured using tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date and that are expected to be valid at the date when the deferred tax asset is realized or the deferred tax liability is settled.

Deferred taxes are recognized on the one hand on timing differences between the accounting and tax bases of assets and liabilities. In addition deferred tax assets are also recognized on tax losses available for carryforward. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available, based on the most recent forecast, against which the tax losses can be utilized. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable profit in the years in which the temporary differences are expected to reverse.

Employment benefits: In conjunction with legal provisions, employees are given the opportunity to enter into external pension arrangements via the company. These arrangements do not involve any obligations for the Company.
The Group has no other pension obligations.

Employee share participation program/share options: Two stock option programmes are in place as incentives to tie employees and executive management into the Company. Stock options issued after November 7, 2002 (Stock Option Plan 2003) are measured in accordance with IFRS 2 at fair value, and the resulting amount is recognized as expense over the vesting period of the options.

Segment reporting: A geographical segment provides products or services within a particular economic environment and is subject to risks and returns that are different from those arising in other economic environments. A business segment is a distinguishable component of the Group, with its own assets and liabilities and operational activities, that is engaged in providing products or services and that is subject to risks and returns that are different from those of other business segments.

4. Consolidated companies

Name	Country	Date founded (*)	Investment
PULSION France S. A. R. L., Aix en Provence	France	October 1, 1999	100%
PULSION Benelux N. V., Gent	Belgium	January 22, 1999	75 %
PULSION Medical UK Ltd., Uxbridge	United Kingdom	August 7, 1998	51 %
PULSION Medical Inc., Vista, California	USA	October 1,1999	100 %
PULSION Pacific Pty Limited, Randwick	Australia	December 22, 1999	51 %
PULSION Medical Systems Iberica S. L., Madrid	Spain	November 27, 2000	60 %

* Date of foundation corresponds to the date of first-time consolidation

The above subsidiaries distribute the Group's equipment and products. PULSION Medical Systems AG's investment in the subsidiary in France, PULSION France S.A.R.L., was increased by 10% to 100% during the financial year 2005.

The following entity is not consolidated as an associate due to the lack of significant influence by the Group over it.

Name	Country	Date founded	Investment
KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu	Hungary	October 1, 1999	25 %

In 2005, the minority investment in KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu, Hungary, was written down in full, since the company is currently subject to insolvency proceedings.

5. Reconciliation from US GAAP to IFRS

1. Reconciliation of equity at January 1, 2004 and December 31, 2004

	Note	Dec. 31, 2004 KEUR	Jan. 1, 2004 KEUR
Equity in accordance with US GAAP		**9,203**	**8,314**
Capitalized development costs	(A)	121	29
Remeasurement of property, plant and equipment	(B)	–477	–559
Remeasurement of convertible bonds and stock options	(C)	2	3
Leases - impact on fixed assets	(D)	1,228	672
Leases - impact on deferred items	(D)	–856	–526
Leases - impact on liabilities	(D;G)	86	–5
Revenue recognition	(E)	–505	–466
Provision for onerous contracts	(F;G)	–137	–81
Tax impact of adjustments - assets -	(H)	420	654
Tax impact of adjustments - liabilities -	(H)	–220	–280
Equity in accordance with IFRS		**8,865**	**7,755**

2. Reconciliation of net profit for the financial year 2004

	Note	Jan. - Dec. 2004 KEUR
Group net profit after minority interests in accordance with US GAAP		**850**
Sales	(E)	–39
Cost of sales	(B,C,D)	–20
R&D expenses	(A)	92
Other operating income	(D)	413
Other operating expenses	(F)	–48
Interest expenses	(G)	–8
Tax impact of adjustments	(H)	–174
Group net profit after minority interests in accordance with IFRS		**1,066**

A. In accordance with IAS 38, research and development costs recognized as expense for US GAAP purposes are recognized as assets for IFRS purposes. Research and development expenses decreased accordingly and equity increased.

B. The depreciation period for loaned-out monitors was increased from 60 months from the date of installation to 90 months from the date of manufacture. As a result of this change in the depreciation method, the carrying amount of property, plant and equipment is lower for IFRS purposes than for US GAAP purposes. In addition, depreciation of property, plant and equipment in subsequent periods (and therefore depreciation expense) will be different.

C. The measurement of stock options at their fair value in accordance with IFRS 2, as described above in Note 3 "Accounting principles and policies" and the splitting of the convertible bond into its equity and debt components in accordance with IAS 32 gives rise to higher equity under IFRS than under US GAAP. Under US GAAP, stock options were accounted for in accordance with APB Opinion No. 25, which does not envisage the recognition of a remuneration expense. The personnel expense arising from the IFRS treatment of stock options has been recognized in the income statement.

D. As described in Note 3 "Accounting principles and policies" sale-and-leaseback transactions are accounted for under IFRS in two steps. The carrying amount of leased assets is therefore higher under IFRS; on the liabilities side of the balance sheet, lease liabilities are recognised and the profit on sale is deferred. The profit is recognized as income over the term of the lease, thus increasing other operating income. The higher carrying amount under IFRS gives rise to a higher depreciation expense in subsequent periods in comparison to US GAAP.

E. Revenue from the license agreements with the companies Dräger and Zeiss is deferred for IFRS purposes, thus resulting in a reduction of revenue in the year in which the agreement is concluded. The recognition of this revenue on a time-apportioned basis results in higher revenue in subsequent periods. In 2004, the amount of revenue deferred in conjunction with the Zeiss agreement exceeded the amount recognized as revenue under the agreements. Revenue was therefore lower in 2004 for IFRS purposes than for US GAAP purposes. This effect reversed as of 2005.

F. Under IFRS, a provision for onerous contracts has been recognized for unused office space. The rental agreement concerned was extended in 2004, since the bulk of the office space is used and the agreement could only be extended for the full area. This gives rise to a higher carrying amount of the obligation and to the recognition of expense (presented in other operating expenses). Actual rental payments for the unused space are recorded against the provision over the term of the rental agreement.

G. Interest expense is higher for IFRS purposes than for US GAAP purposes, as a result of the effect of unwinding the discounting on the sale-and-leaseback agreements referred to above.

H. Differences arose for various balance sheet items as a result of the application of IFRS (see A. to G.). The resulting deferred tax effect is shown under this heading.

Notes to the consolidated income statement

6. Sales

Sales by product line are as follows:

	2005 KEUR	2004 KEUR
Equipment	3,724	3,070
Disposables	13,509	10,782
Indication/diagnosis	2,764	2,300
Service and other	200	115
	20,197	**16,267**

Equipment sales include all revenues related to equipment manufactured and sold by the Group.

7. Cost of sales and personnel expense

Cost of sales comprises primarily the cost of raw materials and supplies used of KEUR 3,599 (2004: KEUR 3,362) and of purchased goods and services of KEUR 218 (2004: KEUR 184). Depreciation and amortization of KEUR 119 (2004: KEUR 93) is also included.

The expense positions in the consolidated income statement contain the following personnel expenses:

	2005 KEUR	2004 KEUR
Wages and salaries	5,261	4,483
Statutory social security	883	734
Expense for stock options	62	6
	6,206	**5,223**

The Group had 101 and 79 employees on average in 2005 and 2004, respectively. The average employee figure for 2005 included 5 people employed on a low wage-earning basis.

8. Other operating income and expenses

Other operating income comprises mainly income from the reversal of liabilities of KEUR 322 (2004: KEUR 60), income from profit realization on sale-and-leaseback contracts of KEUR 287 (2004: KEUR 403), license income of KEUR 192 (2004: KEUR 0), income from the private use of company vehicles amounting to KEUR 138 (2004: KEUR 79) and rental income of KEUR 26 (2004: KEUR 26). Other operating expenses include in particular the impairment loss of KEUR 63 recognized on the minority investment in KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu, Hungary.

9. Taxes on income

	2005 KEUR	2004 KEUR
Current tax expense	196	216
Deferred tax expense	889	566
Deferred tax income	–1,075	–707
	10	**75**

The amount reported as current tax expense relates to German corporation tax, German trade municipal tax, deductible foreign withholding taxes and foreign income taxes of the non-German group entities as computed under relevant national tax rules. Tax liabilities at December 31, 2005 amounted to KEUR 156 (Dec. 31, 2004: KEUR 88).

Deferred taxes result from timing differences between the tax bases and accounting carrying amounts of assets and liabilities using the liability method, timing differences relating to consolidation procedures and the recognition of deferred tax assets on tax losses available for carryforward. Deferred taxes at December 31, 2005 were computed for German companies on the basis of a corporation tax rate of 25% (December 31, 2004: 25%). In addition, a solidarity surcharge of 5.5% on corporation tax and an effective municipal trade tax rate of approximately 13.5% (December 31, 2004: 13.5%) were taken into account. Including the solidarity surcharge and municipal trade tax, an overall tax rate of 40% (December 31, 2004: 40%), therefore applies to the computation of deferred taxes for the Group's German company.

On the basis of the positive development of earnings and the anticipated positive results of PULSION Medical Systems AG in the next two years, it is sufficiently probable that taxable profit will be available in this period. The Group has not recognized deferred tax assets of KEUR 9,030 on unused tax losses of KEUR 22,575 which can be carried forward for offset against future taxable profit.

The following summary shows a reconciliation between the expected tax expense, derived from applying a cumulative German tax rate of 40 % (2004: 40 %) for corporation tax, solidarity surcharge and municipal trade tax and the actual tax expense:

	2005 KEUR	2004 KEUR
Group profit before tax	2,046	1,431
Expected tax expense	818	572
Variances from expected tax expense:		
Tax-exempt income	–21	–30
Foreign withholding taxes	34	0
Non-deductible expenses, adjustments for tax rules	1,257	518
Utilization of tax losses for which deferred tax assets were not previously recognized	–880	–974
Recognition of deferred tax on unused tax losses	–1,197	0
Other	–1	–11
	10	**75**

Deferred tax assets and liabilities relate to the following items:

	Dec. 31, 2005		Dec. 31, 2004	
	KEUR Deferred tax assets	KEUR Deferred tax liabilities	KEUR Deferred tax assets	KEUR Deferred tax liabilities
Intangible assets	232	844	268	336
Property, plant and equipment	276	707	340	697
Inventories	141	0	144	0
Receivables and other current assets	0	85	0	0
Other provisions	0	0	57	0
Liabilities	1,005	0	1,014	0
Consolidation procedures	0	239	0	0
Accumulated deficit	1,197	0	0	0
	2,851	1,875	1,823	1,033
Offset of deferred tax assets and liabilities	–1,875	–1,875	–1,033	–1,033
Deferred tax asset	**976**	**0**	**790**	**0**

It is forecast that, of the KEUR 976 (Dec. 31, 2004: KEUR 790) reported as deferred tax assets at December 31, 2005, deferred tax assets amounting to KEUR 141 (Dec. 31, 2004: KEUR 144) and deferred tax liabilities amounting to KEUR 0 (2004 KEUR 0) will be utilized within one year.

Final tax assessments covering several years have not been received for some group entities. The Management Board considers that adequate provision has been made in the consolidated financial statements for any additional tax payments for these assessment periods.

10. Minority interests

Minority interests relate to the minority shareholders' interests in the result of PULSION Medical UK Ltd. and PULSION Medical Systems Iberica S.L. for the year (the result of the latter being positive for the first time in 2005).

Notes to the consolidated balance sheet

11. Intangible assets and property, plant and equipment

Intangible assets at December 31, 2005 comprised:

	Historical Cost KEUR	Accumulated amortization KEUR	Carrying amount KEUR
Approvals	1,516	68	1,448
Patents	386	8	378
Distribution rights	178	178	0
Product development	339	55	284
Software	270	138	132
Total	**2,689**	**447**	**2,241**

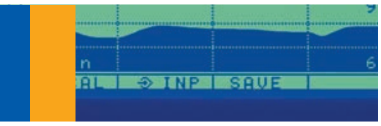
Intangible assets include capitalized borrowing costs of KEUR 4 (Dec. 31, 2004: KEUR 5) determined using a capitalisation rate of 7.4 % (2004: 6.8 %).

12. Lease liabilities

The Company leases back self-manufactured medical equipment on the basis of non-cancellable lease agreements which run for terms of 48 months. The future annual minimum lease payments for the leases amount to:

Dec. 31, 2005 KEUR	< 1 year	2-5 years	> 5 years
Minimum lease payments December 31, 2005	563	889	0
Interest expense for lease liabilities as at the balance sheet date	93	83	0
Present value of minimum lease payments December 31, 2005	**470**	**806**	**0**

Dec. 31, 2004 KEUR	< 1 year	2-5 years	> 5 years
Minimum lease payments December 31, 2004	489	868	0
Interest expense for lease liabilities as at the balance sheet date	93	91	0
Present value of minimum lease payments December 31, 2004	**396**	**777**	**0**



13. Available-for-sale financial assets

The amount shown as investments in the consolidated balance sheet relates to the non-consolidated 25 % interest in KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu/Hungary. A 100% impairment loss was recognized on the investment in 2005 following the opening of insolvency proceedings over that entity.

14. Investment property

Rental income from investment property amounted to KEUR 26 in 2005 (2004: KEUR 26). Costs directly related to investment property amounted to KEUR 6 (2004: KEUR 5). The fair value of real estate presented as investment property corresponds roughly to the carrying amount.

15. Inventories

Inventories comprise:

	Dec. 31, 2005 KEUR	Dec. 31, 2004 KEUR
Raw materials and supplies	1,347	1,029
Work in progress	169	302
Finished goods and goods for resale	1,057	1,413
	2,573	**2,744**

Write-downs on inventories were as follows:

	Dec. 31, 2005			Dec. 31, 2004		
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Raw materials and supplies	1,713			1,341		
of which subject to write-down	366			312		
Write-downs		–366	1,347		–312	1,029
Work in progress	169	0	169	302	0	302
Finished goods and goods for resale	1,497			2,438		
of which subject to write-down	977			1,304		
Write-downs		–440	1,057		–1,025	1,413
			2,573			**2,744**

The net impact of write-downs in 2005 was recognized as an expense within cost of sales.

16. Trade accounts receivable

	Dec. 31, 2005 KEUR	Dec. 31, 2004 KEUR
Trade accounts receivable	3,377	3,441
less: allowances	15	18
Trade accounts receivable	**3,362**	**3,423**

17. Other receivables and other assets

This item comprises the following:

	Dec. 31, 2005 KEUR	Dec. 31, 2004 KEUR
Deferred expenses	279	187
Advance payments to suppliers	124	246
Receivable from German Tax Office - valued added tax	202	86
	605	519
Other	183	250
Total	**788**	**769**

18. Cash funds

Cash funds reported in the cash flow statement comprise:

	Dec. 31, 2005 KEUR	Dec. 31, 2004 KEUR
Cash and cash equivalents	3,413	4,491
Available-for-sale financial assets (investment fund shares)	1,411	0
Cash pledged as collateral	–436	–515
	4,388	**3,976**

19. Equity

The composition of and changes in shareholders' equity are shown in the Statement of Changes in Equity. The holders of shares of common stock are entitled to one vote per share and are entitled to dividends as declared.

In accordance with the shareholders' resolution dated June 9, 2004, the Management Board is entitled, prior to June 8, 2009 and subject to approval by the Supervisory Board, to increase the share capital by up to EUR 4,721,401.00 by the issue, in one or several steps, of up to 4,721,401 new bearer shares in return for cash contributions or contributions in kind.

The Management Board is entitled, subject to approval by the Supervisory Board, to exclude the subscription rights of existing shareholders:

- if the increase in the share capital of the Company by means of cash contribution does not exceed 10% of the existing share capital at the date of the resolution to use the authorized capital and the issue price of the new shares is not substantially lower than the market price of the Company's listed stock at the date when the issue price is determined; or
- if the share capital of the Company is increased in conjunction with a share capital increase by means of a capital contribution in kind in order to acquire entities, business operations or investments in other entities to be paid for with the Company's stock, and to the extent that this is in the overall interest of the Company; or
- to the extent that it is necessary to grant the number of subscription rights for new shares to the bearers of convertible bonds or option warrants (protection against dilution), that they are entitled to after exercise of the conversion or option right; or
- to the extent necessary to avoid fractional amounts.

At December 31, 2005, a Conditional Capital I of EUR 332,837 and a Conditional Capital III of EUR 193,000 are in place for the issue of shares in conjunction with the stock option plan. In addition, a Conditional Capital IV of up to EUR 176,000 is in place as well as a Conditional Capital V of up to EUR 2,000,000 for the issue of convertible bonds or bonds with warrants.

Conditional Capital I decreased during the financial year 2005 from EUR 351,587 to EUR 332,837 as a result of the conversion of 18,750 share options with a nominal value of EUR 18,750 into shares of the Company. Conditional Capital III decreased from EUR 200,000 to EUR 193,000 as a result of the conversion of 7,000 share options with a nominal value of EUR 7,000 into shares of the Company. Conditional Capital IV decreased from EUR 200,000 to EUR 176,000 as a result of the conversion of 24,000 convertible bonds.

As a result of the exercise of 49,750 subscription rights attached to stock options and convertible bonds to acquire 49,750 shares, the Company's share capital increased in the financial year 2005 from EUR 9,446,052 to EUR 9,495,802. The share capital is divided into a total of 9,495,802 bearer shares with no par value.

20. Convertible bonds

As a result of the authorization given by the shareholders at the Annual General Meeting on June 27, 2002, the Company may issue registered convertible bonds with a total nominal value of up to EUR 200,000, divided into 200,000 units each with a nominal amount of EUR 1.00. The convertible bonds bear interest of 3 % p.a. from the issue date onwards. 24,000 units have been issued up to December 31, 2005. These were all exercised in 2005.

21. Incentive compensation plans

The Group has two stock option plans (the 2000 Stock Option Plan and the 2003 Stock Option Plan) which serve as incentives to tie in employees and management to the Group on a long-term basis.

Details of the structure of the two plans:

The exercise price of a stock option is generally equal to 125% of the fair market value of the Company's common stock on the grant date. The terms of the stock options are for five years (Stock Option Plan 2000) or eight years (Stock Option Plan 2003). Options vest in predefined exercise periods at the earliest two years after the grant date when 50% of the options can be exercised. The remaining 50% vests three years after the grant date. Fair values are determined using the Monte Carlo method. The average Xetra closing market price for PULSION stock in 2005 was EUR 4.76.

The following table summarizes option activity for the years ended December 31:

	December 31, 2005		December 31, 2004	
	Options	Weighted average exercise price (EUR)	Options	Weighted average exercise price (EUR)
Outstanding at the beginning of year	320,186	6.08	195,433	7.59
Granted during the year	10,000	5.63	143,000	4.13
Exercised during the year	25,750	2.35	3,250	2.30
Expired during the year	120,350	7.01	14,997	7.86
Outstanding at the end of year	184,086	5.05	320,186	6.08
Thereof Management Board	75,043	6.23	128,000	6.10
Exercisable at the end of the year	74,086	6.40	141,235	8.99
Thereof Management Board	35,043	8.63	48,000	9.40

The following table summarizes information about options outstanding at December 31, 2005:

	Options outstanding			Options exercisable	
Exercise price	Number outstanding	Weighted average remaining contractual period	Weighted average exercise price	Number exercisable	Weighted average exercise price
EUR	Units	Years	EUR	Units	EUR
11–12	1,890	0.05	11.48	1,890	11.48
6–9	47,043	0.56	8.17	47,043	8.17
4–6	103,000	6.74	4.27	0	0.00
2–3	32,153	2.49	2.60	25,153	2.72
	184,086	**4.35**	**5.05**	**74,086**	**6.40**

At December 31, 2005 and December 31, 2004, conditional capital was available to meet option rights exercised in conjunction with incentive compensation plans. At December 31, 2005, 18 employees held options in conjunction with the incentive compensation plan.

The following weighted-average assumptions were used to determine fair values in accordance with IFRS 2:

	2005	2004
Risk-free interest rate	3.16 %	2.8 %
Dividend income	0 %	0 %
Volatility	74.05 %	79.0 %
Exercise price (EUR)	5.625	4.130
Expected period of option rights	8 years	8 years

Volatility was determined on the basis of past volatility on the market price of PULSION stock during the period from June 8, 2001 to January 11, 2006. The weighted-average fair value of options granted was EUR 1.80 in 2005 and EUR 1.33 in 2004.

At December 31, 2005 and 2004, PULSION AG Management Board members held the following shares (units) and stock options (number):

	December 31, 2005		December 31, 2004	
Management Board member	Shares (Number)	Options (Number)	Shares (Number)	Options (Number)
Matthias Bohn	42,313	31,043	47,313	44,000
Stefan Land	2,000	44,000	2,000	44,000
PD Dr. med. Dr. med. habil. Ulrich Pfeiffer (left company of March 15, 2005)	n. a.	0	1,966,217	40,000
Total	**44,313**	**75,043**	**2,015,530**	**128,000**

22. Provisions

The composition of and changes in provisions were as follows:

	Jan. 1, 2005 KEUR	Utilized KEUR	Reversed KEUR	Allocated KEUR	Dec. 31, 2005 KEUR
Warranties	80	47	0	54	87
Onerous contracts	137	39	0	0	98
Other	0	0	0	14	14
	217	**86**	**0**	**68**	**199**

In accordance with IAS 37, a provision is recognized when it is probable that an outflow of resources will be necessary to settle the obligation and a reliably estimate can be made of the amount of the obligation. Provisions were recognized primarily for warranties, in particular for monitors, in conjunction with statutory warranty obligations (KEUR 87) and for an onerous rental contract for office space which is not being used for operational purposes (KEUR 98). With the exception of a partial amount of KEUR 56 (onerous contract and other), provisions all have an expected maturity of up to one year. The non-current portion will be utilized on a time – apportioned basis over time through to March 31, 2008.

23. Liabilities to banks

The liabilities disclosed at December 31, 2005 were subject to the following terms and conditions:

Bank	Type	Maturity	Interest rate %	Dec. 31, 2005 KEUR	Current KEUR	Non-current KEUR
Caja general de ahorros de Canarias, Santa Cruz de Tenerife/Spain	Current account	–	3.1	36	36	0
Caja general de ahorros de Canarias, Santa Cruz de Tenerife/Spain	Loan	05/2006	4.0	98	98	0
Banco Pastor, Alcorcon/Spain	Loan	06/2006	Eur + 1.75	97	97	0
Banco Popular CTA/CTDO/Spain	Loan	05/2006	5.5	56	56	0
HSBC, Uxbridge/United Kingdom	Loan, originally denominated in GBP	07/2008	Base rate + 2.0	164	69	95
Kreissparkasse München Starnberg, Munich	Loan	09/2020	5.75	283	13	270
Raiffeisenbank München e.G., Munich	Loan	04/2010	5.5	433	100	333
Total				**1,167**	**469**	**698**

At December 31, 2005, the Group had unused credit lines of KEUR 452.

The liabilities disclosed at December 31, 2004 were subject to the following terms and conditions:

Bank	Type	Maturity	Interest rate %	Dec. 31, 2004 KEUR	Current KEUR	Non-current KEUR
Caja general de ahorros de Canarias, Santa Cruz de Tenerife/Spain	Current account	–	4.25	180	180	0
Banco Pastor, Alcorcon/Spain	Loan	06/2005	4.50	100	100	0
Banco Popular CTA/CTDO/Spain	Loan	05/2005	5.50	55	55	0
HSBC, Uxbridge/United Kingdom	Loan, originally denominated in GBP	07/2008	5.75	213	44	169
Kreissparkasse München Starnberg, Munich	Loan	09/2020	5.75	294	11	283
Total				**842**	**390**	**452**

The Company has pledged fixed term deposits amounting to KEUR 436 as collateral to secure the existing and futures receivables, and claims relating to guarantees, of Kreissparkasse Munich Starnberg. In addition, there is a mortgage on property amounting to KEUR 417 (Dec. 31, 2004: KEUR 417).

Inventories and equipment amounting to KEUR 974 (Dec. 31, 2004: KEUR 0) and trade accounts receivable amounting to KEUR 1,394 (Dec. 31, 2004: KEUR 0) were pledged to Münchner Bank eG as collateral to secure the existing and futures receivables of the bank.

The maturities of loans are as follows:

	KEUR
2006	432
2007	182
2008	154
2009	115
after 2010	248
	1,131

Interest expenses in 2005 include KEUR 71 for liabilities to banks.

24. Financial liabilities

Non-current financial liabilities	Dec. 31, 2005 KEUR	Dec. 31, 2004 KEUR
Loan Seda S.p.A.	0	128
Bayerische Beteiligungsgesellschaft mbH (BayBG)	77	102
Loan Sterimed	412	478
	489	**708**

Current financial liabilities	Dec. 31, 2005 KEUR	Dec. 31, 2004 KEUR
Loan Technologie-Beteiligungs-GmbH (tbg)	0	1,227
Bayerische Beteiligungsgesellschaft mbH (BayBG)	26	26
Loan Seda S.p.A.	128	0
Loan Philips	155	303
Loan Sterimed	135	162
	444	**1,718**
Total financial liabilities	**933**	**2,426**

Loan Technologie-Beteiligungs-GmbH (tbg):
The liability of KEUR 1,227 to Technologie-Beteiligungs-Gesellschaft mbH (tbg) reported at the end of the previous year was repaid in full in 2005.

Loan STERIMED:
On December 11, 1997, the Company entered into a loan agreement for an amount of KEUR 531. An agreement was reached on February 14, 2005 with Altana Pharma AG, the legal successor to Sterimed Medizinprodukte GmbH, to change the loan repayment terms. The new repayment schedule envisages fixed repayment instalments through to January 2008. In 2005, KEUR 100 was repaid under the new terms. Interest is computed on the basis of the Deutsche Bundesbank base rate.

Loan Philips (formerly Hewlett-Packard):
In conjunction with a license agreement between the Company and Hewlett Packard aimed at integrating the technologies developed by PULSION into existing or future products of Hewlett-Packard, the latter granted PULSION a loan amounting to KEUR 256. The loan is being used specifically to finance FDA approval proceeding for PiCCO and is repayable 5 years after the product's market launch in the USA. The loan is subject to interest of 8% p.a. The loan is secured by the pledge of specified patents; the pledge on the patents expires on repayment of the loan or can be realized in the event of the bankruptcy or insolvency of PULSION or, if relevant, its legal successor. The remaining balance on the loan will be repaid in 2006. The contract was transferred, with all attached rights and duties, from Hewlett-Packard GmbH, Böblingen, to Philips Medizinsysteme Böblingen GmbH.

Loan SEDA S.p.A.:
As a result of existing agreements, the Group has a loan obligation of KEUR 128 to SEDA S.p.A. The loan is subject to interest of 6% p.a. Based on an agreement reached on February 1, 2005, repayment of the outstanding amount (KEUR 128) is due on February 28, 2006.

Silent Participation Kapitalbeteiligungsgesellschaft für die mittelständische Wirtschaft Bayerns mbH (BayBG):
In 1989, BayBG entered into a silent participation in the Company with a contribution of KEUR 256. From December 1, 1994 the non-profit-related compensation is 10% p.a. and from December 1, 1999, 9% of the contribution.
The profit participation ends on November 30, 2009. Beginning May 30, 2000 the participation is repayable in 20 equal half-yearly instalments of KEUR 13.

25. Other liabilities

Other liabilities comprise:

Current other liabilities	Dec. 31, 2005 KEUR	Dec. 31, 2004 KEUR
Convertible bonds	0	23
Year-end and audit costs	61	107
Advance payments from suppliers	74	0
License fees	103	132
Deferred income	458	459
Personnel-related obligations	851	649
Other	858	1,053
	2,405	**2,422**

Non-current other liabilities	Dec. 31, 2005 KEUR	Dec. 31, 2004 KEUR
Deferred income	855	902
Total other liabilities	**3,260**	**3,324**

Personnel-related obligations comprise mainly holiday and bonus entitlements.

26. Contingent liabilities

At December 31, 2005, contingent liabilities for rental guarantees to landlords amounted to KEUR 95 (Dec. 31, 2004: KEUR 172) and for the Spanish subsidiary to KEUR 168 (Dec. 31, 2004: KEUR 168).

A joint guarantee has been provided to the landlord of the subsidiary PULSION France S.A.R.L. as security for rental payments, ancillary costs, compensation claims and fines.

PULSION AG has also given a guarantee of KEUR 163 (Dec. 31, 2004: KEUR 283) as collateral for a bank loan of the subsidiary Pulsion Medical UK Ltd.

27. Other financial commitments

Operating leases: Group companies lease buildings and equipment for their own use. These leases are classified as operating leases and run for periods of between 3 and 5 years.

Future total minimum lease payments on non-cancellable operating leases were as follows:

	2005 KEUR	2004 KEUR
Up to one year	733	680
Later than 1 year and up to 5 years	909	1,348
Later than 5 years	0	0
	1,642	**2,028**

Lease expenses of KEUR 786 (2004: KEUR 729) were recognized in the income statement.

In addition, financial commitments of PULSION Group companies for rental and lease arrangements were as follows at December 31, 2005:

	Total	2006 KEUR	2007 KEUR	2008 KEUR	2009 KEUR	2010 and later KEUR
Purchase commitments	887	887	0	0	0	0
Other	346	346	0	0	0	0
Total	**1,233**	**1,233**	**0**	**0**	**0**	**0**

Moreover, at the balance sheet date, the Group had open purchase commitments for the supply of raw materials and supplies amounting to EUR 1.8 million.

28. Earnings per share

PULSION's basic earnings per share are calculated based on net earnings and the weighted-average number of shares in circulation during the reporting period. Diluted earnings per share include additional dilution from potential issuance of common stock, such as stock issuable pursuant to the exercise of outstanding stock options. This is not the case, however, when the earnings per share increases because the shares are withdrawn from circulation and therefore do not result in dilution.

		2005	2004
Weighted average number of shares (undiluted)	Number	**9,495,802**	**9,446,052**
Dilutitive effect of options	Number	35,950	49,263
Weighted average number of shares (diluted)	Number	**9,531,752**	**9,495,315**
Group net profit (before minority interests)	KEUR	2,036	1,356
Earnings per share (undiluted)	EUR	**0.21**	**0.14**
Earnings per share (diluted)	EUR	**0.21**	**0.14**

29. Risk management

The Group is exposed to various financial risks as a result of its operations:

Foreign currency risk: Foreign currency risks arise from expected future transactions, recognized assets and liabilities and the net investment in foreign operations. A foreign currency risk arises when expected future transactions as well as recognized assets and liabilities are denominated in a currency other than the functional currency.

The Group operates internationally and is therefore exposed to a foreign currency risk. This risk is mitigated by the fact that most transactions are denominated in the functional currency and that only a small volume of foreign currency transactions (USD, GBP) were transacted.

Credit risk: The Group principally has public sector customers so that credit or default risk is limited.

Liquidity risk: In the light of further planned investments, it is possible that existing cash funds could be reduced in the future. PULSION addresses this risk on the one hand with a very detailed forecasting and control system, and by continually endeavouring to turn short-term interest-bearing liabilities into long-term liabilities on the other.

Interest rate risk and cash flow: The interest rate risk is restricted by the fact that existing long-term loans generally have fixed interest rates. Operating cash flow is almost entirely unaffected by changes in the market interest rate.

30. Segment reporting

In accordance with IAS 14, the Group's primary segment reporting format is based on geographical segments, namely Germany, Rest of Europe, USA and Australia. Items are allocated to geographical segments on the basis of the location of the relevant legal entities. Intra-segment transactions are based on a cost-plus model.

Primary segment information at December 31, 2005 is as follows:

KEUR	Germany	Rest of Europe	USA	Australia	Reconcili-ations	Group
Sales - 3rd parties	12,964	6,436	81	716	0	20,197
Sales - intercompany	3,927	93	0	0	–4,020	0
Depreciation and amortization	–925	–542	–12	-8	0	–1,487
Operating segment result before interest and taxes	**1,165**	**1,153**	**–280**	**2**	**231**	**2,271**
Interest expense					–309	–309
Interest income					84	84
Income taxes					–10	–10
Group net profit						**2,036**
Segment assets	16,745	4,006	429	456	–1,856	19,780
Segment liabilities	3,002	4,396	1,989	1,443	–2,303	8,527
Segment capital expenditure (net)	1,199	204	173	188	0	1,764

Primary segment information at December 31, 2004 is as follows:

KEUR	Germany	Rest of Europe	USA	Australia	Reconcili-ations	Group
Sales - 3rd parties	10,220	5,284	99	664	0	16,267
Sales - intercompany	3,450	0	0	0	–3,450	0
Depreciation and amortization	–1,262	–169	–33	0	0	–1,464
Operating segment result before interest and taxes	**2,059**	**1,221**	**-247**	**132**	**– 1,446**	**1,719**
Interest expense					–309	–309
Interest income					21	21
Income taxes					–75	–75
Group net profit						**1,356**
Segment assets	16,874	3,369	346	457	–2,973	18,073
Segment liabilities	2,465	5,624	1,581	1,152	–1,614	9,208
Segment capital expenditure (net)	526	59	153	70	0	808

In accordance with IAS 14, secondary segment information (by business segment) at December 31, 2005 and 2004 was as follows:

December 31, 2005 KEUR	Perfusion	Intensive Care	Reconciliations	Group
Sales	2,305	17,892	0	20,197
Segment assets (net)	1,762	11,086	6,932	19,780
Segment capital expenditure (net)	980	784	0	1,764

December 31, 2004 KEUR	Perfusion	Intensive Care	Reconciliations	Group
Sales	2,000	14,267	0	16,267
Segment assets (net)	985	10,613	6,475	18,073
Segment capital expenditure (net)	303	505	0	808

The business segment Intensive Care (comprising intensive, perioperative and emergency medicine) covers the management of functions of patients' organs, in particular the functions of the cardiovascular system. The business segment Perfusion is focused on products and activities relating to the diagnosis and therapy management of circulation to organs and tissues in the fields of ophthalmology, surgery and hepatology.

Segment assets comprise primarily property, plant and equipment, intangible assets, inventories, receivables and cash funds used for operational purposes. Deferred taxes and investment property are not included. Segment liabilities comprise all operational liabilities. Tax liabilities and other long-term interest-carrying liabilities are not included. Segment capital expenditure comprises additions to property, plant and equipment and intangible assets.

31. Representative bodies of PULSION

During the financial year 2005, the Management Board comprised the following:

PD Dr. med. Dr. med. habil. Ulrich Pfeiffer, Doctor, Chairman of the Management Board, Munich (until March 15, 2005)
Matthias Bohn, Qualified Engineer, Qualified Business Engineer, Management Board member for Production, Development and Marketing, Munich
Stefan Land, Economics Graduate, Management Board member for Finance and Sales, Zorneding

Management Board remuneration	2005		2004	
	Fixed* KEUR	Variable KEUR	Fixed* KEUR	Variable KEUR
Matthias Bohn	158	57	148	41
Stefan Land	151	51	145	28
Dr. Ulrich Pfeiffer (Chairman until March 15, 2005)**	71	81	239	154

* including private use of car, reimbursement of social security contributions and insurance benefits

** a further KEUR 191 was received after March 15, 2005 on the basis of an employment contract

Management Board members did not receive any stock options in 2005 under existing stock option programs. The total remuneration of the Management Board for 2005 amounted to KEUR 569 (2004: KEUR 755).

During the financial year 2005, the Supervisory Board comprised the following:

Dr. Burkhard Wittek

MBA, Member (from June 15, 2005),
Chairman (since September 13, 2005)

Further mandate:
iOnGen AG, Göttingen

Michael Bourjau

Business Management Graduate, Adviser,
Chairman (until September 13, 2005)

Further mandates:
Pfaff Beteiligungs GmbH, Friedberg
Adriculum Investment GmbH, Reutlingen
Schmidbauer KG, Gräfelfing

Claus F. Vogt

Business Management Graduate,
Qualified Auditor, Qualified Tax Adviser
Deputy Chairman

Further mandate:
Human Electrics GmbH
(Member of the Advisory Board)

Michael DuCros

Adviser, Member
(until June 15, 2005)

Further mandate:
PainCeptor, Montreal, Canada
(Chairman)

Remuneration of the Supervisory Board	2005 KEUR	2004 KEUR
Michael Bourjau	34	25
Dr. Burkhard Wittek	17	0
Claus F. Vogt	30	3
Michael DuCros (member until June 15, 2005)	9	17
Dr. Walter Wenninger (member until November 30, 2004)	0	32

The total remuneration of the Supervisory Board for 2005 amounted to KEUR 90 (2004: KEUR 77). Supervisory Board members gave notice to the Company at December 31, 2005 that they held 72,391 shares of the Company at that date.

In addition, 24,000 convertible bonds were exercised by former members of the Supervisory Board. No convertible bonds were issued to members of the Supervisory Board in 2005.

In addition, Claus Vogt received KEUR 48 (2004: KEUR 75) in conjunction with his consultancy agreements with the Company.

32. Related party transactions

In conjunction with a distribution agreement, the Group recorded sales to Seda S.p.A., Trezzano sur Naviglio/Italy, amounting to KEUR 1,266 in 2005 and KEUR 636 in 2004. During the financial year 2005, services amounting to KEUR 600 (2004: KEUR 520) were purchased from KIMAL PLC, Uxbridge/United Kingdom (the minority shareholder of PULSION Medical UK Ltd.) and services amounting to KEUR 73 (2004: KEUR 76) were purchased from MC Infortécnica, Madrid/Spain (the minority shareholder of PULSION Medical Systems Iberica). During the financial year 2005, the group recorded sales of KEUR 74 (2004: KEUR 74) to KIMAL PLC, Uxbridge/United Kingdom and of KEUR 11 (2004: KEUR 10) to MC Infortécnica, Madrid/Spain.

Transactions with related parties were charged on the basis of arm’s length principles.

Receivables from and payables to related parties at December 31, 2005 were as follows:

	Dec. 31, 2005 KEUR	Dec. 31, 2004 KEUR
Receivables from related parties		
Receivables from shareholders	25	191
Trade accounts receivable:		
from Seda S.p.A., Trezzano sur Naviglio Italy	476	256
from KIMAL PLC, Uxbridge/United Kingdom	1	24
from MC Infortécnica, Madrid/Spain	1	42
	503	**513**
Payables to related parties		
Payables to Supervisory Board members	35	0
Payables to shareholders	85	0
Loan Seda S.p.A., Trezzano sur Naviglio/Italy	128	128
Loan KIMAL PLC, Uxbridge/United Kingdom	0	71
Trade accounts payable:		
to KIMAL PLC, Uxbridge/United Kingdom	85	97
to SEDA S.p.A., Trezzano sur Naviglio/Italy	8	0
to MC Infortécnica, Madrid/Spain	1	10
Convertible bonds	0	25
	342	**331**

33. Legal disputes and claims for damages

Neither the parent company nor any of the group companies were involved in legal disputes or arbitration or similar procedures which could have a significant impact on the financial position of the group.

PD Dr. med. Dr. med. habil. Ulrich Pfeiffer, the former Chairman of the Management Board, who left the Company in March 2005, made a claim (received on July 25, 2005) in connection with a German patent application filed by PULSION on August 7, 1997 and a corresponding international patent application and the resulting patents in the USA and Japan. This claim was withdrawn by letter dated November 16, 2005 addressed to the Munich District Court I (see Ad hoc report dated November 18, 2005). A claim from PD Dr. med. Dr. med. habil. Ulrich Pfeiffer is also pending with the Munich District Court I in connection with salary claims, against which the Company has made counterclaims by way of contingent offset and/or contingent counterclaim.

34. Auditor's fees

Expenses of KEUR 35 for other services, KEUR 14 for advisory services and KEUR 87 for the audit of the Company and Group financial statements were recognized in 2005.

35. Corporate Governance Code

A declaration compliance pursuant to § 161 of the German Stock Corporation Act has been issued and is available to shareholders on Pulsion AG's website.

36. Disclosures pursuant to § 160 (1) no. 8 of the German Stock Corporation Act (AktG)

Notice was given to the Company on January 11, 2005 that MicroValue AG's share of the voting power of the Company had decreased to 9.90% on January 6, 2005, and hence below the mandatory reportable threshold of 10% of outstanding shares. In addition, notice was given to the Company in a letter dated August 11, 2005 that MicroValue AG's share of the voting power of the Company had decreased to 4.62%, and hence below the mandatory reportable threshold of 5%.

PD Dr. med. Dr. med. habil. Ulrich Pfeiffer notified the Company as a matter of precaution in a letter dated May 23, 2005 that he held 20.58 % of the voting power of the Company and hence less than the mandatory reportable threshold of 25%.

Absolute Capital Management Holdings Limited, notified the Company in a letter dated December 14, 2005, that it held 7.528% of the voting power of the Company and hence more the mandatory reportable threshold of 5%. It also gave notice that 7,528% of the shares are attributable to it pursuant to § 22 (1) no. 1 and no. 6. of the German Trade Securities Act (WpHG). On the same day, CSI Asset Management Establishment gave notice that that it held 7.528% of the voting power of the Company and hence more the mandatory reportable threshold of 5%. It also gave notice that 7,528% of the shares are attributable to it pursuant to § 22 (1) no. 1 and no. 6 (in conjunction with sentence 2) WpHG.

37. Events after the balance sheet date

No further events have occurred and become known after December 31, 2005 which required to be disclosed.

Munich, March 2, 2006
PULSION Medical Systems AG

Matthias Bohn
Member of the
Management Board

Stefan Land
Member of the
Management Board

Auditors' Report

We have audited the consolidated financial statements prepared by PULSION Medical Systems AG, Munich, comprising the balance sheet, the income statement, the statements of changes in equity, the cash flow statement and notes to the consolidated financial statements together with the group management report for the financial year from January 1 to December 30, 2005. The preparation of the consolidated financial statements and group management report in accordance with IFRS, as applicable within the EU, and with supplementary mandatory German legal provisions pursuant to § 315a (1) of the German Commercial Code (HGB) is the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the group financial statements and the group management report, based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that material misstatements affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements (as prepared in accordance with applicable accounting and financial reporting regulations) 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 evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system relating to the accounting system and the evidence supporting the disclosures in the consolidated financial statements and in the group management report are examined primarily on a test basis within the framework of the audit. The audit also includes an assessment of the individual company financial statements included in consolidated financial statements, the scope of the reporting entity, the accounting and consolidation principles used, the significant estimates made by the Management Board as well as of the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as applicable within the EU, and with supplementary mandatory German legal provisions pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 3, 2006
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Wagner)
Wirtschaftsprüfer

(Mulas)
Wirtschaftsprüfer

Financial Calendar

The annual Report can be downloaded under www.PULSION.com, Investor Relations section, and is also available in English. This section also includes comprehensive information on PULSION figures and shares.

We are available to answer your questions under investor@pulsion.com.

Important dates for our investors in 2006:

Press conference	March 21, 2006	Frankfurt
Analysts conference	March 21, 2006	Frankfurt
6th MedTech-Day	April 4, 2006	Frankfurt
Report on 1st Quarter	May 15, 2006	
Annual General Meeting	June 22, 2006	Munich
Report on 1st Half-year	August 11, 2006	
Report on 1st 9 Months	November 13, 2006	

This annual report contains forward-looking statements. These forward-looking statements represent the judgement of PULSION Medical Systems AG as of the date of publication of the annual report. The actual results achieved by PULSION Medical Systems AG may diverge significantly from the comments made in the forward-looking statements. PULSION Medical Systems AG disclaims any intent or obligation to update any of these forward-looking statements.

Glossary

Important terms

Haemodynamics

Haemodynamics refers to the blood flow through the heart, blood vessels and organs. An adequate blood supply is essential for the provision of cells and organs with oxygen and nutrients. The disruption of haemodynamics can cause damage to organs and give rise life-threatening situations.

Haemodynamic monitoring

Over the past years, the term "haemodynamic monitoring" has become generally accepted to describe the use of equipment to monitor the cardiovascular system. In order to monitor and make diagnoses relating to the cardiovascular system, measurements are needed of prevailing pressures, cardiac output, blood volume, blood composition, water content of the lungs and the blood flow mechanism.

Cardiac output

The amount of blood pumped per minute by the heart through the body. The lower the cardiac output, the greater the risk to the circulation, and therefore to patient survival. Cardiac output is dependent on many factors, such as the heart's pumping ability and volume, the volume of circulating blood or the cross section of the blood vessels.

Intensive care medicine

A specialist medical field dealing with the diagnosis and treatment of life-threatening conditions and illnesses. It is usually carried out in a specially equipped hospital ward – the intensive care unit. Intensive care units are very well equipped with technology and staff. Because of the high dependency of intensive care patients, one member of nursing staff is allocated to between one and three patients (on normal wards, the ratio is approximately 1:20).

Invasive

Causing damage to the body's natural barriers (e.g. the surface of the skin); invading the body. In patient monitoring, a method is described as gross invasive when it involves flushing a catheter into the chambers of the heart (right heart catheter), and minimally invasive if the catheter only has to be inserted into an artery or vein (as with PULSION's technologies). Ultrasound techniques are described as non-invasive (for example taking heart measurements in the field of sport medicine, whereby measurements of this kind are generally not accurate enough for clinical practise).

Monitoring

In intensive care medicine, the term "monitoring" refers to the use of equipment to carry out continuous observations of the vital signs of intensive care patients. These vital signs include, amongst others, heart rate, respiration, ECG, oxygen saturation and blood pressure. Throughout the world, a number of European and American companies have established themselves as manufacturers of patient monitoring systems, amongst them companies such as Philips, GE Medical, Dräger Medical, Datascope, Nihon Kohden, Mindray, Schiller and Spacelabs. These suppliers integrate an increasing number of recordings of observations for the purposes of monitoring patients in intensive and ordinary care units. PULSION's technologies are also designed for use in patient monitoring systems via special modules or interfaces. PULSION has already developed integrated modules for use with systems made by Philips and Dräger Medical. It is also possible to attach individual pieces of PULSION equipment to monitoring systems made by some other manufacturers.

Perfusion

The blood supply to or blood flow through an organ. This term is also used to describe artificial flow produced, for example in renal dialysis or by heart-lung machines.

Right-heart catheter

Ever since the 1970s, cardiac capacity has been measured by passing a right-heart (or pulmonary) catheter through the right chambers of the heart into the pulmonary artery. In more recent years this method has been increasingly criticised because of the risk to patients, particularly since less invasive methods, such as PULSION's PiCCO-Technology, are now available.

Sepsis

The medical term for blood poisoning. Sepsis always starts with a local infection. If the body is unable to contain this infection within the area initially affected (e.g. in a chest infection, the lung), then the pathogens and related toxins enter the blood system and spread throughout the body. The body responds with an inflammatory reaction which gradually affects all organs. The condition is usually acute but may also become chronic. Within a few hours, all of the patient's vital organs show signs of infection and imminent failure. In this situation there is no chance of survival unless immediate intensive care treatment is available. Approximately 25 % to 40 % of patients with sepsis die despite treatment with antibiotics, usually because the sepsis has not been recognised in time.

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Publisher: PULSION Medical Systems AG · Design: design apartment

Financial Statements as of December 31, 2005
and Management Report 2005
of

PULSION Medical Systems AG
Munich

PULSION Medical Systems AG
Munich

Balance Sheet as at December 31, 2005

ASSETS

	Dec. 31, 2005 EUR	Dec. 31, 2004 EUR
FIXED ASSETS		
Intangible assets		
Concessions, licenses and similar rights	97,669.78	684,914.43
Goodwill	10,384.43	17,639.27
	108,054.21	702,553.70
Property, plant and equipment		
Land and buildings, including leasehold improvements	264,305.80	280,756.85
Technical equipment, plant and machinery	288,220.27	263,897.28
Other equipment, furniture and fittings	1,780,416.71	1,184,681.96
	2,332,942.78	1,729,336.09
Investments		
Investments in affiliated companies	435,203.83	377,823.07
Loans to affiliated companies	51,612.10	51,612.10
Investments in other companies	0.00	62,559.14
	486,815.93	491,994.31
	2,927,812.92	2,923,884.10
CURRENT ASSETS		
Inventories		
Raw materials and supplies	1,331,928.93	1,028,961.39
Work in progress	169,263.68	301,833.44
Finished goods and goods for resale	776,803.11	2,176,475.76
Advance payments to suppliers	124,734.38	246,128.40
	2,402,730.10	3,753,398.99
Assets and other receivables		
Trade accounts receivable	1,423,057.96	1,471,487.33
Receivables from affiliated companies	1,878,070.57	1,945,679.57
Other assets	368,388.76	425,379.03
	3,669,517.29	3,842,545.93
Marketable securities		
Other marketable securities	1,410,508.77	0.00
	1,410,508.77	0.00
Cash on hand and at bank	2,646,544.92	3,869,111.14
	10,129,301.08	11,465,056.06
Deferred expenses	251,004.36	177,127.94
	13,308,118.36	14,566,068.10

EQUITY AND LIABILITIES

	Dec. 31, 2005 EUR	Dec. 31, 2004 EUR
EQUITY		
Subscribed capital	9,495,802.00	9,446,052.00
(Cinditional capital 2.701.837.00; Dec. 31, 2004: KEUR 2.752)		
Additional paid-in capital	22,014,781.90	21,874,482.90
Accumulated deficit	-23,080,073.00	-22,194,111.90
	8,430,510.90	9,126,423.00
PROVISIONS		
Tax provisions	132,956.00	87,700.00
Other provisions	1,357,867.02	1,235,394.97
	1,490,823.02	1,323,094.97
LIABILITIES		
Liabilities to banks	715,585.14	309,575.28
Advance payments from customers	74,121.00	9,927.50
Trade accounts payable	1,351,840.15	1,041,826.40
Payables to companies in which an investment is held and to affiliated companies	55,825.69	23,139.29
Other liabilities	1,189,412.46	2,732,081.66
- of which for taxes: EUR 75,299.93 (Dec. 31, 2004: KEUR 57)	3,386,784.44	4,116,550.13
- of which for social security: EUR 105,375.51 (Dec. 31, 2004: KEUR 68)		
	13,308,118.36	14,566,068.10

APPENDIX 2

PULSION Medical Systems AG
Munich

Income Statement
for the Financial Year Ended
December 31, 2005

	2005	2004
	EUR	EUR
Sales	16,676,276.87	13,622,439.26
Cost of sales	5,481,048.53	4,869,219.71
Gross profit	11,195,228.34	8,753,219.55
Selling and marketing expenses	6,558,607.84	4,476,444.13
General and administrative expenses	3,105,257.43	2,563,230.35
Research and development expenses	2,650,276.29	1,479,412.29
Other operating expenses	1,337,117.05	983,772.58
Other operating expenses	901,775.51	815,743.41
Investment income of which from affiliated companies EUR 55,915.78 (2004: KEUR 74)	55,915.78	74,344.02
Income from loans reported as investments of which from affiliated companies EUR 167,883.93 (2004: KEUR 187)	167,883.93	186,849.68
Other interest and similar income of which from affiliated companies EUR 159,287.44 (2004: KEUR 121)	232,739.06	191,985.75
Impairment losses on investments and marketable securities	405,262.40	813,938.83
Interest and similar expenses	153,571.83	212,572.89
Loss from ordinary activities	-785,867.14	-171,170.32
Income taxes	79,895.97	87,700.00
Other taxes	20,197.99	5,694.38
Net loss for the year	-885,961.10	-264,564.70
Accumulated deficit brought forward	-22,194,111.90	-21,929,547.20
Accumulated deficit	-23,080,073.00	-22,194,111.90

General information

These financial statements have been prepared in accordance with §§ 242, §§264 et seq. of the German Commercial Code (HGB), the relevant provisions of the German Stock Corporation Act (AktG) and the Articles of Association of the Company. The provisions of § 267 (3) sentence 2 HGB for large companies apply.

As a consequence of the stock market flotation in June 2001, the Company draws up consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). For this reason, the income statement of the Company is presented using the cost of sales format.

The financial statements have been prepared on a going concern basis, and assets and liabilities measured accordingly.

Accounting policies

The financial statements have been prepared using the following accounting policies.

Purchased **intangible assets** are recognised at acquisition cost and are amortised systematically over their estimated useful lives (3 - 15 years; straight-line method) where the value of the assets is subject to depletion. Goodwill is amortised over its estimated useful life so as to allocate the depletion in value to the periods in which the Company consumes the economic benefits of the asset.

Property, plant and equipment are stated at acquisition or manufacturing cost less systematic depreciation. Depreciation is computed on a time-apportioned basis.

Property, plant and equipment are depreciated systematically over their estimated useful lives (3 – 25 years, straight-line method). Low value assets (individually below EUR 410) are written off in full in the year of purchase.

Investments are measured as a basic rule at cost. An impairment test is carried out when there is an indication that the assets are impaired and appropriate impairment losses are recorded where necessary. Impairment losses are reversed when the reasons for impairment no longer exist.

Inventories are stated at the lower of cost or net realizable value. Manufacturing cost comprises the direct cost of production material and wages and a proportion of production overheads, including depreciation. Interest on borrowings is not recognised as a component of inventory cost. Specific risks within **inventories** due to slow moving items, reduced saleability and lower replacement costs, are covered by appropriate write-downs. The decrease in inventories at the end of the financial years 2004 and 2005 is due primarily to the reclassification of monitor to fixed assets as at December 31, 2005. In 2004, monitors were presented, depending on usage, both in fixed assets and current assets.

Receivables and other assets are stated at their nominal value. Adequate specific allowances are recognised on all amounts which are at risk; a general allowance of 1.0 % (2003: 1.0%) is recognised on all trade accounts receivable not subject to a specific allowance.

Tax provisions and **other provisions** cover all liabilities of uncertain amount and anticipated losses on onerous contracts, measured on the basis of reasonable management judgement. Provisions which are not utilised or recognition of which is no longer appropriate due to changed circumstances are reversed through **other operating income**.

Liabilities are stated at their repayment amount.

Foreign currency receivables and payables are translated with the rates prevailing at the date when they arose or at the closing rate where this gives rise to an unrealised exchange loss.

Revenue is recognized on product sales when delivery has occurred or services have been rendered, the seller's price is fixed or determinable, and collectibility is probable. Service revenues are generally recognized at the time of performance. Sales revenue is stated after deduction of rebates, customer bonuses and settlement discount.

Departure from principle of consistency of accounting policies

As at December 31, 2005, all monitors previously recognized as current assets were reclassified to non-current assets (fixed assets).

The useful life of monitors was increased for all monitors from 60 months from the date of final placement with a customer to 90 months from the date of manufacture.

Notes to the Balance Sheet

Fixed assets

The development of fixed assets during 2005 and their composition at December 31, 2005 are shown, together with the depreciation and amortization expense for the year, in the Analysis of Changes in Fixed Assets (Appendix to the Notes). Property, plant equipment include monitors with a carrying amount of KEUR 1,156, of which monitors with a carrying amount of KEUR 555 were reclassified from non-current assets. Accumulated amortization on intangible assets includes amortization on patents of KEUR 569.

Investments

The composition of investments is shown below in the section "Investment disclosures". The disclosed amounts relate to December 31, 2005 or the financial year 2005.

Investment disclosures

	Investment %	Equity KEUR	Profit/loss KEUR
PULSION France S.A.R.L., Aix en Provence, France	100.0	- 259	- 268
PULSION Benelux N.V., Gent, Belgium	74.9	- 1,150	- 34
PULSION Medical Inc., Vista, California, USA	100.0	- 1,543	- 358
PULSION Medical UK Limited, Uxbridge, United Kingdom	51.0	471	134
PULSION Pacific Pty Limited, Randwick, NSW, Australia	51.0	- 1,026	- 277
PULSION Medical Systems Iberica S.L., Madrid, Spain	60.0	46	12
KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu, Hungary	25.0	-	-

In accordance with resolution passed at the Shareholders' Meeting on September 7, 2005, PULSION France S.A.R.L.'s share capital was reduced by KEUR 15 as part of the first step to reduce the accumulated deficit brought forward. At the same time, it was resolved to increase the company's share capital to KEUR 1,488 by way of conversion of existing loans and trade accounts receivable. In a further resolution, also passed on the same date, it was resolved to reduce the company's share capital to KEUR 58 in order to reduce existing the accumulated deficit brought forward.

The minority investment (25%) in KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu, Hungary, with a carrying amount of KEUR 63 was written down in full in 2005, since the company is currently subject to insolvency proceedings. Disclosure of the equity and earnings of this company is omitted in accordance with § 286 (3) no. 1 HGB.

Receivables and other assets

Receivables and other assets generally have a maturity of less than one year.

The receivables from affiliated companies relate to trade accounts receivables and other assets. Interest in charged on these balances at normal market conditions.

Other assets comprise mainly taxes receivable (KEUR 258) and suppliers accounts with debit balances (KEUR 41).

Equity

Subscribed capital

The share capital at December 31, 2005 is EUR 9,495,802 divided into a total of 9,495,802 no-par-value bearer shares.

As a result of the exercise of 49,750 subscription rights attached to stock options and convertible bonds to acquire 25,750 shares as well as conversion of 24,000 convertible bonds, the Company's share capital increased in the financial year 2005 from EUR 9,446,052 to EUR 9,495,802.

At the balance sheet date, a total of 194,086 subscription rights (options) as defined by § 192 (2) no. 3 AktG have been issued to employees and members of the Management Board or directors of the Company and its subsidiaries. Each option grants the right to acquire a share of the Company at a price corresponding to the market price of the share at the grant date plus an uplift of 25 % as a profit target. One half of the options can be exercised at the earliest two years after the grant date, and the other half at the earliest three years after the grant date. The options expire five or eight years (Stock Option Plan 2003) after the grant date.

Conditional capital

At December 31, 2005, a Conditional Capital I of EUR 332,837 and a Conditional Capital III of EUR 193,000 are in place for the issue of shares in conjunction with the stock option plan. In addition, a Conditional Capital IV of up to EUR 176,000 is in place as well as a Conditional Capital V of up to EUR 2,000,000 for the issue of convertible bonds or bonds with option warrants.

Conditional Capital I decreased during the financial year 2005 from EUR 351,587 to EUR 332,837 as a result of the conversion of 18,750 share options with a nominal value of EUR 18,750 into shares of the Company. Conditional Capital III decreased from EUR 200,000 to EUR 193,000 as a result of the conversion of 7,000 share options with a nominal value of EUR 7,000 into shares of the Company. Conditional Capital IV decreased from EUR 200,000 to EUR 176,000 as a result of the conversion of 24,000 convertible bonds.

Authorised capital

In accordance with the shareholders' resolution dated June 9, 2004, the Management Board is entitled, prior to June 8, 2009 and subject to approval by the Supervisory Board, to increase the share capital by up to EUR 4,721,401 by the issue, in one or several steps, of up to 4,721,401 new bearer shares each representing EUR 1.00 of the share capital in return for cash contributions or contributions in kind. The Management Board is entitled, subject to approval by the Supervisory Board, to exclude the subscription rights of existing shareholders:

- if the increase in the share capital of the Company by means of cash contribution does not exceed 10% of the existing share capital at the date of the resolution to use the authorized capital and the issue price of the new shares is not substantially lower than the market price of the Company's listed stock at the date when the issue price is determined; or

- if the share capital of the Company is increased in conjunction with a share capital increase by means of a capital contribution in kind in order to acquire entities, business operations or investments in other entities to be paid for with the Company's stock, and to the extent that this is in the overall interest of the Company; or

- to the extent that it is necessary to grant the number of subscription rights for new shares to the bearers of convertible bonds or bonds with warrants (protection against dilution), that they are entitled to after exercise of the conversion or option right; or

- to the extent necessary to avoid fractional amounts.

The Management Board is authorized, with the approval of the Supervisory Board, to determine further details of the share capital increase.

Additional paid-in capital

Additional paid in capital developed during the year as follows:

	KEUR
Balance at January 1, 2005	21,874
Premium on conversion of 25,750 share options	35
Premium on conversion of 24,000 convertible bonds	38
Premium on the fair value measurement of stock options	68
Balance at December 31, 2005	22,015

Provisions

Tax provisions and other provisions amounted to KEUR 133 and KEUR 1,358 respectively.
Other provisions comprise mainly accruals for employee bonuses (KEUR 450), year-end accounting and audit costs (KEUR 38), onerous rental contracts (KEUR 102), licence fees (103 KEUR) warranties (KEUR 87) and holiday entitlements (KEUR 73).

Liabilities

The maturities of liabilities and the collateral pledged to secure liabilities are shown in the analysis below.

Analysis of liabilities (in KEUR)

	Dec. 31, 2005				Dec. 31, 2004		
	Maturity				Maturity		
Type of liability	up to 1 year	later than 5 years	Total		up to 1 year	later than 5 years	Total
1. Payables to banks	113	212	716	*)	28	227	310
2. Advance payments received on orders	74	0	74		10	0	10
3. Trade accounts payable	1,352	0	1,352		1,042	0	1,042
4. Payables to affiliated companies	56	0	56		23	0	23
5. Other liabilities	666	0	1,189		2,022	0	2,732
	2,261	212	3,387		3,125	227	4,117

*) The Company has pledged its own cash balance of KEUR 436 as collateral for its existing and future obligations to the Kreissparkasse Munich Starnberg for long-term mortgage loans and guarantees. Mortgages on property amount to KEUR 417.

Inventories and equipment have been partially pledged and trade accounts receivable assigned globally to Münchner Bank eG as collateral to secure existing and future claims of Münchner Bank eG.

Other liabilities include the following (former) silent participations in the Company:

	Dec. 31, 2005 KEUR
Seda S.p.A., Trezzano sur Naviglio, Italy	128
Bayerische Beteiligungsgesellschaft mbH	102
Interest payable	5
	235

The liability of KEUR 1,227 to Technologie-Beteiligung-Gesellschaft mbH (tbg) reported at the end of the previous year was repaid in full in 2005.

Contingent liabilities

The Company has contingent liabilities of KEUR 94 in connection with rental guarantees and guarantees on behalf of the Company's Spanish subsidiary amounting to KEUR 168.

A joint guarantee has been provided to the landlord of the subsidiary PULSION France S.A.R.L. as security for rental payments, ancillary costs, compensation claims and fines.

The Company has also issued a comfort letter on behalf of the subsidiary PULSION Pacific Pty. Limited as security for the financing of that company up to February 2007.

PULSION AG has also given a guarantee of TEUR 163 as collateral for a bank loan of the subsidiary Pulsion Medical UK Ltd.

Other financial commitments

The Company has entered into various rental and lease agreements for office premises, medical equipment, motor vehicles, and hardware and software. At the balance sheet date, future payment commitments under non-cancellable leases were as follows:

	KEUR
2006	2,392
2007	1,002
2008	552
2009	134
	4,080

In addition, at December 31, 2005, the company had purchase commitments for the supply of raw materials and supplies in the years 2006 and 2007 of EUR 1.8 million.

Notes to the income statement

Sales

	2005 KEUR	2004 KEUR
Sales by product group		
Equipment	3,214	3,064
Disposables	10,875	8,449
Indication/diagnosis	2,479	2,052
Other/ customer service	108	57
	16,676	13,622

Equipment sales include all revenues related to equipment manufactured and sold by the Company (including revenues from the sale of non-inclusive licenses for the use of equipment technology).

	2005 KEUR	2004 KEUR
Sales by geographical region		
Germany	8,131	6,630
Europe excluding Germany	7,458	5,750
Other	1,087	1,242
	16,676	13,622

Other operating income

Other operating income comprises mainly gains on sale-and-leaseback transactions (KEUR 419), income from the reversal of provisions (KEUR 323), license fee income (KEUR 192) and income from the private use of company vehicles (KEUR 138).

Cost of materials

	2005	2004
	KEUR	KEUR
Cost of raw materials and supplies and merchandise	3,599	3,362
Cost of purchased services	218	184
	3,817	3,546

Personnel costs

	2005	2004
	KEUR	KEUR
Wages and salaries	4,188	3,419
Social security, pension and welfare costs	646	550
	4,834	3,969

Impairment losses

As a result of the losses of certain subsidiaries, impairment losses of KEUR 342 were recorded during the financial year 2005 on investments and non-current loans (presented in fixed assets) in accordance with § 253 (2) sentence 3 HGB. In addition the minority investment (presented in fixed assets) with a previous carrying amount of KEUR 63 was written down in full in 2005, since the company is currently subject to insolvency proceedings.

The following summary shows the development of the carrying amounts of non-current loans to subsidiaries:

	Carrying amount Dec. 31, 2004	Additions Disposals	Impairment losses	Carrying amount Dec. 31, 2005
	KEUR	KEUR	KEUR	KEUR
PULSION USA	0	+229	-229	0
PULSION Iberica	52	0	0	52
	52	229	1.602	519

In addition, impairment losses of KEUR 870 were recognized on trade receivables from affiliated companies pursuant to § 253 (2) sentence 3 HGB.

Write-downs on current assets

Write-downs of KEUR 238 were recognized in 2005 to reduce the carrying amounts of current assets to their lower fair value.

Expenses relating to prior periods

In 2005, expenses relating to prior periods amounted to KEUR 559 (2004: TEUR 121). This includes primarily depreciation on monitors (KEUR 309).

Taxes on income

Taxes on income comprise German corporation tax and trade municipal tax for the fiscal year 2005 and withholding taxes. Taxes on income all relate to ordinary activities.

Other disclosures

Supervisory Board

Dr. Burkhard Wittek, MBA, Member (from June 15, 2005), Chairman (since September 13, 2005)

Further mandate:
iOnGen AG, Göttingen

Michael Bourjau, Business Management Graduate, Adviser, Chairman (until September 13, 2005)

Further mandates:
Pfaff Beteiligungs GmbH, Friedberg
Adriculum Investment GmbH, Reutlingen
Schmidbauer KG, Gräfelfing

Claus F. Vogt, Business Management Graduate, Qualified Auditor, Qualified Tax Adviser

Further mandate:
Human Electrics GmbH (Member of the Advisory Board)

Michael DuCros, Adviser, Member (until June 15, 2005)

Further mandates:
PainCeptor, Montreal, Canada (Chairman)

The total remuneration of the Supervisory Board for 2005 amounted to KEUR 90 (2004: KEUR 77)

In addition, 24,000 convertible bonds were exercised by former members of the Supervisory Board. No convertible bonds were issued to members of the Supervisory Board in 2005.

In addition, Claus Vogt received KEUR 48 (2004: KEUR 75) in conjunction with his consultancy agreements with the Company.

Management Board

Priv.-Doz. Dr. med. Dr. med. habil. Ulrich Pfeiffer, Doctor, Chairman of the Management Board, Munich (until March 15, 2005)
Matthias Bohn, Board member for Production, Development and Marketing, Munich
Stefan Land, Management Board member for Finance and Sales, Zorneding

The total remuneration of the Management Board for 2005 amounted to KEUR 568 (2004: KEUR 755). Management Board members did not receive any stock options in 2005 under existing stock option programs.
Dr. Ulrich Pfeiffer informed the Supervisory Board of his resignation on March 15, 2005.

Auditor’s fees

Expenses of KEUR 35 for other services, KEUR 14 for advisory services and KEUR 87 for the audit of the Company and Group financial statements were recognized in 2005.

Employees

Average number of employees during the year (excluding those employed on a low wage-earning basis):

	2005	2004
Salaried employees	75	61

The Company has no wage earners or apprentices.

Consolidated financial statements

As parent company, PULSION Medical Systems AG prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), in which the figures of the Company are included. These consolidated financial statements have exempting effect in accordance with §315a (1) HGB. A copy of the consolidated financial statements can be obtained from the registered office of the Company in Munich.

Corporate Governance Code

A declaration compliance pursuant to § 161 of the German Stock Corporation Act has been issued and is available to shareholders on Pulsion AG's website.

Disclosures pursuant to § 160 (1) no. 8 of the German Stock Corporation Act (AktG)

Notice was given to the Company on January 11, 2005 that MicroValue AG's share of the voting power of the Company had decreased to 9.90% on January 6, 2005, and hence below the mandatory reportable threshold of 10% of outstanding shares. In addition, notice was given to the Company in a letter dated August 11, 2005 that MicroValue AG's share of the voting power of the Company had decreased to 4.62%, and hence below the mandatory reportable threshold of 5%.

Priv.-Doz. Dr. med. Dr. med. habil. Ulrich Pfeiffer notified the Company as a matter of precaution in a letter dated May 23, 2005 that he held 20.58 % of the voting power of the Company and hence less than the mandatory reportable threshold of 25%.

Absolute Capital Management Holdings Limited, notified the Company in a letter dated December 14, 2005, that it held 7.528% of the voting power of the Company and hence more the mandatory reportable threshold of 5%. It also gave notice that 7,528% of the shares are attributable to it pursuant to § 22 (1) no. 1 and no. 6. of the German Trade Securities Act (WpHG). On the same day, CSI Asset Management Establishment gave notice that that it held 7.528% of the voting power of the Company and hence more the mandatory reportable threshold of 5%. It also gave notice that 7,528% of the shares are attributable to it pursuant to § 22 (1) no. 1 and no. 6 (in conjunction with sentence 2) WpHG.

In addition, on the basis of earlier notices, the shareholdings of Forum Private Equity GmbH, SEDA GmbH and Fidelity Fond (SICAV) exceed the mandatory reportable threshold of 5%.

Proposed distribution of retained earnings

The Management Board proposes that unappropriated losses are carried forward.

Munich, March 2, 2006

PULSION Medical Systems AG

Matthias Bohn
Member of the Management Board

Stefan Land
Member of the Management Board

PULSION Medical Systems AG
Munich

Analysis of Changes in Fixed Assets in 2005

	Historical cost					Accumulated depreciation					Carrying amounts	
	Jan. 1, 2005 EUR	Additions EUR	Reclassifications EUR	Disposals EUR	Dec. 31, 2005 EUR	Jan. 1, 2005 EUR	Additions EUR	Reclassifications EUR	Disposals EUR	Dec. 31, 2005 EUR	Dec. 31, 2005 EUR	Dec. 31, 2004 EUR
Intangible assets												
Concessions, licenses and similar rights	1.379.927,79	93.458,41	0,00	5.200,00	1.468.186,20	695.013,36	675.791,95	0,00	288,89	1.370.516,42	97.669,78	684.914,43
Goodwill	61.169,94	0,00	0,00	0,00	61.169,94	43.530,67	7.254,84	0,00	0,00	50.785,51	10.384,43	17.639,27
	1.441.097,73	93.458,41	0,00	5.200,00	1.529.356,14	738.544,03	683.046,79	0,00	288,89	1.421.301,93	108.054,21	702.553,70
Property, plant and equipment												
Land and buildings	379.459,36	0,00	0,00	0,00	379.459,36	98.702,51	16.451,05	0,00	0,00	115.153,56	264.305,80	280.756,85
Technical equipment, plant and machinery	448.086,58	204.136,58	0,00	89.416,78	562.806,38	184.189,30	99.244,88	0,00	8.848,07	274.586,11	288.220,27	263.897,28
Other equipment, furniture and fittings	2.355.486,30	438.808,09	1.943.333,71 *	253.400,18	4.484.227,92	1.170.804,34	584.667,02	1.067.562,30 *	119.222,45	2.703.811,21	1.780.416,71	1.184.681,96
	3.183.032,24	642.944,67	1.943.333,71	342.816,96	5.426.493,66	1.453.696,15	700.362,95	1.067.562,30	128.070,52	3.093.550,88	2.332.942,78	1.729.336,09
Investments												
Investments in affiliated companies	5.188.932,89	184.156,00	0,00	61.491,88	5.311.597,01	4.811.109,82	113.000,51	0,00	47.717,15	4.876.393,18	435.203,83	377.823,07
Loans to affiliated companies	4.628.509,56	229.702,75	0,00	1.365.023,86	3.493.188,45	4.576.897,46	229.702,75	0,00	1.365.023,86	3.441.576,35	51.612,10	51.612,10
Investments in other companies	62.559,14	0,00	0,00	0,00	62.559,14	0,00	62.559,14	0,00	0,00	62.559,14	0,00	62.559,14
	9.880.001,59	413.858,75	0,00	1.426.515,74	8.867.344,60	9.388.007,28	405.262,40	0,00	1.412.741,01	8.380.528,67	486.815,93	491.994,31
	14.504.131,56	1.150.261,83	1.943.333,71	1.774.532,70	15.823.194,40	11.580.247,46	1.788.672,14	1.067.562,30	1.541.100,42	12.895.381,48	2.927.812,92	2.923.884,10

* reclassification from current assets as at December 31, 2005

A Review of the Financial Year

- **Pace of growth increased from 16% in 2004 to 22% in 2005**
- **New CiMON-Technology presented**
- **Organizational structure strengthened**
- **Foundation laid for growth in 2006**

PULSION (PULSION Medical Systems AG) was able to increase sales revenue and earnings sharply in 2005, thus demonstrating once again the sustainability of its innovative business model.

PULSION was also able to present its next product, CiMON, to a wide range of experts in 2005. This new technology is capable of making exact measurements of abdominal and thoracic pressure, so that a further product line, with attractive business potential, will become available for the management of critically-ill patients in emergency and intensive care units.

Sales rose on a year-on-year basis by 22% to EUR 16.7 million. Sales of disposable products performed particularly well, rising by 29% to EUR 10.9 million.

The gross profit percentage improved by 3 percentage points to 67% and the gross profit in absolute terms rose to EUR 11.2 million. Expenditure on research and development activities was increased to EUR 2.7 million (+79%), enabling progress to be made with a number of important projects and thus contributing to PULSION's future growth. The profit from ordinary activities before research and development expenses climbed to EUR 1.9 million (+43%). The net loss for the year increased from EUR 0.3 million to EUR 0.9 million.

The equity ratio remained stable at 63% and the net cash position (including other marketable securities) improved from EUR 3.9 million to EUR 4.1 million at the end of 2005.

Financial report

Business environment

Innovative technologies gaining ground

The global market for medical technology totalled approximately EUR 184 billion in 2003. The European market (EUR 55 billion) is the world's second largest market after the USA (EUR 79 billion). At EUR 19 billion, Germany is, after the USA and Japan, the world's third largest single market and by far the largest market in Europe (source: BVMed Annual Report 2004/05).

The main impulses for growth in the healthcare sector are being provided by demographic trends in the major industrial nations of the world, the increasing degree of self-responsibility and health-awareness on the part of patients, and exceedingly strong pressure to rationalize the world's health systems even further. As standards of living improve in previously undeveloped or under-developed regions, the overall market will grow continuously.

Estimates of various sector experts and industry associations for the coming years put average worldwide growth rate in the region of 4-7% p.a. The main growth regions are seen, amongst others, as China, East Europe and Brazil (source: Sector Focus Medical Technology, November 2005, Nord/LB).

Sales revenue trends
Pace of growth accelerated

PULSION was able to increase sales in 2005 by EUR 3.1 million to EUR 16.7 million. This 22% increase was all generated by organic growth. Currency factors did not play a role in 2005.

Product lines

Revenue from equipment sales in 2005 rose by 5% to EUR 3.2 million. Despite on-going difficult conditions in the health care sector, PULSION is enjoying an increasing level of success in placing its innovative products with clinics and hospitals.

The installed base of PiCCO monitors – in other words the total number of all monitors sold or loaned out – increased by 539 monitors over the course of the year to stand at 4,018 (+15%) units at December 31, 2005. On top of this, the number of PiCCO modules placed on the market via the Company's strategic sales partners (Philips and Dräger Medical) increased to 7,662 units (+13%). The worldwide utilization ratio of PiCCO modules rose in 2005 from 13% to approximately 15%.

With CeVOX, PULSION now possesses another highly promising monitoring technology, which has now reached the marketing phase. This product is forecast to contribute towards revenue growth in the area of equipment and disposable product sales. More than 200 machines have been placed or sold since the end of May 2005 when deliveries were commenced.

The products, LiMON and IC-VIEW, are still at the very beginning of their lifecycle and are generally placed with customers on a loan basis in return for commitments to purchase ICG-PULSION. Whilst the installed base of LiMON rose to 422 units (+22%) by the end of 2005, IC-VIEW saw its installed base increase by only 14% to 84 units (December 31, 2004: 74 units). Following the receipt of approval for ICG-PULSION in a number of important European countries, the Group can now, in stages, begin active marketing of both technologies at a European level.

Sales by geographical region:

in EUR million	**2005**	**2004**	Change
Equipment	3.2	3.1	5%
Disposables	10.9	8.4	29%
ICG-PULSION	2.5	2.1	21%
Other	0.1	0.1	89%
Total	**16.7**	**13.6**	**22%**

Revenues from the sale of sterile disposable products, PULSION's strongest area, performed well, rising in 2005 by 29% to EUR 10.9 million. The sales volume of PiCCO catheter kits also increased accordingly. Overall, PULSION was able to achieve sharp sales volume growth, almost in line with the increase in sales revenue. This is a clear sign that PULSION is making rapid progress in penetrating the markets with its core technology, PiCCO.

Revenues from the sale of ICG-PULSION increased in 2005 by 21% to EUR 2.5 million. The steep rise in the pace of growth in 2005 was due to the fact that sales of ICG-PULSION were extended to further European countries and as a result of the on-going placement of LiMON and IC-VIEW equipment, both of which require ICG-PULSION. With additional regional approvals now received, it is forecast that sales of ICG-PULSION will continue to grow dynamically in the future.

Regions

The core region of PULSION's sales continued to be Europe, where 93% of total revenues (EUR 15.6 million) were generated. The growth rate in Europe on a year-on-year basis was therefore an encouraging 26%. Germany, with revenues of EUR 8.1 million (+23% compared to the previous year) remained the strongest selling market for PULSION.

Sales by region:

in EUR million	2005	2004	Change
Gernany	8.1	6.6	23%
Europe (excluding Germany)	7.5	5.8	30%
Other	1.1	1.2	-12%
Total	**16.7**	**13.6**	**22%**

Sales to the rest of Europe fell by 12% to EUR 1.1 million.

Earnings
Robust business model bears fruit

PULSION has made substantial investments in the area of research and development. The gross profit improved in percentage terms by 3 percentage points to 67% and in absolute terms by EUR 2.4 million to EUR 11.2 million. This increase resulted from the continuous generation of benefits of scale within the production and logistics process, a price optimization strategy and an improved sales mix between the various distribution channels.

Total fixed costs (selling, general and administrative, other operating income and expenses) went up by 34% to EUR 9.2 million. PULSION continued to invest particularly heavily in selling and marketing in order to create the basis for sustainable future growth and to strengthen the organizational structure.

Research and development expenditure was increased in 2005 by 79% to EUR 2.7 million and rose therefore to almost 16% as a percentage of sales (2004: 11%).

Impairment losses on investments were reduced from EUR 0.8 million to EUR 0.4 million as a result of the improved performance of subsidiaries.

The profit from ordinary activities before research and development expenses climbed to EUR 1.9 million (+43%). The loss from ordinary activities increased from EUR 0.2 million to EUR 0.8 million and the net loss for the year increased from EUR 0.3 million to EUR 0.9 million.

Assets, liabilities and financial position
Balance sheet structure further improved

The balance sheet total (total assets/total capital employed) of Pulsion AG at December 31, 2005 amounted to EUR 13.3 million, 9% lower than one year earlier when it stood at EUR 14.6 million. The balance sheet structure improved slightly.

Key financial indicators relating to the balance sheet and financial position:

Indicator	Description	unit	Dec. 31, 2005	Dec. 31, 2004	Diff.
Days of Sales Outstanding	Receivables * 360 days / Sales	days	71	90	-21%
Inventory turnover**	Cost of sales / Average level of inventories		1.8	1.5	22%
Equity ratio	Equity / Balance sheet total	%	63	63	1%

** The reclassification of monitors (equipment) from inventories to fixed assets at December 31, 2005 has not been made retrospectively at December 31, 2004. This has a positive impact on the computed change.

On the assets side of the balance sheet, inventories were reduced significantly, decreasing from EUR 3.8 million to EUR 2.4 million (-36%). Adjusted for the reclassification of monitors to fixed assets, inventories were reduced by 21%. Trade accounts receivable decreased slightly from EUR 1.5 million to EUR 1.4 million despite the 22% jump in revenues, a development achieved by optimizing receivables management. Receivables from subsidiaries decreased by 3% to EUR 1.9 million at December 31, 2005 as a result of write-downs. Cash and cash equivalents (incl. other marketable securities) went up from EUR 3.9 million to EUR 4.1 million (+5%).

Fixed assets remained virtually unchanged at EUR 2.9 million, despite the fact that the minority investment in KI Medical Services, Hungary, was fully written down (KEUR 63) following the opening of insolvency proceedings for that entity.

On the equity and liabilities side of the balance sheet, provisions and liabilities decreased by EUR 0.5 million to stand at EUR 4.9 million at December 31, 2005 (December 31, 2004: EUR 5.4 million). The main factors behind these changes were as follows: Within other liabilities, a loan from Technologie Beteiligungsgesellschaft mbH (tbg) of EUR 1.2 million was fully repaid in 2005 and further loan repayments of approximately EUR 0.4 million made. Liabilities to banks increased by EUR 0.4 million to EUR 0.7 million, most of which is available on a long-term basis. The increase in provisions and the higher level of trade accounts payable resulted primarily from the higher volume of business (personnel-related provisions and purchases).

Equity fell mainly as a result of the net loss for the year and stood at EUR 8.4 million at the end of 2005 (December 31, 2004: EUR 9.1 million). The equity ratio was virtually unchanged at 63%.

The cash flow from operating activities, which represents a core performance indicator to manage the business, amounted to EUR 2.2 million (2004: EUR 2.8 million), despite the sharp increase in business volumes. The cash flow from investing activities in 2005 totalled EUR 1.0 million (-45%). This reduction was primarily due to the improved earnings and liquidity position of PULSION's subsidiaries.

The cash outflow for financing activities in 2005 totalled EUR 1.0 million (2004: EUR 1.0 million). Overall therefore, cash and cash equivalents (including other marketable securities) rose to EUR 4.1 million, compared to EUR 3.9 million one year earlier.

Capital expenditure
Investing for the future

Capital expenditure on fixed assets in 2005 amounted to EUR 3.1 million, 28% more than in the previous year. Adjusted for the reclassification of monitors from inventories and for the reclassification of receivables from subsidiaries (in the previous year), capital expenditure decreased by 31%.

Adjusted capital expenditure related to the following:

- 36% related to measures to strengthen the Company's subsidiaries, partly to enable them to handle growing business volumes and partly to push on with the USA strategy,
- 64% related to intangible assets and property, plant and equipment, the bulk of which was used to place loan equipment on the market and to expand the number of suppliers.

The increased level of capital expenditure is intended on the one hand to safeguard and extend the technological lead of PULSION's technologies and to lay the foundation for future growth on the other.

USA
Evaluation phase in progress

The American market is an important region for PULSION's future growth and therefore central to PULSION's core strategy. In 2005, the Company continued its adopted strategy to prepare itself for this all-important market. The main objectives during this phase were to establish PiCCO centers of expertise and to attract study partners in the region.

Some important customers were gained for the centers of expertise during the past financial year and the first study success stories are now on the horizon. PULSION further intensified its focus on the US American market and took the decision in 2005 to implement its active marketing and sales strategy in the coming quarters.

Production and purchasing
Reduce risks, exploit opportunities

PULSION's core areas of expertise are product development, the design of key production processes and the marketing of new technologies. PULSION's approach is to keep production depth as low as possible in order to maintain a high level of flexibility whilst, at the same time, keeping the level of risk to a minimum.

Individual components are purchased via an efficient network of longstanding suppliers working to PULSION's high quality requirements. Further measures were taken to expand the network in 2005, with a view – in the light of steadily growing volumes – to achieve an improved second-source strategy for PULSION's core products.

The gross profit margin improved by a further 3 percentage points to 67%. This was achieved by generating benefits of scale, improving the utilization of production capacities and further optimizing the way that the Group's range of products is marketed.

Research and development
The basis of our future success

Research and development (R&D) is one of the mainstays of PULSION's business strategy. Only companies which take a long-term view and pursue a forward-looking technological strategy can hope to grow successfully and profitably.

Important projects were continued in the area of R&D during 2005 and the organizational structure of this function restructured and expanded to safeguard and sharpen PULSION's competitive edge.

In addition to the expansion of PiCCO-Technology (Version 7.0), the completion of the new CeVOX monitoring technology, the development of a new CiMON platform – a system to provide exact measurements of vitally important abdominal and thoracic pressure– the main emphasis was on designing a long-term technology strategy: this was approved in the fourth quarter of 2005 and will be put into practise as soon as 2006.

Organizational structure and employees
Investment in human resources creates opportunities

Further developing PULSION's organizational structure was a core task in 2005. It is only possible minimize inefficiency shortcomings, reduce the potential to make mistakes and achieve growth on a long-term profitable basis if an efficient organizational structure is in place with the workload spread over experienced shoulders and if it is tailored to customer needs.

PULSION increased its investment in the subsidiary in France in 2005 by 10% to 100% and, in parallel, expanded the organization there in order to take advantage of the local market potential by installing a countrywide sales team.

The organizational structure at the headquarters in Munich has also been adapted to future needs. In addition, shortcomings in the way long-term improvements are identified have also been eliminated. In this context, the research and development, marketing and quality management and production departments reached a consensus on each other's market requirements and on PULSION's long-term strategy. Key positions have been filled with experienced people with a view to eliminating identified shortcomings as quickly as possible.

This process of adaptation and improvement will be continued worldwide over the coming years in order to underpin the sustainability of PULSION's business model and to create opportunities for long-term growth.

PULSION's dynamic and profitable growth in the past financial year was made possible, above all, by its enterprising and motivated employees, who will of course remain an important factor for PULSION's future commercial success.

In the fourth quarter 2005, PULSION initiated its *PROPULSION* project, aimed at furthering personnel development. This initiative is primarily intended to help employees to develop their personal and professional skills and to prepare future junior management in a professional way for the tasks lying ahead of them with PULSION. In addition, a performance-related compensation scheme applying at all levels within the Group as well as a stock option program are intended to tie in the workforce even more to the Group and to leverage further potential for efficiency.

In March, Dr. Ulrich J. Pfeiffer, the Company's founder and Chairman of the Management Board, resigned from his position as Chairman. Since then, the remaining members of the Management Board have been responsible between them for the marketing, selling and development functions.

PULSION had an average of 75 employees in 2005, a 23% increase compared to the previous year. Personnel expense went up from EUR 4.0 million in 2004 to EUR 4.8 million in 2005 (+22%).

In 2006, the organizational structure will be further strengthened by appointments in key areas, thus enabling all the tasks arising in conjunction with PULSION's growth to be tackled in good time.

Patents and approvals
Getting the basics right

At the end of 2005, PULSION has 138 national patents (December 31, 2004: 118) at its disposal in various countries. This comprises 96 patents held by PULSION and 42 patent rights which have been licensed to it. In addition, PULSION is currently in the process of applying for a further 215 patents (December 31, 2004: 273) in various countries. The patents and patent applications relate to 36 patent groups. The patents are structured on a modular basis to cover processes, equipment and disposable products and the various elements used in existing and future systems. The Company also has 18 registered trade names which are either already in force or have been applied for.

During the financial year 2005, PULSION successfully completed a number of approvals, albeit with some delays incurred in the area of ICG-PULSION due to additional requirements requested by various regulatory authorities. It is planned that further country approvals within the European Union and the approval of ICG-PULSION in the USA will be obtained over the next few years.

Environmental care and quality management
Conversion project on schedule

PULSION's quality management system was certified by Dekra ITS Certification Services GmbH to EN ISO 13485/11.2000 standard for the last time in 2005. In 2006 it will be certified in accordance with EN ISO 13485:2003. Preparations for the conversion were started during the second half of 2005. In accordance with the European Union Directive on medical devices (MDD 93/42/EEC), PULSION is entitled to use the CE label for products brought into use within the European Union. The PULSION quality management system also complies with the requirements of the US American authorities (FDA) and with the Canadian approval directives CM DC AS.

PULSION complies with all relevant environmental care regulations. Neither the production process nor the products themselves pose any direct or indirect risks to the environment

Corporate governance

High on the list of priorities

PULSION is committed to responsible corporate governance and control and takes a long-term approach to value creation. By a combination of efficient cooperation between the Management and Supervisory Boards and open and timely communication in general, PULSION actively endeavours to reinforce the trust placed on it by customers, employees, investors and members of the public alike. Compliance with these principles is therefore a vital aspect of achieving reliable corporate governance at PULSION.

Management Board remuneration system

The total remuneration of the Management Board is determined by finding a reasonable relationship between the duties and work performed by Management Board members and the economic position of the enterprise. The total remuneration of Management Board members comprises a fixed monthly salary and a performance-related variable component. The variable component is determined on the basis of changes in reported sales revenues and earnings for each year and individual targets. As a long-term incentive, Management Board members also receive stock options on PULSION stock in conjunction with the existing stock option programs. Full details of the remuneration of Management Board members are provided in the Notes.

In 2005, PULSION again carefully considered the principles contained in the Corporate Governance Code in its currently valid version. Various decisions were taken and implemented with the approval of the Supervisory Board, resulting in a further reduction in the number of divergences. The only divergence retained in 2005 was the extended time taken for quarterly reporting (60 days). Plans are already underway for PULSION to introduce the shortened period for quarterly reporting in 2006 (45 days).

The Declaration of Compliance of the Management and Supervisory Boards was modified in July 2005 and posted to the Group's website under www.PULSION.com where it is available for inspection.

Events after the balance sheet date

There have been no significant events after the balance sheet date.

Risk report

Entrepreneurial activities always involve risk

Risk management system

All companies are faced with a two-fold challenge - on the one hand they must promptly recognise economic opportunities and make the best possible use of them; on the other hand, they must be able to identify the risks accompanying every business activity, analyse the effects they may have on the enterprise and, as far as possible, use preventative measures to avoid or stave off dangers which could arise.

Early recognition of risks at all levels of an enterprise is an essential prerequisite for risk management. PULSION is therefore intent on creating the best possible structure for collating and communicating information. PULSION recognises that risk management is part and parcel of running a business. The only way to recognise and evaluate risks systematically at an early stage, and to take the necessary steps against them in good time, is to have an effective and dynamic risk management system.

Under the leadership of PULSION's risk manager, the responsible members of staff carry out regular checks on processes, procedures and developments with regard to the existence of risks. Current and future risks, and the factors influencing them, are reported on an on-going basis to the Management Board and these issues are discussed thoroughly at Board meetings so that appropriate action can be taken in good time.

The risk management manual, which is continually revised to take account of internal and external changes, provides staff with a helpful tool for identifying and correctly evaluating risks and the probability of their occurrence.

Standardised reporting structures which include comparisons with the previous year's actuals, forecasts or estimated figures are an essential feature of the system.

Using the procedures described above, the appropriate measures are taken, either to avoid potential risks which have already been identified, or to minimize the probability of a risk arising and the possible damaging financial effect that it could have.

Market and competition

In general, developments in the MedTech- and Life-Science sectors are subject to a high degree of technological change; this applies all the more so to the monitoring of critically ill patients. Due to the attractiveness of this market segment, it can be assumed that competition will continue to intensify in the future. There is, therefore, a constant risk that PULSION, by comparison with its competitors, may not react quickly enough to market trends by developing new products or technologies. This could have an adverse impact on the financial position and the results of the enterprise.

PULSION counters these risks by continually further developing its existing technologies and improving patent protection on the one hand, and by continuously observing the market via intermediary organizations and networks on the other.

Product liability

Product liability has always represented a substantial risk for enterprises in the MedTech- and Life-Science sector, since patients could, in the worst case, suffer physical injury resulting in substantial product liability claims against the Group.

PULSION counters this risk with a comprehensive Total Quality Management system (TQM) to ensure the highest standards of safety and quality of product. In addition, a product liability insurance policy with international coverage for substantial amounts is in place. Although no material claims relating to product warranty have been brought against PULSION to date, it cannot be ruled out that PULSION will have to face such claims in the future and that the amounts involved could exceed the insured amounts.

Growth and financing

In the light of the further growth which is planned and the investments that this will entail, it is possible that existing cash funds could be reduced in the future, since the operating margins which are currently generated cannot entirely finance the targeted level of growth. In addition, repayments under existing loan agreements could reduce liquidity.

PULSION addresses this risk with a very detailed forecasting and control system, which compares actual and budget figures on a weekly and monthly basis in order to identify variances at an early stage so that counter-measures can be put in place. In addition, PULSION is continually endeavouring to turn short-term interest-bearing liabilities into long-term liabilities.

Approvals

Very strict approval rules – which can differ from country to country – apply in the Med - Tech sector, particularly for pharmaceutical products (i.e. ICG-PULSION). It is likely that registration requirements will become even more difficult in the future. The failure to obtain new approvals for the Company's products or a delay in obtaining approval could have a negative impact of the future level of PULSION's revenues and earnings.

PULSION works together with experienced external consultants and trains its own staff in the appropriate areas in order to identify and react to potential risks at an early stage.

Purchasing risks

Since PULSION keeps the depth of production at a low level, it is necessary to buy in a relatively large volume of pre-manufactured components and parts. In order to minimize dependency on suppliers, PULSION pursues a second-source policy and also agrees framework agreements with suppliers containing guaranteed supply clauses. In addition, the Group maintains a high level of inventory of key components and materials to enable it to make alternative supply arrangements in the case of the failure of a supplier to deliver.

Credit risk

The Group counters bad debt risk with a tight receivables management system and provides for such risk in the form of specific and general allowances. For export sales, PULSION generally obtains payments in advance to protect the group from bad debts. The risk is mitigated also by the fact that the Group does business with a wide range of customers, many of which are financed by public sector budgets or which are public sector organizations themselves.

Patents and intellectual property

PULSION is not aware of any infringements of patents or other protected industrial rights of third parties. It cannot be ruled out, however, that third parties will not make claims in the future. The patent infringement claim filed by the former Chairman of the Management Board, Dr. Ulrich J. Pfeiffer, in summer 2005 was withdrawn by letter dated November 16, 2005 addressed to the Munich District Court (see Ad hoc reports dated July 26, 2005 and November 18, 2005). In the event of any such future claims, a negative outcome could impair the net assets, financial position and results of operations of the Company.

In order to safeguard its technological lead, PULSION always submits innovations and improvements for patent protection as quickly as possible and analyzes patents granted in the relevant areas at regular intervals. A modular approach is applied to patent protection, thus providing increased security for the system as a whole.

Personnel

As a manufacturing company in the MedTech and Life-Science industry, PULSION is dependent to a certain extent on personnel with specialist medical know-how. As a rapidly growing enterprise with worldwide operations, it is essential that existing sales and management capacities are optimized and expanded on an on-going basis.

In order to minimize the risk of personnel fluctuation as well as to find and retain good and experienced staff, PULSION has introduced pleasant and modern working conditions, flat hierarchies, flexible work-time arrangements and an appropriate remuneration system, all of which help to motivate staff. In addition, the *PROPULSION* initiative started by PULSION (see section on Organizational structure and employees) should further strengthen employees' ties to the enterprise in the future.

Warehousing and transportation

Risks relating to warehousing and transportation of products risks are covered by appropriate insurance policies. Delays in sales, however, can lead to increases in inventories which, in turn, adversely affect liquidity.

With the aid of flexible framework agreements with suppliers, and a monthly up-date of worldwide sales forecasts, PULSION endeavours to identify this risk as early as possible and adjust production accordingly.

Information technologies

PULSION's daily operations – and hence the success of the business – depends increasingly on error-free and safe information technology solutions which are permanently on call.

In order to mitigate any resulting risks at an early stage, PULSION utilizes up-to-date hardware and software, with appropriate back-up systems, mirror databases, virus and access protection as well as encryption systems to ensure the integrity of data and systems. Nevertheless, breaches of security and the loss of confidential information cannot be ruled out entirely. Such occurrences could have a negative impact on PULSION's competitive position.

Subsidiaries

PULSION is also indirectly exposed to the risk environment facing the Group's subsidiaries. PULSION could be affected negatively by the statutory and contractual position of Group companies. PULSION counters this risk by integrating subsidiaries into the Group reporting system. In addition to the day-to-day flow of information, meetings are held at a management level on a monthly basis.

Litigation

As a result of its international activities, PULSION is exposed to a variety of legal risks. This includes, in particular, risks relating to product liability, patent, tax and competition law.

At present, there is no knowledge of significant claims or proceedings against PULSION (see also information about the claim withdrawal in the section "Patents and intellectual property" and pending proceedings against the Company disclosed in the financial statements in the note on "Legal disputes and claims for damages").

Forward-looking report

Strategy and opportunities
Making PiCCO the gold standard

PiCCO-Technology has the opportunity of becoming the world's leading technology - the Gold Standard – in the field of haemodynamic management of critically ill patients. PULSION wishes to achieve this core objective within a few years. The main thrust of PULSION's strategy is aimed at achieving market penetration for PiCCO-Technology, in combination with the related CeVOX and LiMON technologies and, in the future, with CiMON.
In order to reach the mass market in all relevant areas, PULSION is focusing principally on the following four strategic areas:

- **Increasing coverage:**
  Further licensing arrangements and the integration of PiCCO-Technology into the products of leading manufacturers of patient monitoring systems in order to improve the worldwide availability of PiCCO-Technology

- **Focus on core markets:**
  Continuous expansion of the European sales organization and clear focus on the world's largest single market – the USA.

- **Intensified marketing:**
  Increased investment for targeted marketing activities and clinical studies in the core areas of the medical technology market.

- **Optimization of PULSION's technologies:**
  Further development and integration of PULSION's core technologies – in combination with increased user-friendliness, flexibility and patient safety.

PULSION possesses, with ICG-PULSION, another product with good prospects. Due to the fact that it is used on the one hand in conjunction with the LiMON and IC-VIEW technologies and also as a separate diagnostic drug in ophthalmology, it is seen as having significant potential. Over the coming years, PULSION will further extend the coverage of the approvals it already holds in specific European Union markets and then expand onto the US American market.

Prospects

Pace of growth planned to accelerate

During the financial year 2005, PULSION has continued to lay the ground for future profitable growth. At the same time, the past year’s performance demonstrates that the business model can quickly offer attractive earnings potential once the point of critical mass has been reached.

PULSION will continue along this course in 2006, investing for medium and long-term growth and rigorously implementing its business strategy. Sales volumes should grow at double-digit rates in 2006 and a positive operating profit is forecast.

Further prerequisites for achieving PULSION's objectives are the motivation and skills of its workforce. For this reason, the development of the personal skills and know-how of our employees at all levels within the enterprise will be intensified and promoted on a professional basis. In this way, PULSION plans to leverage further potential as quickly and efficiently as possible to enable it successfully to continue on its dynamic growth course.

Munich, March 2, 2006
PULSION Medical Systems AG

Matthias Bohn
Member of the Management Board

Stefan Land
Member of the Management Board

"Auditors' Report

We have audited the annual financial statements comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of PULSION Medical Systems AG, Munich, for the financial year from January 1 to December 31, 2005. The maintenance of the accounting records and the preparation of the financial statements and management report in accordance with German commercial law are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report, based on our audit.

We conducted our audit of the financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of annual financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system relating to the accounting system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.”

Munich, March 3, 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Wagner)	(Mulas)
Wirtschaftsprüfer	Wirtschaftsprüfer