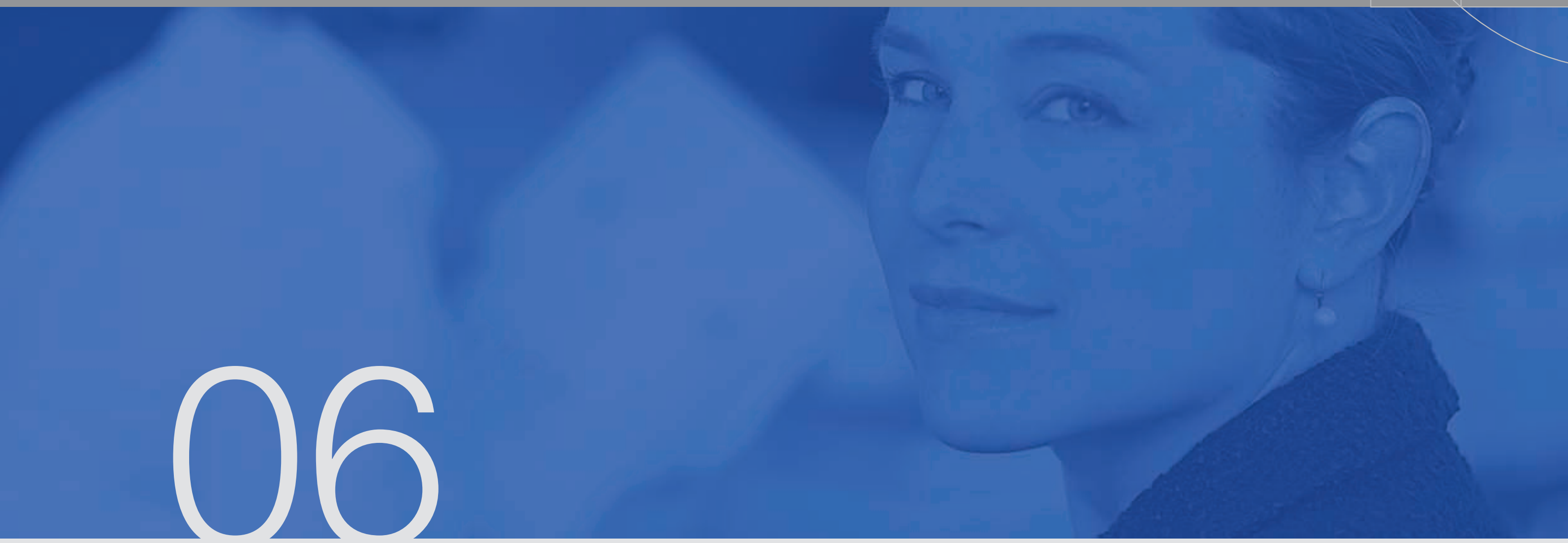
Annual Report 2006

"…a year marked by investments in the future and rising profitability…"



PULSION
Medical Systems

Facts and Figures
PULSION 2006

PULSION (GROUP)		2006	Variance in %	2005	2004	2003
		IFRS		IFRS	IFRS	US-GAAP
Revenues	EUR million	24.5	21 %	20.2	16.3	13.7
Gross profit	EUR million	18.4	27 %	14.5	10.9	9.0
EBITDA	EUR million	5.2	39 %	3.8	3.2	0.7
EBIT	EUR million	3.4	50 %	2.3	1.7	–0.4
Consolidated profit/loss	EUR million	3.3	70 %	1.9	1.1	–0.7
Cash flow from operating activities	EUR million	3.2	–1 %	3.3	1.6	0.8
Shareholders'Equity[1]	EUR million	14.6	30 %	11.3	8.9	8.2
Shareholders'Equity percentage[1]	%	64 %		57 %	49 %	50 %
Total assets[1]	EUR million	22.7	15 %	19.8	18.1	16,5
R&D expenses	EUR million	2.2	76 %	1.3	0.8	1.1
Employees (average)	Amount	130	29 %	101	79	81
Revenue per employee	KEUR	188	–6 %	200	206	169
Installed base - PiCCO monitors[1]	Units	4,630	15 %	4,018	3,479	2,854

[1] as of December 31

Contents

Stefan Land
CFO

Matthias Bohn
COO

Bradley P. Gould
CEO

Foreword by the Management Board

Dear customers, shareholders and colleagues,

2006 was an extremely constructive year during which we invested in the enterprise and its future in three main areas of focus. We strengthened the organization considerably, putting PULSION into the necessary shape to meet its strategic targets; we intensified our efforts in the area of research and development to make our products even more user-friendly; and we strengthened our marketing and sales activities in order to speed up market penetration.

Focus on organizational build-up: PULSION took on 30 new members of staff in 2006, including 21 new employees in Germany. As a result, our organization grew by 28 percent last year. The sales and marketing and R&D functions were the main areas to benefit from this growth. 60 percent of the newly recruited staff are employed in these areas. A spurt in growth had become necessary for the organization and has increased PULSION's know-how considerably. It has also brought with it a slight increase in the ratio of personnel costs to sales revenue (up slightly from 31% to 33%).

Focus on research: In 2006, PULSION increased expenditure on research and development by a further 76%, from EUR 1.3 million to EUR 2.2 million. We are currently concentrating our efforts on the new CiMON-Technology and on enhancements to technologies which are already available on the market. We are confident that we will be able to strengthen our position as technological leader in the field of haemodynamic monitoring in future. In 2006, PULSION was acclaimed as one of the TOP 100 most innovative medium-sized companies in Germany, a clear indication that our efforts are also recognized by outside observers.

> "PULSION has been further developed and expanded in 2006."

Focus on sales and marketing: Our sales and marketing activities also made good progress in 2006. PULSION's sales strategy is focused towards the established health-care markets in Europe and the USA. In Europe, we registered good geographical growth in 2006, manifested in particular in the sharp rise in the number of items of equipment which we were able to place on the market. Having achieved a strong revenue performance in Germany, Austria and Switzerland, PULSION's business is taking on increasingly international proportions. In the USA, the leading worldwide market for haemodynamic monitoring, PULSION transferred its US head office to the East Coast in 2006 and commenced the process of building it up anew. The next step of actively selling in the USA is now under way. Known internally as "Phase 2", this stage is based on a new strategy which focuses on clearly defined target customers in a specific regional market (cluster strategy).

Encouraging performance: In 2006, PULSION also made a great deal of progress with its "financials". Sales revenue took another solid stride forward (+21%), and net profit rose by as much as 70%. This increase in earnings is mainly attributable to continual improvement in margins and to the

PORTRAIT | **BRADLEY P. GOULD**

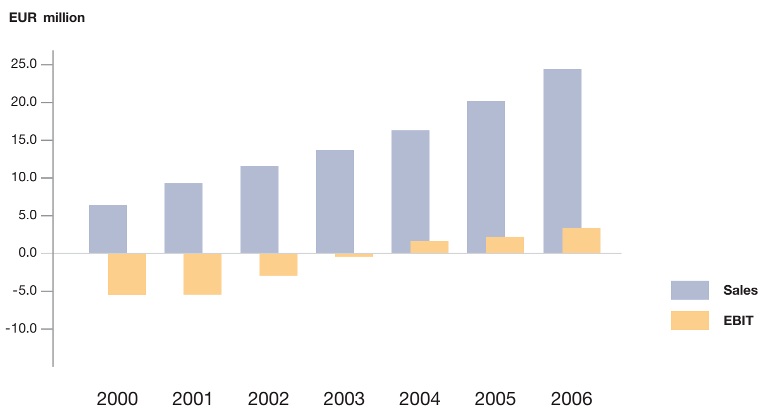
Bradley P. Gould has been Chairman of PULSION Medical Systems AG's Management Board since May 2006 and has direct responsibility for sales and marketing. Over a span of 25 years, he has held leading positions in several companies in the medical technology field. Milestones in his career have included positions such as Managing Director of Smiths Medical Central Europe, President and CEO of Medex Inc., USA, President of Nypro Europe and Managing Director at Philips Heartcare Telemedicine.

"The equity ratio has improved and now stands at 64 percent."

success of PULSION's "razor blade strategy" (*) in taking advantage of existing efficiency potential. Our pre-tax return on sales rose from 10% to 13%. This strong earnings performance is reflected in the equity rate, which improved to a very healthy 64%, compared to 57% one year earlier. Both of PULSION's business segments performed well, with the Intensive Medicine segment growing by 19% and the Perfusion segment by 36%.

The Intensive Medicine segment covers the PULSION technologies used for patient monitoring/therapy support in intensive care units and operating theatres and for emergency medicine; this includes the PiCCO, LiMON, CeVOX and, in the near future, CiMON. In 2006, approximately 90,000 patients were monitored worldwide using PiCCO-Technology, our most important source of revenue.

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



At the end of 2006, equipment on the market included 4,630 individual PiCCO monitors and approximately 8,863 PiCCO modules included in comprehensive patient monitoring systems. This represents an increase of approximately 16% compared to the previous year. Other PULSION technologies are still at an initial stage: 470 LiMON monitors (+ 11%) and 428 CeVOX monitors (+ 104%) were installed in the market at the end of the year. Due to development-related factors, marketing activities for CiMON will not commence until 2007.

(*) The term "razor blade strategy" refers to a business model used not only by razor blade manufacturers but also by manufacturers of printers, mobile telephones and various other products, whereby a basic product, e.g. a razor, is placed on the market at a very cheap price or leased/rented out. Profit ensues through the sale of consumables (e.g. razor blades) with high margins. Further information about the PULSION business model can be found on page 13 of this Annual Report.

PULSION has also made good progress with its Perfusion segment, which focuses on products and activities relating to the diagnosis and therapy management of organ and tissue perfusion in the fields of ophthalmology, surgery and internal medicine. Sales revenue rose by 36 % compared to the previous year; by the end of the year, 94 IC-VIEW monitors had been installed on the market (+12 %). A summary and description of PULSION technologies can be found on page 10 of this Annual Report.

New license partner: In order for PULSION to grow as it continues to penetrate the market, it is increasingly important that its technologies are not simply available to clinics as a "stand alone solution" but that they become integrated into patient monitoring and operating equipment which are part of an overall system. For this reason, PULSION has already been working for some years in cooperation with the leading medical technology companies Philips, Dräger Medical and Zeiss. A further license partner was added in 2006: in future, the Swiss company, SCHILLER AG, will integrate PiCCO and CeVOX parameters into their patient monitoring systems. PULSION technologies will then be available in approximately 60 % of all patient monitoring systems (PULSION estimate) currently being used for critically ill patients throughout the world.

> "PULSION has gained another license partner with SCHILLER AG."

2006 was a good year for PULSION, with all significant performance indicators further developed and improved. In the light of the progress already achieved and the favourable forecasts for the markets targeted by PULSION, we are confident that we will remain on course in 2007 and beyond.

We would like to take this opportunity to thank our employees for their hard work during the past year and to warmly welcome all the new members of staff who have joined us. We have much work to do, but success beckons!

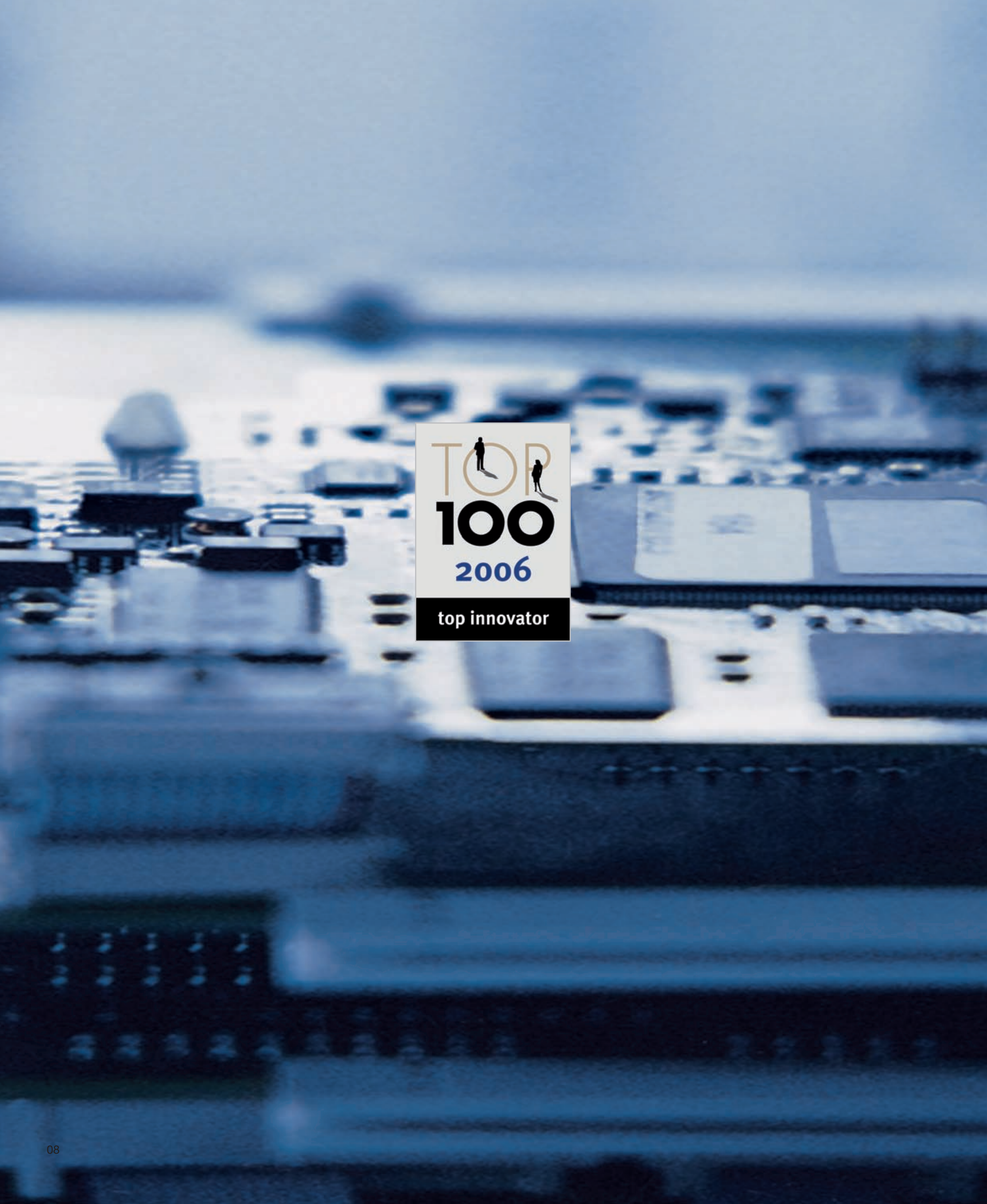
Yours truly

Bradley P. Gould
CEO

Matthias Bohn
COO

Stefan Land
CFO

In 2006, PULSION was given the honour of being selected as one of the TOP 100 most innovative medium-sized companies in Germany.



Highlights 2006

New Chairman to the Management Board appointed

In April, the Supervisory Board appointed Bradley P. Gould as Chairman of the Management Board of PULSION Medical Systems AG. Bradley P. Gould brings with him more than 25 years of experience in the field of medical technology, acquired in both Europe and the USA. The main focus of his work will be to develop PULSION's worldwide sales and marketing organization and to achieve a successful market entry in the USA.

PULSION receives TOP 100 Award

In the context of the "TOP 100" study, PULSION was selected as one of the 100 most innovative medium-sized companies in Germany. The Company received acclaim not only for its innovative product range, but also for its business model based on recurring revenues. Special mention is made of the scientific and technical support given to the PULSION research department by the "Medical Advisory Board".

PULSION raises operating profit (EBIT) forecast to EUR 3.1 million

In conjunction with the presentation of its third quarter 2006 figures, PULSION was able to raise its EBIT forecast significantly. This was due to steadily rising revenues from operations and the improved gross margins earned on PULSION products.

SCHILLER integrates PiCCO and CeVOX into its systems

In November, PULSION agreed to give licences allowing two of its technologies – PiCCO and CeVOX – to be integrated into the patient monitoring systems of the Swiss medical technology manufacturer, SCHILLER. In future, PULSION technologies will be offered by three monitoring system manufacturers, whose systems, in aggregate, account for 60 % of the world market (PULSION estimate).

Establishment of first US sales region

The first PULSION US sales region (Cluster 1) commenced work at the end of 2006 on the East Coast. PULSION's US head office was transferred from California to New Jersey. Phase 2 of US sales activities, which got underway at the beginning of 2007, will concentrate on clearly defined user groups, who will be made aware of the benefits of PULSION technologies and won over as reference customers.

Business strategy
Our aims – and how we intend to achieve them

For a glossary of technical terms see page 74.

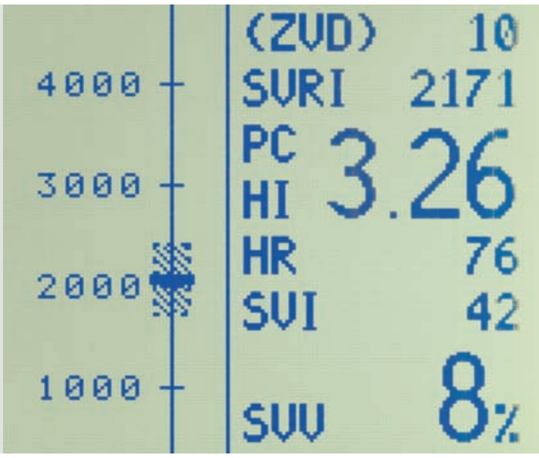
The market
PULSION's aim is to become an international leader in the market for haemodynamic monitoring – the field relating to the cardiovascular monitoring of vital organ functions. Within this market, PULSION concentrates exclusively on the monitoring of patients in intensive care units and operating theatres. PULSION is not actively involved in other market segments such as general healthcare and sports-related medicine.

In terms of clinical application, the main priorities are precision and reliability of data. It is also important, however, that systems are straightforward for doctors to use and interpret, that the measurement methods used are minimally invasive (i.e. involve as little intrusion into the patient's body as possible) and that procedures are cost-effective. PULSION's products are therefore designed to create exact and absolutely reliable measurement methods, simple handling, low risk to patients and a low overall cost for each procedure.

Product portfolio
The spectrum for haemodynamic monitoring ranges from the assessment of cardiac function and the collection of data related to the blood and circulatory system, through to the monitoring of associated organs such as the lungs, liver, abdominal organs and kidneys. PULSION currently provides the largest range of parameters for haemodynamic monitoring:

- PULSION's core technology is PiCCO. It provides essential data relating to the cardiovascular system, such as cardiac output, the contractile force and efficiency of the heart, the blood volume in the chambers of the heart, the water content of the lungs and the systemic vascular resistance. PiCCO's display panel can be adjusted to indicate how specific organs are functioning, thus, for example, enabling a quick decision to be made as to whether the circulation needs to be stabilised by altering the blood volume or whether drugs which act on the circulation are necessary.
- CeVOX-Technology carries out continuous measurements of the oxygen content of pre-heart blood. This enables an assessment to be made of the oxygen balance in the body, thus making it possible, amongst other things, to recognise and treat impending septicaemia at an early stage and so avoid complications and expense.
- 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 2007 – 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 sever lung damage. This technology can be employed both in the intensive care unit and on ordinary wards following major abdominal surgery.

IC-VIEW is another promising area of PULSION technology, a quality control device which provides a means of reducing costs considerably 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



PULSION strives to attain a sustainable leading position in the worldwide market for haemodynamic monitoring.

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 the treatment of burns.

Innovation strategy

PULSION already has a unique range of haemodynamic measurement systems which it intends to expand and develop over the next years. The aim is to offer doctors a comprehensive range of useful parameters as an aid to accurate decision-making. Equipment should be easy to use and flexible, in other words, its use should only take up a short amount of working time 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 optimization 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.

Gaining ground in day-to-day clinical applications

Throughout the world, medical standards are constantly undergoing change. The measurement of vital parameters such as respiration and heart activity has long been established as standard practice in intensive care medicine and anaesthetics. 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.

However, it generally requires long a lead-time as well as extensive market preparation before new methods and techniques have moved from the medical research phase through to day-to-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 a large number of physicians and nurses and to train them in how to apply the new techniques. This can only be achieved by a well-functioning, wide-ranging organizational structure; this has already been established by PULSION in Europe and will now be put in place in one area of the USA with effect from 2007. Once this structure has been developed and established across a region and has gained the trust of many doctors, it can then help to establish further parameters in clinical practice.

Coordinated systems functioning as a whole

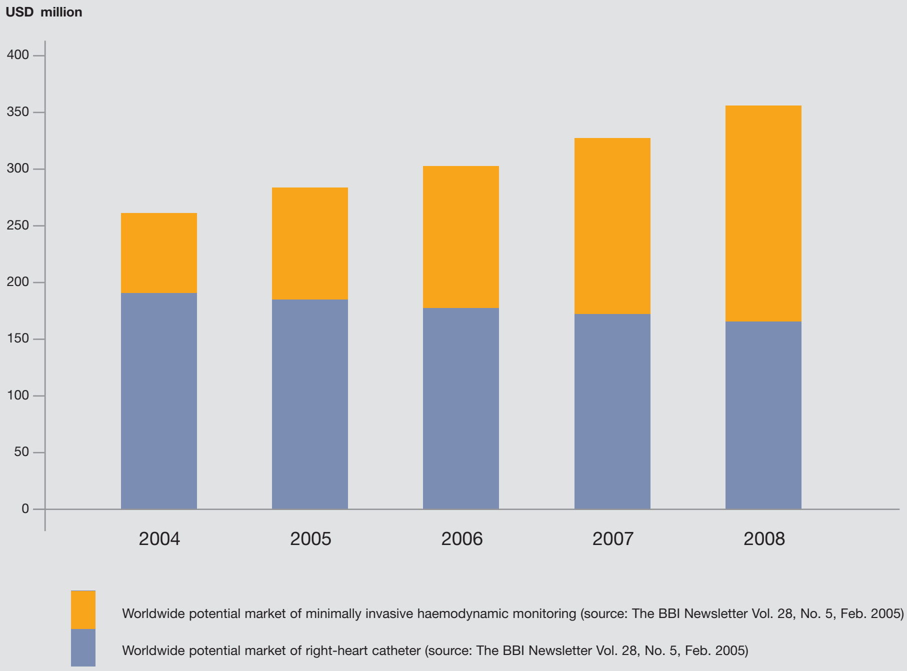
Equipment

Sterile products

Pharmaceuticals

The monitors and modules constitute the "installed" basis of our business. In order to use them wherever they are installed, PULSION disposable products or PULSION pharmaceutical products are required. In this way PULSION generates revenues each time equipment is used and not just when on the sale of equipment. At the same time, PULSION technologies are more economical for hospitals and patients than conventional methods.

New procedures successively replacing conventional systems



Within the ever-growing haemodynamic monitoring market, minimally invasive systems are successively replacing the right heart catheter, the previous standard method, in almost all relevant applications. This process is likely to take more than a decade.

Business model and market
Installed base generates steady flow of business

Revenues with each application

Anyone using PULSION's technologies also needs to use PULSION consumable products for each application. This includes disposable products such as PiCCO catheters and CeVOX probes, or the pharmaceutical agent, ICG-PULSION.

PULSION's current technologies generate a steady flow of sales revenue for the Company.

Sales of equipment (such as "stand alone" monitors or PiCCO-modules for patient-monitoring systems) account for only approximately 20% of PULSION's sales revenue. Around 80% of revenues are generated by sales of consumable/disposable products where PULSION's technologies are in clinical use, thus guaranteeing a continuous source of revenues which are largely uninfluenced by economic or healthcare sector spending cycles.

This business model, driven as it is by the number of applications, means that PULSION is in a considerably stronger position than many other medical technology manufacturers who depend mainly on initial installations in hospitals and medical practices, investments in replacement items and technical services. The business model is safeguarded by a multi-layered module-based patent protection concept.

Market for intensive care medicine growing strongly

The total market for haemodynamic monitoring in intensive care medicine will grow from an estimated volume of USD 281 million in 2005 to approximately USD 355 million in 2008, equivalent to an annual growth of almost 9%. The driving forces behind this development are the increased availability of intensive care treatment to a wider range of patients and the demographic change within affluent societies. At the same time, and for the same reasons (see graph, page 12), worldwide demand for minimally invasive monitoring methods, such as those offered by PULSION, is on the rise. By contrast, sales of right-heart catheters, which have to be introduced into the pulmonary artery via the right side of the heart in order to obtain readings (and which are therefore highly invasive) are falling.

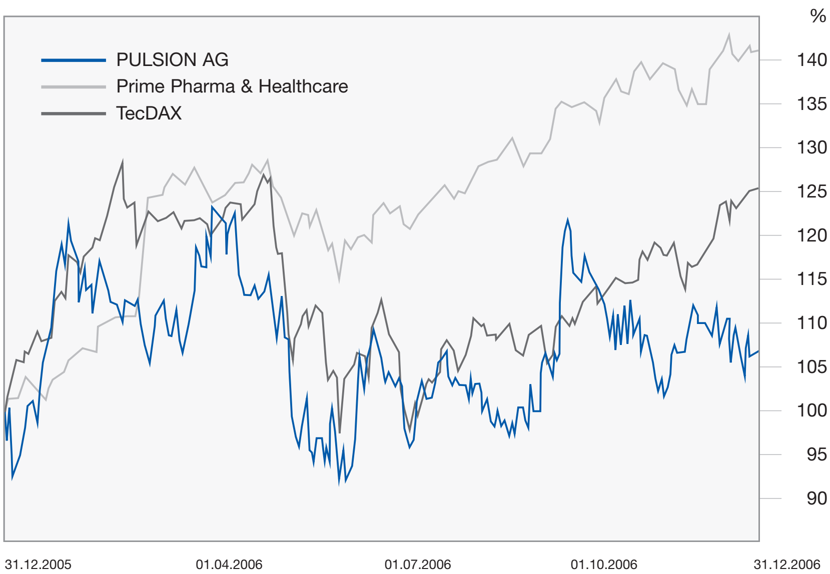
With its technologies, PULSION is helping to accelerating the pace of changeover to minimally invasive monitoring methods. PULSION's technologies also help doctors and nurses to streamline the way they look after and monitor intensive care patients. This approach will radically change the market over the next few years.

Investor Relations

PULSION stock remains undervalued

PULSION stock under-performs in 2006.

PULSION stock went up by 7 % from EUR 5.31 to EUR 5.68 over the course of 2006. This increase was significantly lower than the increase registered by the Prime Pharma & Healthcare-Index and the TecDAX. The market price of PULSION stock at the year-end stood at EUR 5.68.
Based on a net profit of EUR 3.3 million in 2006, this gives a price earnings ratio at December 31, 2006 of 17. Considering the strong growth rate and high gross margins, PULSION stock is therefore, in our opinion, undervalued and has good potential for a further gain in 2007.



Development of PULSION stock compared to the Prime Pharma & Healthcare Performance Index and TecDAX (Basis: Xetra-index closing prices from Dec. 30, 2005 to Dec. 29, 2006)

Better information for investors

PULSION stepped up its investor relation activities in 2006. The objective of our work in this area is to build up a good relationship with investors, based on trust, and to offer investors, customers and employees alike the highest possible degree of transparency at an acceptable level of cost to the Group.

In 2006, the Management Board gave 34 roadshow presentations for investors, including ones at the MedTech-Day in April and at the German Equity Forum in November in Frankfurt. In 2006, in addition to quarterly reports, PULSION informed shareholders about important topical events concerning the group in 9 press releases and 6 ad-hoc reports. PULSION has complied with the new rules contained in the Securities Prospectus Act (WpPG), which came into force on July 1, 2005, and has issued a so-called “Annual Document” listing all of the Company’s publications for investors.

Corporate Governance
PULSION complies with the Corporate Governance Code

PULSION firmly believes in responsible, transparent corporate governance. Following a thorough review and revamping of its business processes, PULSION complies with effect from December 2006 with all of the requirements of the German Corporate Governance Code (mandatory requirements).

In December, 2006, the Management Board and the Supervisory Board of PULSION Medical Systems AG signed the Declaration of Compliance with the German Corporate Governance Code (containing no exceptions) and posted it on the Company's website.

Principles of good corporate governance

Good corporate governance is best achieved by adopting a fair and open approach towards its employees and in its activities with business partners. PULSION also attaches great importance to the subject of compliance – observing all legal provisions and satisfying any additional recommendations in countries where PULSION does business. This applies not only within the Company, but also in day-to-day business relations with customers, suppliers and partners. A new Compliance function was therefore created in 2006 which has became firmly entrenched in corporate activities. A compliance training program for all corporate levels has been devised and its implementation started.

Transparency with regard to Directors' Dealings

Notifications of purchases and sales of PULSION stock, or of subscription rights thereto, by persons in leading positions within the group or by related parties, are published in detail on the PULSION website in accordance with §15a of the German Securities Trade Act (WpHG).

Information about the remuneration and shareholdings of the members of the Management and Supervisory Boards, and of business relationships with related parties, together with details of pending legal disputes, is provided given on pages 28–33 and 59–70 of this Annual Report.

Key data on PULSION stock at December 31, 2006

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	9,526,302 EUR
Bearer shares	9,526,302
Closing market price 2005*	5.31 EUR
Closing market price 2006*	5.68 EUR
Highest price (52 weeks)*	6.54 EUR
Lowest price (52 weeks)*	4.92 EUR
Market capitalisation (December 31, 2006)*	54.1 Mio. EUR
Earnings per share (diluted)	0.34 EUR

*Xetra index closing price

Employees
Organizational expansion in the spotlight

PULSION's rapid growth rate in 2006 necessitated a sharp rise in the workforce and intensified training measures.

Volume growth, quality assurance and technological developments at PULSION require constant realignment of personnel capacities and the expertise of staff working in production, administration, development and sales functions. PULSION's organization was substantially expanded in 2006 in line with increased requirements. The workforce increased by 28 % from 106 to 136 employees.

PROPULSION is proving its worth

In order to tackle all the tasks at hand, PULSION started up its *PROPULSION* initiative at the end of 2005, a comprehensive program designed to recruit new employees and promote the development of existing staff. *PROPULSION*, which operates at several levels within the enterprise, is aimed at enhancing staff development at PULSION both qualitatively and quantitatively:

- The management team was decisively strengthened. In 2006, PULSION was able to sign up a proven sector expert as the new Chairman to the Management Board.
- With its high-profile staff recruitment campaign, PULSION succeeded in increasing the number of job applications received. The quality of applicants wishing to work for PULSION also rose significantly.
- As part of the process of encouraging employees to enhance their qualifications, comprehensive staff evaluations were carried out and employees took part in 15 internal and 70 external seminars and training courses. A special qualification program was also started for current and prospective management and for the sales function.
- PULSION took on its first trainee in 2006. At least one more training place will become available in 2007. In this way, PULSION wishes to create opportunities for young motivated people to gain a foothold in an expanding international company.

Keeping pace with growth

In a field such as medical technology, which is driven by innovation and know-how, a enterprise's most important assets are its employees. PULSION is constantly endeavouring to enhance its image as an attractive employer so that it can appeal to first-class employees willing to make a long-term commitment. At the same time, the expertise of our staff must be constantly expanded to keep pace with PULSION's international, technological and volume growth.
PULSION has initiated various long-term projects to take on these tasks. These projects will help to shape personnel work over the next years by:

- establishing and developing a business culture which attaches great importance to treating one another fairly, and to excellent team work and performance,
- integrating all members of staff in international subsidiaries by clearly defined targets, well-structured, transparent lines of communication and regular personal exchanges of information,
- offering a system of remuneration worldwide which reflects both individual targets and team achievement,
- providing a series of initiatives and further training programs to be carried out both internally and externally.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Consolidated Financial Statements (IFRS) of PULSION Medical Systems AG as of December 31, 2006

Report of the Supervisory Board

Dear Shareholders,

During the financial year 2006, the Supervisory Board carried out all the tasks required of it by law, the Company's statutes and the board's 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 it in an advisory capacity. The Supervisory Board convened in total 14 times, including 9 personally attended meetings and 5 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 establishment of the subsidiary in the USA and
- the material 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. No committees were set up since the Supervisory Board comprises only 3 members.

1. Focus of the Supervisory Board's deliberations
The Supervisory Board's deliberations during 2006 revolved around the following main areas of focus:

a) The Supervisory Board was occupied during the first months of the year with the search for a Chairman for the Management Board who would be able, above all, to develop the Company's marketing and sales strategy. At the end of this process, we were able to recruit Mr. Bradley P. Gould, an executive with many years of experience in the MedTech sector and in the USA.

b) In the second half of the year, the focus turned to devising and approving the Group's USA strategy. With an estimated share of more than one third of the world market in haemodynamic monitoring, the USA is a key market. PULSION can only achieve its "Pulsion 100" objective (reaching a target of USD 100 million revenues in 2010), and become the market leader and "gold standard" in the minimally invasive technology segment by successfully entering into the US market.

   The Supervisory Board has decided to engage this key market by establishing the Group's own direct sales organization. Although this involves greater risk and could take longer than out-licensing or other partnership strategies, all of the added value and potential profit will remain with the Company. The Company is taking these risks into account working initially on a preliminary test market.

c) Also in the second half of 2006, the Management Board, with the approval of the Supervisory Board, worked out a long-term financial strategy based on the "Pulsion 100" strategy, translating that strategy into key financial performance indicators such as revenues, earnings and cash flows.

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. It was resolved that the Company should implement all of the recommendations of the German Corporate Code, in its relevant up-to-date version, unless major reasons dictate otherwise.

In December 2006, the Management Board and Supervisory Board issued a new Declaration of Compliance, for the first time confirming compliance without any exceptions. All of the recommendations contained in the most recent version of the Code (June 12, 2006) are now being complied with.

3. Audit of the annual and consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). 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 Supervisory Board meeting on March 21, 2007, 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 and the consolidated financial statements and Group management report. No objections were raised. At the meeting on March 21, 2007, the Supervisory Board concurred with the results of the external audit.
The annual and consolidated financial statements prepared by the Management Board were approved and the annual financial statements accordingly 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. Explanatory comments to disclosures pursuant to § 289 (4), § 315 (4) HGB

In accordance with § 171 (2) sentence 2 of the German Stock Corporation Act (AktG), we comment on the mandatory disclosures provided in the management report pursuant to § 289 (4) and § 315 (4) HGB as follows:

The composition of the Company's subscribed capital complies with German law and the Company's statutes. Fidelity International Limited, Bermuda, gave notice to the Company in a letter dated May 18, 2006 that it held more than 10 percent of the voting power of the Company. The Company has been authorized to increase the share capital and to acquire treasury shares up to 10% of the current share capital, in line with the generally recognized procedures applied by German listed companies. Change-in-control clauses are in place for two members of the Management Board.

5. Employees

The Supervisory Board would like to thank the Management Board and all employees for their dedicated, hard work and excellent cooperation during the financial year 2006. The year has brought with it a whole host of changes which have required our employees to take some new approaches and meet new demands. The Supervisory Board expresses its hopes that you will be able to reap the benefit of these changes in 2007 and in subsequent years.

Munich, March 21, 2007
On behalf of the Supervisory Board

Dr. Burkhard Wittek
Chairman

Group Management Report

A Review of the Financial Year

Summary

- Group revenues up by 21%
- Operating result (EBIT) 50% higher
- New addition to the Management Board
- Organization established in the USA
- Earnings per share rise by 62% to 34 cents

PULSION Medical Systems AG (PULSION) again grew strongly in 2006 and can look back on a successful financial year.

PULSION's group revenues increased in 2006 by 21% from EUR 20.2 million to EUR 24.5 million, with the whole of the increase achieved through organic growth. 87% of revenues were generated in the core area of Intensive Medicine.

This strong performance once again enabled PULSION to increase profitability at a faster rate than sales revenue. The gross profit percentage rose by a further 3 percentage points from 72% to 75%. The profit before interest and taxes (EBIT) increased during the period under report to EUR 3.4 million (+50%) and the EBIT margin climbed from 11.2% to 13.9%.

Group net profit after minority interests improved by 70% to EUR 3.3 million (2005: EUR 1.9 million), with earnings per share rising to 34 cents (+62%).

Bradley P. Gould, a highly experienced executive from the MedTech sector, joined PULSION at the beginning of 2006 to take over responsibility for marketing and sales as well as become Chairman of the Management Board. Good progress was made in the second half of 2006 in setting up an active sales organization for a specific market segment in the USA with a view to stepping up selling activities in 2007.

Capital expenditure for the year totalling EUR 2.9 million (2005: EUR 3.3 million), enabling PULSION to make good headway with a number of major projects which will help to maintain and secure future growth.

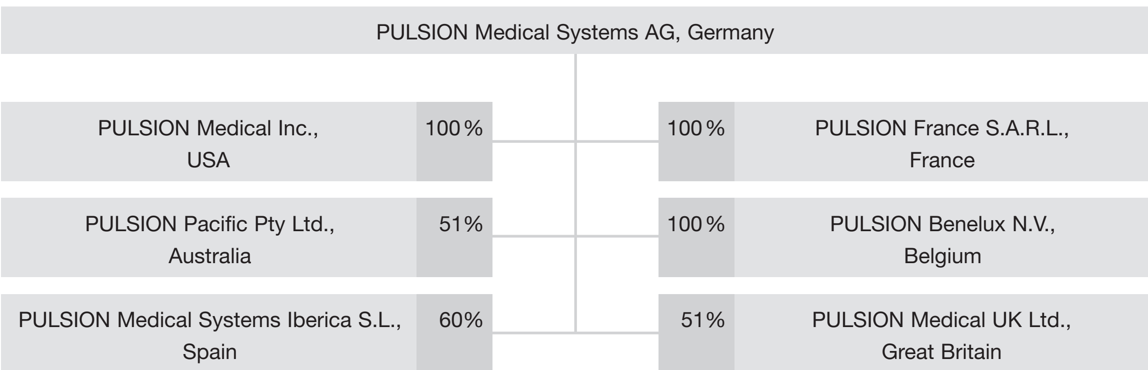
Net borrowings were reduced by 22% to EUR 2.9 million, whilst the liquidity position improved from EUR 4.8 million to EUR 5.2 million at the end of 2006.

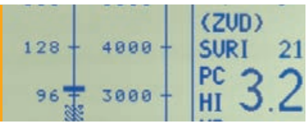
Group structure

Structure reinforced

The PULSION Group reporting entity remained unchanged in 2006. PULSION Medical Systems AG increased its investment in PULSION Benelux N.V. from 75% to 100% on December 21, 2006.

The PULSION Group comprises PULSION Medical Systems AG, Munich, as the group parent company, and the subsidiaries shown below, each of which is responsible for the sale of the group's products in the corresponding market segments:





PULSION Medical Systems AG, Munich, also holds a minority interest of 25 % in KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu, Hungary, which has been in insolvency proceedings since 2005.

Financial report

General and sector business environment

Healthcare sector underpins general economic growth

The global economy continued its upward economic cycle in 2006, despite high oil prices and despite the fact that the growth rate in the USA tailed off slightly during the course of the year. Overall, based on the latest forecasts issued by the German Institute for Economic Research (DIW), the global economy is expected to grow in 2006 by approximately 3.7 % compared to the previous year. China continued to be the world's most important motor for growth (approximately +10.5 %). Gross domestic product (GDP) in the Euro region is expected to rise to 2.8% in 2006. The DIW forecasts a GDP growth in Germany of approximately 2.3 % for 2006. Both of these two economic regions will therefore probably grow in 2006 at a slower rate than the world economy as a whole (source: DIW; weekly report No. 43/2006 "The Status of the Global and German Economies in Autumn 2006", October 23, 2006, Berlin).

The healthcare sector in general and, within that field the medical technology sector in particular, are growth markets the world over. The world market for medical technology was worth approximately EUR 184 billion in 2004, and according to the sector experts, grew, on average by between 6 and 7 % in 2005. Medical advances, demographic changes, the wider concept of "healthcare" and the increasing degree of self-responsibility on the part of patients, will continue to add to the demand for health services and products in the future (source: BVMed Press Seminar, November 2, 2006; "Branchenbericht Medizintechnologien 2006").

The products offered by PULSION's Intensive Care product segment are aimed at the "haemodynamic monitoring" market. The potential size of this market worldwide for 2007 is estimated to be in the region of USD 325 million and is expected to continue to rise in the future (source: The BBI Newsletter, Issue 28, No. 5, Feb. 2005).

Organization and management

Key strategic task

In order to achieve its core strategic goal in the medium term, namely to achieve leadership in the haemodynamic monitoring market, PULSION is having to focus very clearly on developing the Group's worldwide organization. This is considered a key task for management. It is only possible to 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 which can spread the workload over experienced shoulders and if the organization is tailored towards meeting customer needs.

In the second quarter 2006, Bradley P. Gould, an experienced executive from the MedTech sector, was recruited to join PULSION. Bradley P. Gould assumed responsibility for marketing and sales and the chairmanship of the Management Board on May 4, 2006. This important addition will help PULSION, particularly in the US market, as it strives to achieve its international goal of becoming market leader in the field of haemodynamic monitoring.

The organizational structure at the headquarters in Munich was adapted and expanded in response to the growing workload and to meet all the requirements to which it is subject, both in Germany and at an international level. As a part of this process, three new functions were created – Medical, Pharma and Corporate Audit – and the existing functions of sales, marketing and research and development were strengthened in line with corporate objectives.

Due to the combination of its specific business model and the fact that it has experienced fast organic growth in recent years, PULSION is faced with a process of constant change. It is vital therefore that it expands its organizational structures continually, both in professional terms and in terms of its customer needs. In 2007, this process of adaptation and improvement will focus mainly on sales and production. This involves implementing the strategic plan step by step in order to reinforce the sustainability of the business model.

At an international level, existing majority shareholdings in sales subsidiaries will be expanded and realigned as necessary (see section: "Internationalization – USA"). The minority shareholder's interest in PULSION Benelux N.V. was acquired in 2006 to enable a strengthened sales team to take better advantage of local market potential.

Revenue trends

Wider customer base creates potential

PULSION reports sales of EUR 24.5 million for the financial year 2006, an increase of 21% compared to the previous year. The Intensive care and Perfusion product segments both performed robustly, growing by 19% and 36% respectively.

The Intensive care segment (including perioperative and emergency medicine) continued to develop positively in 2006. Sales of disposable articles for use in intensive care medicine grew by 14%. This means that the growth rate has slowed down compared to the previous year. The installed base of PiCCO monitors – in other words the total number of all monitors sold or loaned out – increased worldwide by 612 units to stand at 4,630 monitors at December 31, 2006 (+15% compared to prior year). Furthermore, the number of PiCCO modules placed on the market via PULSION's strategic sales partners (Philips and Dräger Medical), increased by 1,201 units to stand at 8,863 modules at the end of 2006. With CeVOX, PULSION now possesses another highly promising monitoring technology which has been marketing since May 2005. The installed base of CeVOX monitors at the end of 2006 totalled 428 units, whilst that of LiMON stood at 470 units at December 31, 2006 (+11% compared to the end of 2005).

The rate of growth in the Intensive care segment is forecast to increase in 2007 as a result of the following measures:

- introduction of modified and improved products onto the market,
- a new concept for marketing and sales,
- the start of sales of CiMON and
- entry onto the US market.

The Perfusion segment focuses 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 (the area of medicine which specialises in the liver and gall bladder). PULSION made extremely good progress in this area in 2006. Although the installed base of IC-VIEW systems increased in 2006 by only 10 to 94 units (+12%), sales revenues generated by ICG-PULSION (mainly in the area of ophthalmology) rose sharply (+35%), due to the continual expansion of the area for which this product has received approval. This segment is expected to experience further dynamic growth in 2007 as the number of regions where approval is granted expands (particularly in the USA and the EU).

Product segments

Intensive Care product segment sales grew by 19% to EUR 21.3 million. Within that figure, sales of monitors (PiCCO, CeVOX, LiMON) rose by 39% to EUR 5.1 million. Sales of disposable products – comprising mainly catheter kits, probes and ICG-PULSION in conjunction with LiMON – improved by 14% to EUR 16.2 million. In volume terms, approximately 95,000 application kits (catheters and probes) were sold in 2006, 17% more than in the previous year.

in EUR million		2006	2005	Change
Monitors	Intensive care	5.1	3.7	39 %
	Perfusion	0.1	0.0	109 %
Disposables	Intensive care	16.2	14.2	14 %
	Perfusion	3.1	2.3	35 %
Subtotal	Intensive care	21.3	17.9	19 %
Subtotal	Perfusion	3.1	2.3	36 %
Total		**24.5**	**20.2**	**21 %**

Perfusion product segment sales in 2006 rose by 36 % to EUR 3.1 million.This includes sales of disposable products (ICG-PULSION) which rose by 35 % to EUR 3.1 million. This growth was attributable primarily to ophthalmology business as ICG-PULSION is now increasingly being used at a European level. PULSION continued its efforts to extend the existing country approvals to other parts of the EU and to press ahead and complete approval procedures in the USA. Sales of monitors (generally sold in this area in conjunction with IC-VIEW systems which are put in place in return for commitments to purchase ICG-PULSION) grew by 109 %.

Regions

The core region of PULSION's sales activities continued to be Europe, where 92 % of total revenues (EUR 22.4 million) were generated. The growth rate for the core European region in 2006 was 19 %. The so-called DACH region (Germany, Austria and Switzerland), with revenues of EUR 11.7 million (+19 % compared to 2005) remained PULSION's strongest market.

in EUR million	2006	2005	Change
DACH*	11.7	9.8	19 %
Europe (excluding DACH)	10.7	8.9	20 %
USA	0.3	0.2	9 %
Australia-Pacific	0.7	0.7	2 %
Other	1.1	0.5	123 %
Total	**24.5**	**20.2**	**21 %**

*Germany, Austria, Schwitzerland

Sales revenue generated in the USA went up by 9 % to EUR 0.3 million, albeit still at a low level (see section "Internationalization – USA). Sales revenue generated by the sales platform in Australia rose slightly in 2006 by 2 % to EUR 0.7 million. Business dealers outside Europe (included in table below within "Other") increased encouragingly by 123% to EUR 1,1 million.

Earnings

Business model manifests potential efficiency benefits

PULSION can report a significantly improved result for the financial year 2006. The gross profit percentage improved by a further three percentage points to 75 %. In absolute terms, the gross profit increased by EUR 3.9 million to EUR 18.4 million. This improvement was attributable to the more pronounced increase in sales of high-margin products and to the realization of further benefits of scale in the area of production and logistics.

Fixed costs were increased again compared to their previous year's level. As a result, the aggregate expense for selling, marketing and general administrative functions together with other operating income and expenses (including exchange gains and losses) went up to EUR 12.7 million, or 16%, compared to the previous year. PULSION continued to invest particularly heavily in selling and marketing in order to provide a firm basis for future growth and to strengthen the organizational structure. Spending on research and development increased sharply, totalling EUR 2.2 million in 2006 (+76% compared to 2005), and increasing to more than 9% of revenues (2005: 6%).

The profit before interest and taxes (EBIT) for the financial year 2006 rose by 50% to reach a very encouraging EUR 3.4 million (2005: EUR 2.3 million). Profit before taxes (EBT) developed even more positively because of the improved net interest result, rising from EUR 2.0 million in 2005 to EUR 3.3 million in 2006 (+59%). The net profit for the group (attributable to shareholders of PULSION Medical Systems AG) increased to EUR 3.3 million, representing a 70% improvement compared to prior year. Earnings per share after minority interests (diluted) therefore improved from 21 cents to 34 cents.

Key performance indicators:

Indicator	Describtion	2006	2005
Return on sales	Group net profit / Group sales	13.3 %	9.5 %
Return on equity	Group net profit / Average level of equity	25.7 %	19.4 %
Total capital employed	Group net profit / Average level of balance sheet total*	15.3 %	10.1 %

* Total capital employed = balance sheet total

Both the return on sales and the return on total capital employed were improved in 2006.

Assets, liabilities and financial position

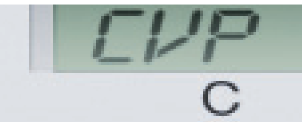
Scope created for investment

Financial performance indicators

PULSION's solid balance sheet structure was further optimized and strengthened in 2006. The consolidated balance sheet total (total assets/total capital employed) amounted to EUR 22.7 million at December 31, 2006, up by 15% compared to one year earlier (EUR 19.8 million).

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

Indicator	Description	Units	2006	2005	Change
Days of Sales Outstanding	$\frac{\text{Trade accounts receivable} \times 360 \text{ days}}{\text{Group sales}}$	days	66	60	10 %
Inventory turnover	$\frac{\text{Cost of sales}}{\text{Average level of inventories}}$		2.0	2.2	–6%
Net debt	Liabilities less cash and cash equivalents	EUR m.	2.9	3.7	–22 %
Equity ratio	Equity / Balance sheet total	%	64	57	14 %
Fixed asset coverage	Equity / Fixed assets		2.0	1.6	27 %
Liquid funds	Cash on hand and at bank and available-for-sale financial assets	EUR m.	5.2	4.8	8 %
Net Working Capital	Current assets less liquid funds and less current liabilities	EUR m.	2.6	1.1	131 %



On the assets side of the balance sheet, non-current assets increased during 2006 from EUR 8.2 million to EUR 9.2 million (+12 %). The increase was attributable partly to capital expenditure on intangible assets (+EUR 0.4 million) – mostly in connection with expenditure for approvals, patents and product development – and partly due to the higher level of non-current trade accounts receivable (+EUR 0.2 million) to EUR 0.2 million, and the increase in deferred tax assets (+EUR 0.6 million). The carrying amount of property, plant and equipment (down by EUR 0.2 million) and investment property changed only minimally.

Current trade accounts receivable went up by 28% from EUR 3.3 million to EUR 4.2 million, mainly as a result of the increase in sales revenue. During the same period, inventories were increased from EUR 2.6 million to EUR 3.5 million (+35 %), partly to meet higher sales volume demand and partly to reduce supply risks. Cash funds (including available-for-sale financial assets) climbed from EUR 4.8 million at the beginning of the year to EUR 5.2 million at December 31, 2006. At that date, an amount of EUR 0.3 million of cash funds on group bank accounts had been pledged as security (Dec. 31, 2005: EUR 0.4 million). The pledge relates to guarantees for rental contracts and for the Spanish subsidiary. Other current assets and tax receivables were both approximately at the previous year's level.

On the equity and liabilities side of the balance sheet, total liabilities decreased by EUR 0.4 million (-5 %) to stand at EUR 8.1 million at December 31, 2006 (Dec. 31, 2005: EUR 8.5 million). The main factors behind these changes were as follows: Financial liabilities were reduced as a result of the full repayment of loans from Philips Medizinsysteme Böblingen GmbH and SEDA S.p.A. totalling EUR 0.3 million. Further partial repayments amounting to EUR 0.1 million were also made. Liabilities to banks increased by EUR 0.2 million to EUR 1.4 million, most of which is available on a long-term basis. Trade accounts payable were reduced by EUR 0.4 million to EUR 1.1 million and lease liabilities were brought down by EUR 0.1 million to EUR 1.2 million. Other liabilities, taxes payable and provisions increased overall to EUR 4.1 million (+12 %).

Minority interests increased by EUR 0.1 million in 2006 to EUR 0.3 million. As a result of the profit recorded for 2006 and stock options exercised during the year, equity rose again, to stand at EUR 14.6 million at the year-end (December 31, 2005: EUR 11.3 million). The equity ratio improved accordingly from 57 % to 64 %.

Non-financial performance indicators

In 2006, PULSION also succeeded in building on and strengthening its non-financial performance indicators. This includes training activities, supporting the career progression of its employees and compliance with the Corporate Governance Code (for further details see the later sections "Personnel development" and "Corporate governance").

Cash flow in accordance with IAS 7

The development of the Group's financial, net assets and earnings position is also reflected in the cash flow performance for the year. The cash flow from operating activities, which represents a key performance indicator to manage the business, totalled EUR 3.2 million (2005: EUR 3.3 million) and was therefore practically unchanged compared to the previous year. This reflects the fact that improved earnings were offset by the increase in net working capital, in particular in the area of trade accounts receivable and inventories.

The cash outflow for investing activities in 2006 totalled EUR 2.4 million, up by 37 % compared to the previous year. The lion's share of capital expenditure related to the planned extension of approval coverage for ICG-PULSION, product development and the higher number of monitors loaned out to customers.

The cash outflow from financing activities in 2006 decreased to EUR 0.4 million (2005: EUR 1.1 million), due to the significantly lower level of debt repayment. Adjusted for the cash-relevant change in cash funds, PULSION's liquidity rose from EUR 4.8 million at the end of 2005 to EUR 5.2 million at December 31, 2006.

Capital expenditure

Basis for future growth

Total capital expenditure in 2006 amounted to EUR 2.9 million and therefore remained at a high level (2005: EUR 3.3 million).

Capital expenditure related to the following:

- EUR 1.8 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 0.7 million was invested in intangible assets including
  • EUR 0.3 million to expand approval coverage of ICG-PULSION (Europe and USA) and
  • EUR 0.4 million for patents, product development and software.
- EUR 0.4 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 12% (2005: 16%). This high ratio is intended on the one hand to safeguard and extend PULSION's competitive lead and to lay the foundation for future growth on the other.

Internationalization – USA

Phase 2 can get underway

The American market is an important region for PULSION's future growth and therefore central to PULSION's core strategy – market leadership in haemodynamic monitoring.

PULSION sharpened its focus on this market during the past year and, under the leadership of the new Chairman of the Management Board and US expert, started the process of establishing an effective sales team in a restricted region (so-called "cluster strategy"). By adopting this strategy, PULSION aims to serve specific regional markets within the USA rather than take on the whole of the market in one go. Phase 2 of PULSION's sales thrust in the USA will get underway at the beginning of 2007. In addition to pursuing classic selling activities, contacts have already been established with key opinion-leaders and a US-specific marketing strategy has been developed.

PULSION's operating result 2006 (EBIT) is stated after expenses of EUR 0.3 million incurred for the US market preparation measures described above. As a result of the commencement of marketing activities in a restricted sales region (cluster strategy, phase 2), the level of expenditure will rise further in 2007 in line with plan.

Purchasing, Production, Logistics

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. Its approach is to keep production depth as low as possible to the extent that it helps efficiency and is feasible with a controllable level of risk.

An efficient network of longstanding suppliers working to PULSION's high quality requirements is in place. Continual efforts are made to locate additional partners to supply key components and parts, and therefore keep dependence on individual suppliers to a minimum.

In the light of the expansion of business in recent years and in conjunction with its strategic plan, PULSION intends, by the beginning of 2008, to bring its production processes into line with the changed product mix and with higher volume requirements and to realign the production depth in the area of disposable products and monitors. These measures, and the related capital expenditure, will help to lower the production cost of disposable products even further, increase flexibility, reduce supplier dependence and release working capital tied up in inventories, whilst at the same time still allowing the same high quality to be maintained. By contrast, the production depth for monitors will be reduced further.

These planned changes to the production function will enable PULSION to continue to standardize its global logistical and purchasing processes, with the view to reducing complexity, maintaining product availability and reducing throughput times.

Personnel development

Investment for the future

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

The Group employed a workforce of 136 people at the end of the year (Dec. 31. 2005: 106), an increase of 28 %. The average number of employees increased to 130 (2005: 101). As a consequence of this development, personnel expense increased from EUR 6.2 million in 2005 to EUR 8.1 million in 2006.

In the area of personnel development, PULSION continued the *PROPULSION* project initiated in 2005. 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. In conjunction with this initiative, PULSION took on its first apprentice in 2006. In addition, a performance-related compensation scheme is in place across the Group as well as a stock option program which are both intended to tie in the workforce to the Group and to leverage further potential for efficiency.

Environmental care and quality management

Quality management system successfully reorganized

PULSION's quality management system was reorganized in 2006 and successfully certified by Dekra ITS Certification Services GmbH to EN ISO 13485:2003 standard. 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 and endeavours at all times to reduce or optimize energy consumption and waste. Neither the production process nor the products themselves pose any direct or indirect risks to the environment

Corporate Governance

Transparency creates trust

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 Board, 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 options on PULSION stock in conjunction with the existing stock option programs. Full details of the remuneration of Management Board members, analyzed by individual, are provided in the notes to the consolidated financial statements.

In 2006 PULSION again carefully considered the principles contained in the Corporate Governance Code, as updated on June 12, 2006. With the approval of the Supervisory Board, all exceptions previously applied were eliminated over the course of 2006. As a result, PULSION now complies with all recommendations set out in the Code.

The Declaration of Compliance of the Management and Supervisory Board, in its modified form, was posted to the Group's website on December 15, 2006 under www.PULSION.com and is available for inspection there.

Research and development report

Research and development activities

Further strengthened

Research and development (R&D) is one of the mainstays of PULSION's business strategy. The R&D function has been further strengthened over the past year to enable it embark on and implement major future-orientated projects and to sharpen PULSION's competitive edge. In order to achieve market leadership in the field of haemodynamic monitoring, it is essential that PULSION's technologies become even more user-friendly and simple to apply in order to be suitable for an even larger volume market – whilst still, of course, maintaining a consistently high level of quality.

As well as improving existing technologies (in particular PiCCO and CeVOX), work during the year also focused on completing CiMON, a system which provides vitally significant measurements of abdominal and thoracic pressure in critically ill patients.

Over and above capital expenditure, R&D expenditure in 2006 amounted to EUR 2.2 million, an increase of 76% compared to the previous year.

Patents and approvals

Further scope for opportunities

At the end of 2006, PULSION held a total of 151 national patents in various countries (Dec. 31, 2005: 138). This comprised 108 patents held by PULSION and 43 patent rights licensed to PULSION. PULSION is currently applying for a further 375 patents in various countries (Dec. 31, 2005: 215). The patents and patent applications relate to 44 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 22 registered trade names which are either already in force or have been applied for.

Several approval applications were successfully progressed or completed in 2006. This will enable improved product marketing opportunities in countries where approval has already been given (e.g. USA) and should open up further regions for PULSION products. Progress was made towards obtaining US approval of ICG-PULSION and the approval application submitted to the FDA in autumn 2006.

Events after the balance sheet date

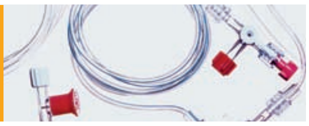
In a letter received by the District Court of Munich I on January 2, 2007, the founder of the Company, Priv.-Doz. Dr. med. Dr. med. habil. Ulrich J. Pfeiffer, lodged claims for co-beneficial interests in patent applications (relating to a specific group of patents) and for all corresponding national industrial property right applications and industrial property rights. No significant economic impact affecting PULSION's financial position is evident at present.

Risk report

Further improvement in compliance

Risk management system

In the course of its operating activities, PULSION is exposed to a number of risks which inevitably arise in connection with entrepreneurial activities. All companies are faced with a two-fold challenge – on the one hand they must promptly



recognize 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 preventive 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 has put an early warning system into place to identify risks which could endanger its going-concern status. One of PULSION's objectives is to create the best possible structure for collating and communicating information most efficiently. PULSION recognises that risk management is part and parcel of running a business. The only way to recognize 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 relevant members of staff within each function perform regular checks on processes, transactions and developments with regard to potential and existing risks, thus ensuring that risks are recognized at an early stage. Current and potential future risks, and the factors influencing them, are reported regularly to management, and these issues are discussed thoroughly at Board meetings so that appropriate measures can be initiated in good time.

PULSION's 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 potential damage and the probability of occurrence.

The Controlling department contributes to the risk management system with weekly, monthly and quarterly analyses/reports, which compare actual figures with prior year, forecast and estimated figures at various levels within the Group and this provide the basis for variance analysis.

Using the procedures described above, appropriate measures can be taken to avoid identified risks, minimize the probability of incurrence and reduce the potential financial loss that a risk could cause.

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 risk that PULSION, by comparison with its competitors, may not react quickly enough to market trends by developing new products or technologies and that a strong downward price pressure may arise. This could have an adverse impact on the financial position and the results of the enterprise.

PULSION counters these risks by continually developing its existing technologies and improving patent protection on the one hand, and by permanently observing the market via intermediary organizations and networks on the other. It is also engaged in a continuous process of optimizing manufacturing cost.

Product liability risk

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 product quality. 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 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 taken. In addition, PULSION is continually endeavouring to turn short-term interest-bearing liabilities into long-term liabilities.

Approvals

Very strict approval regulations – 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 on the future level of PULSION's revenues and earnings and could result in an impairment of capitalized development costs.

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.

Production and purchasing risks

Since PULSION keeps production depth to a low level, it is necessary to buy in a relatively large volume of pre-manufactured components and parts. Due to the current size of the enterprise, it is not possible at present to operate a comprehensive second-source policy across the whole supply chain without causing a substantial decrease in margins.

In order to reduce its dependency on suppliers, PULSION pursues a second-source policy in some areas 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. In order to reduce risks further, PULSION will, in future, increase the proportion of its own added value to key products.

Financial risks

PULSION has an equity ratio of 64% at December 31, 2006 and has the opportunity of calling on a further loan commitment from a bank in 2007. Unpledged cash and cash equivalents of EUR 4.9 million and current receivables of EUR 4.2 million also provide financial flexibility. The cash flow from operating activities in 2006 amounted to EUR 3.2 million. From a current perspective, the financing and liquidity situation of the Group can be considered to be solid.

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 against bad debts. The risk is also mitigated 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. PULSION is not exposed to significant seasonal fluctuations in its cash flows.

The interest-rate risk with relation to financing is partially mitigated by having fixed interest rates in place for the whole term of the financing arrangements. Since the net amounts of foreign currency cash flows have not been significant to date, forward currency contracts are not employed. PULSION endeavours to pass on any currency risk that can arise on purchases to suppliers and invoices its sales to international dealers in Euro.

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. In the event of potential 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 continually.

In order to minimize the risk of personnel fluctuation as well as to find and retain good and experienced staff, PULSION has introduced a motivating remuneration system, clear lines of responsibility with room for initiative, flat hierarchies and flexible work-time arrangements. In addition, the *PROPULSION* initiative should further strengthen employees' ties to the enterprise in the future.

Warehousing and transportation

Risks relating to warehousing and transportation of products are covered by appropriate insurance policies. Shifts in demand, 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 regular basis.

Litigations

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.

Disclosures pursuant to § 315 (4) HGB

The share capital at December 31, 2006 is EUR 9,526,302, divided into a total of 9,526,302 non-par shares issued to bearer. The holders of shares of common stock are entitled to one vote per share and to dividends as declared.

Fidelity International Limited, Bermuda, held more than 10% of the voting power of the Company in 2006. The appointment and removal of members of the Management Board are based on the rules contained in § 84 and § 85 AktG; changes to the Articles of Incorporation are made in accordance with § 133 and § 179 AktG.

A conditional capital of KEUR 2,845 was in place at the balance sheet date in accordance with shareholder resolutions taken at the Annual General Meeting. The Management Board is authorized to issue this conditional capital to entitled persons. Of the total amount, KEUR 2,000 is intended for the issue of convertible bonds and bonds with warrants and a further KEUR 845 can be used to issue stock options.

Furthermore, 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 or non-cash contributions. The Management Board is authorized, with the approval of the Supervisory Board, to determine further details of the share capital increase. In accordance with the shareholders' resolution taken at the Annual General Meeting on June 22, 2006, the Company is authorized in accordance with § 71 (1) no. 8 AktG to acquire, prior to December 21, 2007, up to 10% of its own present share capital. The authorization may not be used by the Company to trade its own shares.

Change of control arrangements are in place for two members of the Management Board. The relevant clauses take effect in the case of a take-over offer which meets certain defined criteria. In the case of early termination of the employment contracts in conjunction with a take-over, two members of the Management Board entitled to receive the capitalized value of their remuneration for the period up to the contractual end of their employment contracts, or at a minimum, one and a half times their annual remuneration.

Forward-looking comments in the Management Report

Business strategy

"The Gold Standard" in haemodynamic monitoring

PiCCO-Technology, in combination with the related technologies CeVOX, LiMON and in the future, CiMON, has the opportunity to become 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.

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

- **Technological progress**
  As well as purposefully expanding the range of haemodynamic measurement systems on offer, the focus over the next few years will be to improve the user-friendliness and flexibility of PULSION's key technologies and to make further advances in the area of patient safety.
- **Increasing global availability**
  Further licensing arrangements and the integration of its key technologies into the products of leading manufacturers of patient monitoring systems in order to increase global availability represent an important strategic step for PULSION. Increasing the installed base gives PULSION the opportunity to increase sales of disposal products.

- **Focus on key markets**
  The two strategies of continuous expansion of the European sales organization and gaining a footing in the world's largest single world market (cluster strategy in the USA) are being pursued as top priorities.
- **Intensified marketing**
  Intensifying the targeted flow of information to the customer (doctors and hospitals) should accelerate the pace of growth and result in a wider range of applications for PULSION's products.

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.

Opportunities

Building on the existing platform

PULSION believes that its business strategy has a number of competitive advantages which will help it to perform successfully in the future.

The following factors provide opportunities to expand the customer base and hence take full advantage of the market potential:

- A wide range of products in the area of haemodynamic monitoring which allow it to offer integrated and flexible solutions.
- A strong international presence thanks its subsidiaries in France, Spain, Belgium, the United Kingdom, the USA and Australia as well as an extensive network of dealers.
- Strong licensing partners in the form of Philips, Dräger Medical, Zeiss and Schiller.
- Innovative strength driven by extensive expertise and application knowledge in all of the MedTech fields in which PULSION operates.
- Experienced management team with longstanding international experience in the MedTech sector.

Outlook

Focus on the USA

Over the past year, PULSION achieved a number of important targets set out in its strategic plan. This includes the licensing of PiCCO-Technology to the Swiss company, SCHILLER AG, continued further development of a new generation of products, restructuring the Group's marketing organization and setting up the sales organization in specific regions in the USA (cluster strategy).

Thanks to its robust and innovative business model, PULSION considers that it is well-equipped for the coming year. Although the pace of growth is likely to be held down by cost pressures affecting the healthcare systems of the major industrial countries, the unique features of PULSION's technologies provide a good basis for generating above-average demand – and hence a source of solid growth for PULSION.

PULSION will sharpen its focus on the US market in 2007, commencing active selling activities in a restricted region (cluster strategy) from the beginning of the year. In parallel, approval activities will be intensified and the product portfolio realigned in order to reach the volume market more quickly. The proportion of internally generated added value on disposable products will be increased to mitigate purchasing risks, increase flexibility and reduce production costs even further.

PULSION will continue to make sustainable headway on the course it has taken, investing for medium and long-term growth, whilst at the same time taking on board important issues such as corporate governance and the management of values. Revenue is forecast to grow in 2007 at a rate of between 20% and 30% and the EBIT margin is planned to be between 13% and 15%. In the following year, sales are expected to rise again at a similar pace, with the margin remaining at the same level.

Further prerequisites for profitable growth are the motivation and skills of its workforce. In the coming year, PULSION will continue to make personnel development a priority, allowing potential skills to be discovered and developed, and at the same time ensuring that employees are in good shape to accompany PULSION on its future course.

Management Board's statement of responsibility

The Management Board of PULSION Medical Systems AG, Munich, is responsible for drawing up the consolidated financial statements and the group management report. The review of operations – including that of the earnings and financial position of the Group – has been presented in the group management report to the best of management's knowledge such that it presents a true and fair view. It describes the Group's anticipated future development along with the principal opportunities and risks.

Munich, March 20, 2007
PULSION Medical Systems AG

Bradley P. Gould
CEO

Matthias Bohn
COO

Stefan Land
CFO

Consolidated Balance Sheet

PULSION Medical Systems AG at December 31, 2006

ASSETS	Note	Dec. 31, 2006 KEUR	Dec. 31, 2005 KEUR
Non-current assets			
Intangible assets	11	2,645	2,241
Property, plant, equipment		4,464	4,674
Investment property	13	248	264
Trade accounts receivable	15	216	37
Deferred taxes	9	1,582	976
Total non-current assets		**9,155**	**8,192**
Current assets			
Inventories	14	3,470	2,573
Trade accounts receivable	15	4,247	3,325
Other current assets	16	611	788
Tax receivables		23	78
Available-for-sale financial assets	17	1,561	1,411
Cash and cash equivalents*	18	3,666	3,413
Total current assets		**13,577**	**11,588**
Total assets		**22,733**	**19,780**

* including fixed term deposits of EUR 0.3 Mio. (Dec. 31, 2005: EUR 0.4) pledged as security

EQUITY AND LIABILITIES

	Note	Dec. 31, 2006 KEUR	Dec. 31, 2005 KEUR
Equity	19		
Share capital		9,526	9,496
Additional paid-in capital		20,104	19,886
Other reserves		(192)	(163)
Accumulated deficit		(15,155)	(18,211)
Minority interests	10	344	245
Total equity		**14,626**	**11,253**
Non-current liabilities			
Provisions	21	126	56
Liabilities to banks	22	783	698
Financial liabilities	23	210	489
Lease liabilities	12	708	805
Other liabilities	24	565	855
Total Non-current liabilities		**2,391**	**2,903**
Current liabilities			
Provisions	21	79	143
Liabilities to banks	22	610	469
Financial liabilities	23	213	444
Trade accounts payables		1,065	1,537
Lease liabilities	12	462	470
Taxes payable	9	509	156
Other liabilities	24	2,777	2,405
Total current liabilities		**5,716**	**5,624**
Total equity and liabilities		**22,733**	**19,780**

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

Group Income Statement

PULSION Medical Systems AG for the Financial Year ended December 31, 2006

	Note	2006 KEUR	2005 KEUR
Sales	5	24,456	20,197
Cost of sales	6	(6,104)	(5,737)
Gross profit		**18,351**	**14,460**
Selling and marketing expenses	8	(10,514)	(8,996)
Research and development expenses	8	(2,214)	(1,255)
General and administrative expenses	8	(3,097)	(3,140)
Other operating expenses	7	(341)	(104)
Other operating income	7	1,224	1,214
Operating profit		**3,408**	**2,179**
Exchange losses		(62)	(59)
Exchange profit		59	151
Profit before interests and taxes (EBIT)		**3,404**	**2,271**
Interest expenses		(243)	(309)
Interest income		90	84
Profit before taxes (EBT)		**3,252**	**2,046**
Income taxes	9	158	(10)
Group net profit (before minority interests)		**3,410**	**2,036**
of which attributable to shareholders of the group parent company		3,250	1,911
of which attributable to minority interests	10	160	125
Earnings per share:	27		
Undiluted - ordinary operations after taxes (in €)		0.34	0.21
Diluted - ordinary operations after taxes (in €)		0.34	0.21
Average number of shares in circulation (undiluted)		9,526,302	9,495,802
Average number of shares in circulation (diluted)		9,551,814	9,531,752

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

Consolidated Cash Flow Statement

PULSION Medical Systems AG for the Financial Year ended December 31, 2006

		Note	2006 KEUR	2005 KEUR
CASH FLOW FROM OPERATING ACTIVITIES	Group net profit after minority interests		3,250	1,911
	Minority interests		160	138
	Dividends		(43)	(54)
	Amortization and depreciation of intangible assets and property, plant and equipment		1,830	1,487
	Changes in receivables		(1,101)	61
	Changes in inventories		(541)	(202)
	Income taxes received		26	124
	Income taxes paid		(155)	
	Changes in other assets and liabilities		(161)	(443)
	Other non-cash income and expenses		(54)	237
	Cashflow from operating activities		**3,211**	**3,259**
CASH FLOW FROM INVESTING ACTIVITIES	Purchase of intangible assets and property, plant and equipment		(2,923)	(2,557)
	Purchase of available-for-sale financial assets (money market fund)		(150)	0
	Proceeds from disposal of intangible assets and property, plant and equipment		654	793
	Cashflow from investing activities		**(2,419)**	**(1,764)**
CASH FLOW FROM FINANCING ACTIVITIES	Payments into equity capital		191	98
	Purchase of minority interests		(130)	0
	Proceeds from raising current and non-current loans		405	500
	Repayments of bank borrowings		(192)	(156)
	Repayments of financial liabilities		(416)	(1,480)
	Interests received		61	66
	Interests paid		(67)	(214)
	Proceeds from finance lease		298	583
	Repayments from finance lease		(515)	(480)
	Cashflow from financing activities		**(365)**	**(1,083)**
CASH FUNDS AT THE END OF THE PERIOD	Decrease/increase in cash funds		427	412
	Cash funds at the beginning of the period*		2,977	3,976
	Cash funds at the End of the Period	**18**	**3,404**	**4,388**

* Cash funds at the beginning of the year have been adjusted for the investment in the money market fund at December 31, 2005 amounting to KEUR 1,411.

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

Consolidated Statement of Changes in Equity

of PULSION Medical Systems AG at December 31, 2006

	Subscribed capital Shares	Subscribed capital KEUR	Additional paid-in capital KEUR
Balances at January 1, 2005	**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 options programs	25,750	26	90
Equity component of convertible bonds	24,000	24	34
Total items directly recognised in the equity		**50**	**124**
Total		**50**	**124**
Balances at December 31, 2005	**9,495,802**	**9,496**	**19,886**
Exchange differences		0	0
Group net profit		0	0
Total result for the period		**0**	**0**
Dividends		0	0
Contributions to reserves		0	98
Purchase of minority interests		0	0
Employee share options programs	30,500	30	126
Equity component of convertible bonds		0	0
Valuation of financial assets held-for-sale		0	-6
Total items directly recognised in the equity		**30**	**218**
Total		**30**	**218**
Balances at December 31, 2006	**9,526,302**	**9,526**	**20,104**

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

Accumulated deficit KEUR	Other reserves KEUR	Minority interests KEUR	Total KEUR
–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
47	**0**	**–41**	**180**
1,958	**172**	**84**	**2,388**
–18,211	**–163**	**245**	**11,253**
0	–29	0	–29
3,250	0	160	3.410
3,250	**–29**	**160**	**3,381**
0	0	–61	–61
0	0	0	98
–195	0	0	–195
0	0	0	156
0	0	0	0
0	0	0	–6
–195	**0**	**–61**	**–8**
3,055	**–29**	**99**	**3,373**
–15,155	**–192**	**344**	**14,626**

Analysis Of Changes In Fixed Assets

PULSION Medical Systems AG at December 31, 2006

ANALYSIS OF CHANGES IN FIXED ASSETS IN 2006

Historical cost	Jan. 1, 2006 KEUR	Translation differences KEUR	Additions KEUR	Disposals KEUR	Dec. 31, 2006 KEUR
Intangible assets					
Purchased intangible assets	448	0	63	54	457
Internally generated intangible assets	2,240	–1	620	81	2,778
	2,688	**–1**	**683**	**135**	**3,235**
Property, plant and equipment					
Technical equipment, plant and machinery	563	0	149	27	685
Other equipment, furniture and fittings	5,972	–49	1,793	928	6,788
Finance leases	3,288	0	298	1,760	1,826
	9,823	**–49**	**2,240**	**2,715**	**9,299**
Investment property	379	0	0	0	379
	12,890	**–50**	**2,923**	**2,850**	**12,913**

ANALYSIS OF CHANGES IN FIXED ASSETS IN 2005

	Jan. 1, 2005 KEUR	Translation differences KEUR	Additions KEUR	Disposals KEUR	Dec. 31, 2005 KEUR
Intangible assets					
Purchased intangible assets	291	0	162	5	448
Internally generated intangible assets	860	0	1,380	0	2,240
	1,151	**0**	**1,542**	**5**	**2,688**
Property, plant and equipment					
Technical equipment, plant and machinery	448	0	204	89	563
Other equipment, furniture and fittings	5,521	70	1,020	639	5,972
Finance leases	2,846	0	503	61	3,288
	8,815	**70**	**1,727**	**789**	**9,823**
Investment property	379	0	0	0	379
Investments*:					
Equity investments	63	0	0	0	63
	10,408	**70**	**3,269**	**794**	**12,953**

* For the financial year 2006 no disclosure in the analysis of changes in fixed assets

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

Accumulated depreciation and impairment					Carrying amounts	
Jan. 1, 2006 KEUR	Translation differences KEUR	Additions KEUR	Disposals KEUR	Dec. 31, 2006 KEUR	Dec. 31, 2006 KEUR	Dec. 31, 2005 KEUR
316	0	64	44	336	121	132
131	0	124	1	254	2,524	2,109
447	**0**	**188**	**45**	**590**	**2,645**	**2,241**
274	0	94	18	350	335	288
3,356	–22	1,032	372	3,994	2,794	2,617
1,519	0	500	1,528	491	1,335	1,769
5,149	**–22**	**1,626**	**1,918**	**4,835**	**4,464**	**4,674**
115	0	16	0	131	248	264
5,711	**–22**	**1,830**	**1,963**	**5,556**	**7,357**	**7,179**

Jan. 1, 2005 KEUR	Translation differences KEUR	Additions KEUR	Disposals KEUR	Dec. 31, 2005 KEUR	Dec. 31, 2005 KEUR	Dec. 31, 2004 KEUR
260	0	57	0	316	132	31
21	0	110	0	131	2,109	839
281	**0**	**167**	**0**	**447**	**2,241**	**870**
184	0	99	9	274	288	264
2,970	3	722	339	3,356	2,617	2,551
1,099	0	420	0	1,519	1,769	1,747
4,253	**3**	**1,241**	**348**	**5,149**	**4,674**	**4,562**
99	0	16	0	115	264	281
0	0	63	0	63	0	63
4,633	**3**	**1,487**	**348**	**5,774**	**7,179**	**5,775**

Notes to the Consolidated Financial Statements

1. Business and nature of operations

PULSION Medical Systems AG, 81829 Munich, Stahlgruberring 28, Germany, ("PULSION", "PULSION AG" or the "Company") was established in 1990. In June 2001, the Company completed its initial public offering on the then "Neuer Markt" in Frankfurt, Germany, and is now listed on the Prime Standard of the Frankfurt Stock Exchange. The PULSION Group 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 used to monitor patients.

The PULSION Group employed 136 and 106 people worldwide as at December 31, 2006 and 2005, respectively, of whom 105 and 84 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 20, 2007 for approval by the Supervisory Board.

2. General comments

The consolidated financial statements of PULSION AG and its subsidiaries have been prepared (in EURO) 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. All amounts are stated in thousands of EURO (KEUR) unless otherwise stated. Amounts are rounded in accordance with normal commercial practise. This can result in rounding differences.

For the purposes of preparing the IFRS consolidated financial statements, all International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs) of the International Financial Reporting Interpretations Committee / Standing Interpretations Committee (IFRIC/SIC), which were mandatory for the financial year 2006, were applied. The consolidated financial statements comply with IFRS.

The IASB has issued the following Standards, Amendments to Standards and Interpretations which are not yet mandatory for PULSION AG. The group has elected not to adopt these regulations early:

Mandatory application from January 1, 2007 onwards:

- IFRS 7: Financial Instruments Disclosures
  This Standard will increase the scope of disclosures on financial instruments.
- Amendment to IAS 1: Presentation of Financial Statements – Capital Disclosures
  First-time application of this amendment may result in additional disclosures.
- IFRIC 7: Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
  This Interpretation does not at present have any impact on the financial statements of PULSION AG.

  IFRIC 8: Scope of IFRS 2
  This Interpretation does not at present have any impact on the financial statements of PULSION AG.
- IFRIC 9: Restatement of Embedded Derivatives
  This Interpretation does not at present have any impact on the financial statements of PULSION AG.
- IFRIC 10: Interim Financial Reporting and Impairment
  Application of this Interpretation is not expected to result in any significant changes to the financial statements.
- IFRIC 11: IFRS 2 - Group and Treasury Share Transactions
  This Interpretation does not at present have any impact on the financial statements of PULSION AG.

Other regulations:

- IFRS 8: Operating Segments
  First-time application of this amendment may result in additional disclosures.

- IFRIC 12: Service Concession Arrangements
  This Interpretation does not at present have any impact on the financial statements of PULSION AG.

The first-time application of Standards, Amendments to Standards and Interpretations in 2006 did not result in any material changes compared to previous years. The following Standards and Interpretations were adopted for the first time in 2006:

- IAS 19 (Amendment): Employee benefits
- IAS 21 (Amendment): The Effects of Changes in Foreign Exchange Rates
- IFRS 1 (Amendment): First-time Adoption of International Financial Reporting Standards
- IFRS 6: Exploration for and Evaluation of Mineral Resources
- IFRS 6 (Amendment): Exploration for and Evaluation of Mineral Resources
- IAS 39 (Amendment): Financial instruments: Recognition and Measurement
- IFRS 4 (Amendment): Insurance contracts
- IFRIC 4: Determining whether an Arrangement contains a Lease
- IFRIC 5: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6: Liabilities Arising from Participating in a Specific Market

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 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. Group reporting entity and consolidation methods

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	100 %**
PULSION Medical Inc., Vista, California	USA	October 1, 1999	100 %
PULSION Medical UK Ltd., Uxbridge	United Kingdom	August 7, 1998	51 %
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 date of first-time consolidation
** PULSION Medical Systems AG's investment in the subsidiary in Belgium, PULSION Benelux N.V., was increased by 25 % to 100 % during the financial year 2006.

PULSION Medical Inc. has also a sales office in East Brunswick, NJ, USA. The above subsidiaries distribute the Group's equipment and products. A purchase option is in place to acquire the minority interest in PULSION Iberica.

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 %

The insolvency proceeding opened in the previous year have not been completed.

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. All group entities draw up financial statements to December 31 of the relevant financial year. The financial year corresponds to the calendar year. The fully consolidated financial statements of group entities are drawn up using uniform accounting policies.

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 unrealized profits or losses; these assets are therefore measured at group acquisition or manufacturing cost.

Intragroup sales are eliminated. All other intragroup 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.

On the acquisition of minority shareholder interests, the difference between the cost of acquisition and the carrying amount of the interest acquired is recognised directly in equity ("Economic Entity Model").

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

Assets and liabilities of subsidiaries whose functional currency is not the EURO are translated using the closing rate method. Equity transactions are translated using the historical rates prevailing at the date of the transaction. Income statement items are translated using the average exchange rate for the financial year. Translation differences are recognized directly in equity (other reserves).

Foreign currency transactions are recorded using the spot exchange rate prevailing at the date of the transaction. Foreign currency monetary assets and liabilities are translated at subsequent balance sheet dates using the closing rate. Gains or losses arising from the restatement of foreign currency items are recognized in the income statement on the line items "Exchange gains" and "Exchange losses". Exchange differences on non-monetary assets and liabilities are recognized directly in equity (other reserves).

The main exchanges rates used to draw up the consolidated financial statements were as follows:

	Closing rate at Dec. 31, 2006	Closing rate at Dec. 31, 2005	Average rate 2006	Average rate 2005
USD	0.75800	0.84440	0.79703	0.80453
GBP	1.48520	1.45300	1.46725	1.46271
AUD	0.59820	0.61640	0.60027	0.61327

4. 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.

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, which are measured at their nominal value.

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 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. Securities are classified 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 or the reversal of such a loss, the loss or gain is recognized in the income statement. On derecognition of the corresponding assets, the difference between the cumulative gain/loss previously recognized in equity and the gain/loss realized on disposal is recognized in the income statement.

Other assets: Other assets and deferred expenses are stated at amortized cost. Deferred expenses are recognized to the extent that disbursements relate to expenses for future periods.

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 cost comprises the purchase price and all ancillary costs directly attributable to the acquisition. Acquisition and manufacturing cost are computed using the weighted average method. Borrowing costs are not capitalized 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.

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

Buildings	25 years
Leasehold improvements	5-10 years
Other factory and office equipment	3-13 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. The relevant assets are tested 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.

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 to the extent that the asset meets the criteria of a qualifying asset. 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, and capitalized items are amortized on a straight-line basis.
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. When efforts to obtain the patent are discontinued, an impairment loss is recognized and the asset derecognized.

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. Impairment losses were recognized in 2006.

Deferred taxes: Deferred taxes are recognized on timing differences between the tax bases and accounting carrying amounts of assets and liabilities (liability method), timing differences relating to consolidation procedures and on tax losses available for carryforward. The effect of changes in tax rates on deferred tax assets and liabilities is reflected in the income tax expense of the period in which the tax rate change is enacted. If the criteria set out in IAS 12 are met, deferred taxes are recognized on temporary differences between the tax base of the assets and liabilities of consolidated entities and the carrying amounts of those assets and liabilities in the consolidated balance sheet (netted).

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 contracts 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 transactions are classified as finance leases. 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 systematic depreciation.

Other items of factory and office equipment are also accounted for as finance leases in accordance with IAS 17.

As the lessor under operating leases: The Group makes equipment available to customers on the following terms:
Free-of-charge usage: 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.

As the lessor under finance leases: The Group makes equipment available to customers on the following terms:
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 beneficial 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 an 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 expected settlement amount. Provisions for warranties on products sold are recognized and measured on the basis of the Group's past experience of the level of costs necessary to settle warranty obligations. 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 and 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. Current liabilities are measured at their repayment or settlement amount.

Borrowing costs: In accordance with IAS 23.20 borrowing costs are capitalized in the case 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 collectability is probable. Service revenues are generally recognized at the time of performance. Sales revenue includes licence fee income and is stated after deduction of rebates, customer bonuses and settlement discount.

Product-related expenses: As a result of various market and product-related factors, 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.

Income taxes: Income tax expense represents the aggregate amount of current and deferred tax expense. Current tax includes tax relating to previous years and foreign withholding taxes. 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 solidarity surcharge as well as 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 (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 participate in a company pension plan. This plan does not involve any obligations for the company. The Group has no other pension obligations. Employees' remuneration comprises a fixed and a variable component.

Incentive compensation plan / share options: Three stock option plans 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 and Stock Option Plan 2006) are measured in accordance with IFRS 2 at fair value, and the resulting amount is recognized as expense over the period up to the date of the assumed exercise 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.

Notes to the consolidated income statement

5. Sales

Sales by product line are as follows:

	2006 KEUR	2005 KEUR
Equipment	5,195	3,724
Disposables	15,633	13,509
Indication/diagnosis	3,413	2,764
Service and other	215	200
	24,456	**20,197**

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

6. Cost of sales and personnel expenses

Cost of sales comprises primarily the cost of raw materials and supplies used (KEUR 3,794; 2005: KEUR 3,599) and of bought-in goods and services (KEUR 301; 2005: KEUR 218). Depreciation and amortization of KEUR 145 (2005: KEUR 119) is also included.

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

	2006 KEUR	2005 KEUR
Wages and salaries	6,788	5,261
Statutory social security	1,225	883
Expense for stock options	62	62
	8,075	**6,206**

Wages and salaries include personnel recruitment costs of KEUR 165 in 2006 (2005: KEUR 57). Personnel expenses include statutory social security contributions totalling KEUR 348 (2005: KEUR 275) and a pension expense of KEUR 23 (2005: KEUR 14).

The company employed 130 and 101 salaried employees on average in 2006 and 2005, respectively. The average employee figure for 2006 include 7 people employed on a low wage-earning basis (2005: 5).

7. Other operating income and expenses

Other operating income comprises mainly income from profit realization on sale-and-lease-back contracts of KEUR 413 (2005: KEUR 287), income from the reversal of liabilities of KEUR 170 (2005: KEUR 322), license income of KEUR 92 (2005: KEUR 192), income from the private use of company vehicles amounting to KEUR 98 (2005: KEUR 138), rental income of KEUR 26 (2005: KEUR 26), income from the reversal of provisions for pending losses on onerous contracts amounting to KEUR 42 (2005: KEUR 46) and gains on the sale of factory and other equipment totalling KEUR 16 (2005: KEUR 0). Other operating expenses include primarily expenses for other taxes totalling KEUR 220 (of which KEUR 219 relates to prior periods) and expenditure incurred in conjunction with contractual obligations amounting to KEUR 111. In 2005, an impairment loss of KEUR 63 was recognized on the minority investment in KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu, Hungary.

8. Selling expenses, research and development expenses and general and administrative expenses

As well as personnel, advertising, trade fair and selling expenses, the Group's operating expenses also include legal and advisory expenses, rental expenses and business travel costs. Operational expenses also include non-capitalizable research and development costs.

9. Taxes on income

	Dec. 31, 2006 KEUR	Dec. 31, 2005 KEUR
Current tax expense	448	196
(of which relating to prior periods)	(20)	(0)
Deferred tax expense	–144	889
Deferred tax income	–462	–1,075
Total tax income (2005: tax expense)	**–158**	**10**

The amount reported as current tax expense relates to German corporation tax, solidarity surcharge, 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, 2006 amounted to KEUR 509 (Dec. 31, 2005: KEUR 156).

Deferred taxes at December 31, 2006 were computed for the German company on the basis of a corporation tax rate of 25 % (2005: 25 %). In addition, a solidarity surcharge of 5.5 % on corporation tax and an effective municipal trade tax rate of approximately 13.5 % (2005: 13.5 %) were taken into account. Including the solidarity surcharge and municipal trade tax, an overall tax rate of 40 % (2005: 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 6,506 on unused tax losses of KEUR 16,095 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 % (2005: 40 %) for corporation tax, solidarity surcharge and municipal trade tax and the actual tax expense:

	Dec. 31, 2006 KEUR	Dec. 31, 2005 KEUR
Group profit before tax	3,252	2,046
Expected tax expense	1,301	818
Variances from expected tax expense:		
Tax-exempt income	–24	–21
Foreign withholding taxes	7	34
Non-deductible expenses, adjustments for tax rules	71	1,257
Utilization of tax losses for which deferred tax assets were not previously recognized	–947	–880
Recognition of deferred tax on unused tax losses	–561	–1,197
Other	–5	–1
	–158	**10**

Deferred tax assets and liabilities relate to the following items:

	Dec. 31, 2006		Dec. 31, 2005	
	KEUR Deferred tax asset	KEUR Deferred tax lliability	KEUR Deferred tax asset	KEUR Deferred tax liability
Intangible assets	200	1,010	232	844
Property, plant and equipment	316	534	276	707
Inventories	219	0	141	0
Receivables and other current assets	0	122	0	85
Liabilities	821	0	1,005	0
Consolidation procedures	1,809	1,875	0	239
Accumulated deficit	1,758	0	1,197	0
	5,123	3,541	2,851	1,875
Offset of deferred tax assets and liabilities	–3,541	–3,541	–1,875	–1,875
Deferred tax asset	**1,582**	**0**	**976**	**0**

It is forecast that, of the KEUR 1,582 (Dec. 31, 2005: KEUR 976) reported as deferred tax assets at December 31, 2006, deferred tax assets amounting to KEUR 535 (Dec. 31, 2005: KEUR 141) and deferred tax liabilities amounting to KEUR 106 (Dec. 31, 2005: KEUR 0) will be utilized within one year.

The parent company's tax assessment years 2000–2002 were audited by the Munich Tax Office for Incorporated Entities. The tax field audit was completed on receipt of the final assessment dated December 21, 2006. All findings are been taken into account in the consolidated financial statements for the year ended December 31, 2006.

10. Minority interests

Minority interests relate to the minority shareholders' interests in the results of PULSION Medical UK Ltd. and PULSION Medical Systems Iberica S.L. for the year. The development of minority interests is shown in the Consolidated Statement of Changes in Equity. The acquisition of minority interests during the financial year under report includes a so-called "Earn-out-clause" amounting to KEUR 65, which is presented as a non-cash component of cash flow from operating activities in the consolidated cash flow statement.

Notes to the consolidated balance sheet

11. Intangible assets

Intangible assets at December 31, 2006 comprised:

	Historical cost KEUR	Accumulated amortization and impairment losses KEUR	Carrying amount KEUR
Approvals	1,736	127	1,609
Patents	507	35	472
Distribution rights	178	178	0
Product development	535	91	444
Software	279	159	120
Total	**3,235**	**590**	**2,645**

	Remaining amortization periods from	to
Approvals	1 year	15 years
Patents	12 years	20 years
Product development	32 months	5 years
Software	5 months	3 years

Intangible assets include capitalized borrowing costs of KEUR 12 (Dec. 31, 2005: KEUR 4) determined using a capitalisation rate of 7.4 % (2005: 7.4 %). Impairment losses of KEUR 20 were recognized on patents in 2006 due to impaired recoverability; an amount of KEUR 72 relating to approvals was derecognized due to an amendment to the approval application.

12. Lease liabilities / asset carrying amounts

The Company leases back self-manufactured medical equipment on the basis of non-cancellable lease agreements which run for terms of 48 months. In addition, the Company is currently leasing other equipment for a term of 48 months. The future annual minimum lease payments for the leases amount to:

Dec. 31, 2006 KEUR	Total	< 1 year	2–5 years	> 5 years
Minimum lease payments December 31, 2006	1,303	541	762	0
Interest expense for lease liabilities as at the balance sheet date	133	79	54	0
Present value of minimum lease payments at Dec. 31, 2006	**1,170**	**462**	**708**	**0**

Dec. 31, 2005 KEUR	Total	< 1 year	2–5 years	> 5 years
Minimum lease payments December 31, 2005	1,452	563	889	0
Interest expense for lease liabilities as at the balance sheet date	176	93	83	0
Present value of minimum lease payments at Dec. 31, 2005	**1,276**	**470**	**806**	**0**

The carrying amounts of assets held under finance leases are as follows:

	Dec. 31, 2006 KEUR
Medical and other equipment	1,826
Accumulated decpreciation	491
Finance leases	**1,335**

13. Investment property

Rental income from investment property amounted to KEUR 26 in 2006 (2005: KEUR 26). Costs directly related to investment property amounted to KEUR 5 (2005: KEUR 6). The fair value of real estate presented as investment property corresponds roughly to the carrying amount. At the balance sheet date, mortgages on property totalled KEUR 417 (Dec. 31, 2005: KEUR 417).

14. Inventories

Inventories comprise:

	Dec. 31, 2006 KEUR	Dec. 31, 2005 KEUR
Raw materials and supplies	1,314	1,347
Work in progress	327	169
Finished goods and goods for resale	1,829	1,057
	3,470	**2,573**

Write-downs on inventories were as follows:

	Dec. 31, 2006			Dec. 31, 2005		
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Raw materials and supplies	1,557			1,713		
Gross amount of which subject to write-down	243			366		
Write-downs		–243	1,314		–366	1,347
Work in progress	327	0	327	169	0	169
Finished goods and goods for resale	1,995			1,497		
Gross amount of which subject to write-down	406			977		
Write-downs		–166	1,829		–440	1,057
			3,470			**2,573**

The net impact of write-downs in 2006 was recognized as an expense within cost of sales.

15. Trade accounts receivable

	Dec. 31, 2006 KEUR	Dec. 31, 2005 KEUR
Trade accounts receivable (gross)	4,473	3,377
(of which non-current)	(216)	(37)
less: allowances	10	15
Trade accounts receivable	**4,463**	**3,362**

The non-current trade accounts receivable include the portion of receivables arising under finance lease sales contracts which are due later than one year.

Receivables due under finance lease sales contracts comprise the following:

Dec. 31, 2006 KEUR	Total	< 1 year	2–5 years	> 5 years
Minimum lease payments at Dec. 31, 2006	347	120	227	0
Interest income contained in lease receivables at balance sheet date	24	13	11	0
Present value of minimum lease payments at Dec. 31, 2006	**323**	**107**	**216**	**0**

Dec. 31, 2005 KEUR	Total	< 1 year	2–5 years	> 5 years
Minimum lease payments at Dec. 31, 2005	240	69	171	0
Interest income contained in lease receivables at balance sheet date	16	8	8	0
Present value of minimum lease payments at Dec. 31, 2005	**224**	**61**	**163**	**0**

16. Other current assets

This item comprises the following:

	Dec. 31, 2006 KEUR	Dec. 31, 2005 KEUR
Deferred expenses	284	279
Advance payments to suppliers	110	124
Receivable from German Tax Office - valued added tax	38	202
	432	605
Other	179	183
Total	**611**	**788**

17. Available-for-sale financial assets

Available-for-sale financial assets include an investment in a money market fund which is measured at its fair value at the balance sheet date. This item is presented differently at December 31, 2006 compared to one year earlier. The reclassification has been made in 2006 to bring presentation into line with the general consensus that money market funds of this kind do not represent cash equivalents.

Gains on the fair value measurement and disposal of available-for-sale financial assets totalled KEUR 6 in 2006 (2005: KEUR 0).

18. Cash and cash equivalents / Cash funds

Cash funds reported in the cash flow statement comprise:

	Dec. 31, 2006 KEUR	Dec. 31, 2005 KEUR
Cash and cash equivalents	3,666	3,413
Available-for-sale financial assets (fund shares without maturity date)	0	1,411
Sub-total	3,666	4,824
Cash pledged as collateral	–262	–436
	3,404	**4,388**

19. Equity

The composition of and changes in shareholders' equity are shown in the consolidated statement of changes in equity.

The holders of shares of common stock are entitled to one vote per share and 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 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 or non-cash contributions. 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 a 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 the further details of the share capital increase. The Supervisory Board is authorized to amend the wording of the Company’s Articles of Incorporation after the share capital has been increased, either fully or in part, in line with relevant amount of Authorized Capital utilized, and, if the Authorized Capital is not, or not fully utilized by June 8, 2009, on the expiry of the authorization period.

At December 31, 2006, a Conditional Capital I of EUR 313,837 and a Conditional Capital III of EUR 181,500 are in place for the issue of shares in conjunction with stock option plans. In addition, a Conditional Capital V of up to EUR 2,000,000 is in place for the issue of convertible bonds or bonds with warrants.

Conditional Capital I decreased from EUR 332,837 to EUR 313,837 as a result of the conversion into Company shares of 19,000 share options with a notional value of EUR 19,000. Conditional Capital III decreased from EUR 193,000 to EUR 181,500 as a result of the conversion into Company shares of 11,500 share options with a notional value of EUR 11,500.

In accordance with the shareholders’ resolution passed at the Annual General Meeting on June 22, 2006, the Company’s share capital was conditionally increased by EUR 350,000 (Conditional Capital II). Conditional Capital IV expired fully due to the passage of time and its wording was changed by shareholder resolution on the same day.

As a result of the exercise of 30,500 subscription rights attached to stock options to acquire 30,500 shares, the Company’s share capital increased in the financial year 2006 from EUR 9,495,802 to EUR 9,526,302. The share capital is divided into a total of 9,526,302 bearer shares with no par value, each equivalent to EUR 1.

Other reserves relate primarily to translation differences.

20. Incentive compensation plans

The Group has three stock option plans (the 2000 Stock Option Plan, the 2003 Stock Option Plan and the 2006 Stock Option Plan) which serve as incentives to tie in employees and management to the Group on a long-term basis.

Details regarding the structure of the 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 and Stock Option Plan 2006). 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 2006 was EUR 5.72.

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

	December 31, 2006		December 31, 2005	
	Options	Weighted average exercise price (EUR)	Options	Weighted average exercise price (EUR)
Outstanding at the beginning of the year	184,086	5.05	320,186	6.08
Granted during the year	120,000	6.75	10,000	5.63
Exercised during the year	30,500	3.10	25,750	2.35
Expired during the year	48,933	8.30	120,350	7.01
Outstanding at the end of the year	224,653	5.51	184,086	5.05
Thereof Management Board	160,000	6.09	75,043	6.23
Exercisable at the end of the year	48,153	3.76	74,086	6.40
Thereof Management Board	20,000	4.13	35,043	8.63

The following table summarizes information about options outstanding at December 31, 2006:

	Options outstanding			Options exercisable	
Exercise price EUR	Number outstanding Units	Weighted average remaining contractual period Years	Weighted average exercise price EUR	Number exercisable Units	Weighted average exercise price EUR
5–7	130,000	7.78	6.66	0	0
4–5	83,500	5.65	4.13	37,000	4.13
2–3	11,153	2.41	2.53	11,153	2.53
	224,653	**6.73**	**5.51**	**48,153**	**3.76**

At December 31, 2006 and December 31, 2005, conditional capital was available to meet option rights exercised in conjunction with incentive compensation plans. At December 31, 2006, 16 employees (including members of the Management Board) held options in conjunction with the incentive compensation plans.

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

	2006	2005
Risk-free interest rate	3.72 %	3.16 %
Dividend income	0 %	0 %
Volatility	53.89 %	74.05 %
Exercise price (EUR)	6.750	5.625
Terms of option rights	8 years	8 years

Volatility was determined on the basis of the past volatility of the market price of PULSION stock during the period from January 2, 2003 to December 20, 2006 for options granted in 2006. The Group has elected to apply the earliest exercise date as its exercise strategy. The weighted-average fair value of options granted was EUR 1.77 in 2006 and EUR 1.80 in 2005.

At December 31, 2006 and 2005, PULSION AG Management Board members held the following shares (units) and stock options (number):

	December 31, 2006		December 31, 2005	
Management Board member	Shares (Units)	Options (Number)	Shares (Units)	Options (Number)
Bradley P. Gould (CEO)	5,400	120,000	0	0
Matthias Bohn	42,313	20,000	42,313	31,043
Stefan Land	2,000	20,000	2,000	44,000
Total	**49,713**	**160,000**	**44,313**	**75,043**

21. Provisions

The composition of, and changes in, provisions were as follows:

	Jan. 1, 2006 KEUR	Utilized KEUR	Reversed KEUR	Additioned KEUR	Dec. 31, 2006 KEUR
Warranties	87	44	0	36	79
Onerous contracts	98	39	59	0	0
Other contractual obligations	0	0	0	111	111
Other	14	0	0	1	15
	199	**83**	**59**	**148**	**205**

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 79) and for other contractual obligations (KEUR 111). The remaining amount of the provision for onerous contracts (after partial usage in 2006) was reversed since the rented office space is now fully used for operational purposes. With the exception of a partial amount of KEUR 126 (contractual obligations and other), provisions all have an expected maturity of up to one year. The non-current portion will be utilized through to December 31, 2009.

22. Liabilities to banks

The liabilities disclosed at December 31, 2006 were subject to the following terms and conditions:

Bank	Type	Maturity	Interest rate %	Dec. 31, 2006 KEUR	Current KEUR	Non-current KEUR
Caja general de ahorros de Canarias, Santa Cruz de Tenerife/Spain	Current account	–	3.85	55	55	0
Caja general de ahorros de Canarias, Santa Cruz de Tenerife/Spain	Loan	05/2007	4.0	178	178	0
Banco Pastor, Alcorcon/Spain	Loan	06/2007	4.5	101	101	0
Banco Popular CTA/CTDO/Spain	Loan	05/2007	4.5	60	60	0
HSBC, Uxbridge/United Kingdom	Loan, originally denominated in GBP	07/2008	Base rate + 2.0	102	76	26
WestLB AG, Düsseldorf	Loan	09/2013	5.4	264	40	224
WestLB AG, Düsseldorf	Loan	10/2010	6-month - EURIBOR + 1.5 percentage points	300	0	300
Raiffeisenbank München e.G., Munich	Loan	04/2010	5.5	333	100	233
Total				**1,393**	**610**	**783**

At December 31, 2006, the Group had unused credit lines of KEUR 350.

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
Gesamt				**1,167**	**469**	**698**

Cash at bank totalling KEUR 262 (Dec. 31, 2005: KEUR 436) was pledged as collateral. In addition, inventories and equipment have been partially pledged as collateral to secure existing and future bank liabilities (KEUR 749; 2005: KEUR 974).

The maturities of loans (excluding current account overdrafts) are as follows:

	KEUR
2007	555
2008	165
2009	140
2010	373
after 2011	105
	1,338

Interest expenses in 2006 include KEUR 75 for liabilities to banks.

23. Financial liabilities

Non-current financial liabilities	Dec. 31, 2006 KEUR	Dec. 31, 2005 KEUR
Bayerische Beteiligungsgesellschaft mbH (BayBG)	51	77
Loan Sterimed	159	412
	210	**489**

Current financial liabilities	Dec. 31, 2006 KEUR	Dec. 31, 2005 KEUR
Bayerische Beteiligungsgesellschaft mbH (BayBG)	26	26
Loan Seda S.p.A.	0	128
Loan Philips	22	155
Loan Sterimed	165	135
	213	**444**
Total financial liabilities	**423**	**933**

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 24, 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 2006, KEUR 135 was repaid under the new terms of the loan. 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 insolvency of PULSION or, if relevant, its legal successor. The balance on the loan was repaid

in 2006. In conjunction with company takeovers, 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.:
The liability of KEUR 128 to SEDA S.p.A., Trezzano sur Naviglio, Italy, reported at the end of the previous year was repaid in full in 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.

24. Other liabilities

Other liabilities comprise:

Current other liabilities	Dec. 31, 2006 KEUR	Dec. 31, 2005 KEUR
Year-end and audit costs	74	61
Advanced payments from suppliers	0	74
License fees	142	103
Deferred income	467	458
(of which finance lease from SALB)	(341)	(337)
Personnel-related obligations	1,012	851
Outstanding invoices	512	258
Other	570	600
	2,777	**2,405**

Non-current other liabilites	Dec. 31, 2006 KEUR	Dec. 31, 2005 KEUR
Deferred income	565	855
(of which finance lease from SALB)	(437)	(589)
Total other liabilities	**3,342**	**3,260**

Personnel-related obligations comprise mainly holiday and bonus entitlements

25. Other financial obligations

As the lessee under 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 lease arrangements were as follows:

	2006 KEUR	2005 KEUR
Up to 1 year	732	733
Later than 1 year up to five years	452	909
Later than 5 years	0	0
	1,184	**1,642**

Lease expenses of KEUR 879 (2005: KEUR 786) were recognized in the income statement.

The operating lease obligations relate primarily to the lease of the building in Munich (Stahlgruberring 28) in conjunction with a lease contract dated March 5, 1999 and a supplementary and revised agreement dated February 25, 2004. The lease contract expires on March 31, 2008. The lease contract does not envisage an automatic extension; it does, however, contain a price adjustment clause for the remainder of the lease term.

As the lessor under operating leases: The company rents out investment property. PULSION AG also makes monitors available to customers free of charge in return for commitments to purchase PULSION products.

Financial commitments of PULSION Group companies for rental and lease arrangements were as follows at December 31, 2006:

	Total	2007 KEUR	2008 KEUR	2009 KEUR	2010 KEUR	after 2011 KEUR
Purchase commitments	10,322	3,432	1,225	1,225	1,225	3,215
Other	428	428	0	0	0	0
Total	**10,750**	**3,860**	**1,225**	**1,225**	**1,225**	**3,215**

At the balance sheet date, the Group also had open purchase commitments for raw materials and supplies and other items amounting to EUR 1.2 million.

26. 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. For further information regarding the claim filed by Priv.-Doz. Dr. med. Dr. med. habil. Ulrich J. Pfeiffer after the balance sheet date, we refer to Note 35 of the notes to the consolidated financial statements.

27. 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 earnings per share increases due to the fact that the shares are withdrawn from circulation and therefore do not result in dilution.

		2006	2005
Weighted average number of shares (undiluted)	Number	**9,526,302**	**9,495,802**
Dilutitive effect of options	Number	25,512	35,950
Weighted average number of shares (diluted)	Number	**9,551,814**	**9,531,752**
Group net profit (after minority interests)	KEUR	3,250	2,036*
Earnings per share (undiluted)	EUR	**0.34**	**0.21**
Earnings per share (diluted)	EUR	**0.34**	**0.21**

* Earnings per share were calculated in the financial year 2005 on the basis of the group net profit before minority interests.

The computation of diluted earnings per share does not take account of 120,000 options which have an antidilutive effect.

28. 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, AUD, CHF) 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.

Fair value measurement: The fair value measurement of assets and liabilities is performed in accordance with IAS 32.92.

29. 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. Intersegment transactions are based on a cost-plus model.

Primary segment information at December 31, 2006 is as follows:

KEUR	Germany	Rest of Europe	USA	Australia	Reconcili-ations	Group
Sales - 3rd parties	16,195	7,374	159	728	0	24,456
Sales - intercompany	4,847	0	0	0	–4,847	0
Depreciation and amortization	–1,541	–241	–26	–22	0	–1,830
Impairments	–20	0	0	0	0	–20
Non-cash income and expenses	–53	–18	0	0	17	–54
Operating segment result before interest and taxes	**4,181**	**241**	**–729**	**–302**	**13**	**3,404**
Interest expenses					–243	–243
Interest income					90	90
Income taxes					158	158
Minority interests					–160	–160
Group net profit **(after Minority interests)**						**3,250**
Segment assets	17,688	4,513	359	516	–343	22,733
Segment liabilities	2,821	5,577	2,473	1,847	–4,611	8,107
Segment capital expenditure (net)	2,405	396	82	40	0	2,923

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
Impairments	0	0	0	0	0	0
Non-cash income and expenses	261	0	0	0	–24	237
Operating segment result before interest and taxes	**1,165**	**1,153**	**–280**	**2**	**231**	**2,271**
Interest expenses					–309	–309
Interest income					84	84
Income taxes					–10	–10
Minority interests					–125	–125
Group net profit **(after Minority interests)**						**1,911**
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

Segments assets for Germany included deferred tax assets amounting to KEUR 2,466 at the end of 2005. Segment liabilities included taxes payable amounting to KEUR 133 and KEUR 23 for Germany and the Rest of Europe respectively.

In accordance with IAS 14, secondary segment information (by business segment) at December 31, 2006 and 2005 was as follows:

December 31, 2006 KEUR	Perfusion	Intensive Care	Reconciliations	Group
Sales	3,138	21,318	0	24,456
Segment assets (net)	2,056	13,450	7,227	22,733
Segment capital expenditure (net)	1,670	1,253	0	2,923

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

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. Segment liabilities comprise all operational liabilities. Tax liabilities and non-current interest bearing liabilities are excluded. Segment capital expenditure comprises additions to property, plant and equipment and intangible assets.

30. Representative bodies of PULSION

During the financial year 2006, the Management Board comprised the following:

Bradley P. Gould, Chairman of the Management Board, responsible for Sales and Marketing (from May 4, 2006)
Other mandates:
Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom (from October 6, 2006)
Member of the Board of Directors and CEO of PULSION Medical Inc., USA
Member of the Board of Directors of PULSION Pacific Pty Ltd., Australia

Matthias Bohn, Management Board member for Research and Development, Production and Logistics and International Approvals
Other mandates:
Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom (until October 6, 2006)
Member of the Board of Directors of PULSION Medical Inc., USA
Member of the Board of Directors of PULSION Pacific Pty Ltd., Australia
Member of the Board of Directors of PULSION Benelux N.V., Belgium

Stefan Land, Management Board member for Finance, Investor Relations, Administration and Purchases
Other mandates:
Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom
Member of the Board of Directors of PULSION Medical Inc., USA
Member of the Board of Directors of PULSION Pacific Pty Ltd., Australia

Management Board remuneration	2006			2005	
	Fixed*	Variable**	Variable***	Fixed*	Variable
	KEUR	KEUR	KEUR	KEUR	KEUR
Bradley P. Gould	164	0	77	0	0
Matthias Bohn	174	57	60	158	57
Stefan Land	158	55	60	151	51
Dr. Ulrich Pfeiffer (Chairman until March 15, 2005)****	0	0	0	71	81

* including private use of car, reimbursement of social security contributions and insurance benefits
** remuneration received for 2005
*** estimated entitlement for 2006
**** a further KEUR 191 was received after March 15, 2005 on the basis of an employment contract

In 2006, Bradley P. Gould received 120,000 stock options with a fair value of EUR 212,052. No other stock options were issued to members of the Management Board. The total remuneration of the Management Board for 2006 amounted to KEUR 608 (2005: KEUR 569).

During the financial year 2006, the Supervisory Board comprised the following:

Dr. Burkhard Wittek

MBA, Chairman

Further mandates:
iOnGen AG, Göttingen

Michael Bourjau

Business Management Graduate, Consultant
(Deputy Chairman from June 21, 2006)

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

Claus F. Vogt

Business Management Graduate, Qualified Auditor,
Qualified Tax Adviser (Deputy Chairman until June 21, 2006)

ABR German Real Estate AG, Munich (Chairman)
Intertainment AG, Munich (replacement member)
Human Electrics GmbH, Rednitzhembach
(Member of the Advisory Board)

Remuneration of the Supervisory Board	2006		2005
	Fixed	Variable	Fixed
	KEUR	KEUR	KEUR
Dr. Burkhard Wittek	40	10	17
Michael Bourjau	25	10	34
Claus F. Vogt	25	10	30
Michael DuCros (member until June 15, 2005)	0	0	9

The total remuneration of the Supervisory Board for 2006 amounted to KEUR 120 (2005: KEUR 90). Liabilities to the members of the Supervisory Board at December 31, 2006 totalled KEUR 77 (Dec. 31, 2005: KEUR 35). Supervisory Board members gave notice to the Company at December 31, 2006 that they held 75,344 shares of the Company at that date.

31. Related party transactions

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

Receivables, loans and payables as well as sales, income and expenses from arrangements with related parties of PULSION AG were as follows:

Receivables	Dec. 31, 2006 KEUR	Dec. 31, 2005 KEUR
PULSION France S.A.R.L.	1,730	1,264
PULSION Benelux N.V.	670	605
PULSION Medical Inc.	1,396	1,114
PULSION Medical UK Limited	131	136
PULSION Pacific Pty Limited	922	539
PULSION Medical Systems Iberica	379	271
KIMAL PLC, Uxbridge, United Kingdom	26	1
MC Infortécnica, Madrid, Spain	16	1
Total	**5,270**	**3,931**

Allowances on receivables at December 31, 2006 totalled KEUR 3,590 (2005 KEUR 2,051).

Loans	Dec. 31, 2006 KEUR	Dec. 31, 2005 KEUR
PULSION Benelux N.V.	1,121	1,121
PULSION Medical Inc.	988	853
PULSION Pacific Pty Limited	853	817
PULSION Medical Systems Iberica	417	417
Total	**3,379**	**3,208**

Allowances on loans at December 31, 2006 totalled KEUR 3,328 (2005 KEUR 3,156).

Payables	Dec. 31, 2006 KEUR	Dec. 31, 2005 KEUR
PULSION France S.A.R.L.	0	2
PULSION Benelux N.V.	0	37
PULSION Pacific Pty Limited	0	10
KIMAL PLC, Uxbridge, United Kingdom	63	85
MC Infortécnica, Madrid, Spain	25	1
Total	**88**	**135**

Sales	2006 KEUR	2005 KEUR
PULSION France S.A.R.L.	1,298	1,222
PULSION Benelux N.V.	716	545
PULSION Medical Inc.	223	122
PULSION Medical UK Limited	1,218	944
PULSION Pacific Pty Limited	414	416
PULSION Medical Systems Iberica	978	678
KIMAL PLC, Uxbridge, United Kingdom	128	74
MC Infortécnica, Madrid, Spain	3	11
Total	**4,978**	**4,012**

Interest and other income	2006 KEUR	2005 KEUR
PULSION France S.A.R.L.	91	111
PULSION Benelux N.V.	103	99
PULSION Medical Inc.	47	30
PULSION Medical UK Limited	134	1
PULSION Pacific Pty Limited	57	41
PULSION Medical Systems Iberica	33	47
Total	**465**	**329**

During the financial year 2006, services amounting to KEUR 189 (2005: KEUR 600) were purchased from KIMAL PLC, Uxbridge / United Kingdom (the minority shareholder of PULSION Medical UK Ltd.) and services amounting to KEUR 62 (2005: KEUR 73) were purchased from MC Infortécnica, Madrid / Spain (the minority shareholder of PULSION Medical Systems Iberica).

At December 31, 2006, contingent liabilities for rental guarantees to landlords amounted to KEUR 94 (Dec. 31, 2005: KEUR 94) and for the Spanish subsidiary to KEUR 168 (Dec. 31, 2005: TEUR 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 2008.

PULSION AG has also given a guarantee of up to GBP 200 thousand (Dec. 31, 2005: GBP 200 thousand) as collateral for a bank loan of the subsidiary Pulsion Medical UK Ltd.

32. Auditor’s fees

In 2006, an expense of KEUR 69 was recognized in conjunction with the audit of the company and group financial statements (2005: KEUR 87 for audit of the company and group financial statements, KEUR 35 for other services, and KEUR 14 for other attestation services).

33. 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.

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

Fidelity International Limited, P.O. Box HM 670, Hamilton HMCX, Bermuda, gave notice to the Company in a letter dated May 18, 2006 pursuant to § 21 (1) of the German Securities Trading Act (WpHG) that its share of the voting power of the Company exceeded the 10% threshold on May 17, 2006 and now amounts to 11.28%. The shares are attributable to Fidelity International Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG.

Priv.-Doz. Dr. med. Dr. med. habil. Ulrich Pfeiffer, Germany, gave notice to the Company on November 23, 2006 pursuant to § 21 (1) WpHG that his share of the voting power of the Company had fallen below the threshold of 10% on February 17, 2006 and amounted to 9.17%. He also gave notice to the Company on November 23, 2006 pursuant to § 21 (1) WpHG that his share of the voting power of the Company had fallen below the threshold of 5% on May 17, 2006 and amounted to 4.26%.

35. Events after the balance sheet date

In a letter received by the District Court of Munich I on January 2, 2007, the founder of the Company, Priv.-Doz. Dr. med. Dr. med. habil. Ulrich J. Pfeiffer, lodged claims for co-beneficial interests in patent applications (relating to a specific group of patents) and for all corresponding national industrial property right applications and industrial property rights. No significant economic impact affecting PULSION's financial position is evident at present.

Munich, March 20, 2007
PULSION Medical Systems AG

Bradley P. Gould
CEO

Matthias Bohn
COO

Stefan Land
CFO

Auditor’s Report

We have audited the consolidated financial statements prepared by the PULSION Medical Systems AG, München, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and 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 21, 2007
PricewaterhouseCoopers
Aktiengesellschaft
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(Mulas)
Wirtschaftsprüfer

(ppa. A. Fiedler)
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 2007:

Press conference	March 22, 2007	Frankfurt
Analysts conference	March 22, 2007	Frankfurt
7th MedTech-Day	April 17, 2007	Frankfurt
Report on 1st Quarter	May 11, 2007	
Annual General Meeting	May 24, 2007	Munich
Report on 1st Half-year	August 10, 2007	
Report on 1st 9 Months	November 12, 2007	

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.

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.

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Financial Statements as of December 31, 2006
and Management Report 2006
of

PULSION Medical Systems AG
Munich

PULSION Medical Systems AG
Munich

Balance Sheet as at December 31, 2006

ASSETS

	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR
A. FIXED ASSETS		
I. Intangible assets		
1. Concessions, licences and similiar rights	95,171.54	97,669.78
2. Goodwill	3,129.59	10,384.43
	98,301.13	108,054.21
II. Property, plant and equipment		
1. Land, buildings, including leasehold improvements	247,854.88	264,305.80
2. Technical equipment, plant, machinery	333,836.51	288,220.27
3. Other equipment, furniture and fittings	1,878,403.94	1,780,416.71
	2,460,095.33	2,332,942.78
III. Investments		
1. Investments in affiliated companies	428,693.06	435,203.83
2. Loans to affiliated companies	51,612.10	51,612.10
	480,305.16	486,815.93
	3,038,701.62	2,927,812.92
B. CURRENT ASSETS		
I. Inventories		
1. Raw materials and supplies	1,313,699.79	1,331,928.93
2. Work in progress	327,197.22	169,263.68
3. Finished goods and goods for resale	1,478,084.33	776,803.11
4. Advanced payments to suppliers	67,950.00	124,734.38
	3,186,931.34	2,402,730.10
II. Assets and other receivables		
1. Trade accounts receivables	2,141,414.41	1,423,057.96
2. Receivables from affiliated companies	1,638,029.67	1,878,070.57
3. Other assets	158,924.47	368,388.76
	3,938,368.55	3,669,517.29
III. Marketable securities		
1. Other marketable securities	1,560,526.50	1,410,508.77
	1,560,526.50	1,410,508.77
IV. Cash on hand and at bank		
	2,977,784.38	2,646,544.92
	11,663,610.77	10,129,301.08
C. DEFERRED EXPENSES	201,504.91	251,004.36
	14,903,817.30	13,308,118.36

EQUITY AND LIABILITIES

	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR
A. EQUITY		
I. Subscribed capital	9,526,302.00	9,495,802.00
(Conditional capital 2,845,337.00; 2005 KEUR 2.702)		
II. Additional paid-in capital	22,141,148.40	22,014,781.90
III. Accumulated deficit	-21,334,872.75	-23,080,073.00
	10,332,577.65	8,430,510.90
B. PROVISIONS		
1. Tax provisions	392,278.36	132,956.00
2. Other provisions	1,647,355.09	1,357,867.02
	2,039,633.45	1,490,823.02
C. LIABILITIES		
1. Liabilities to banks	897,293.19	715,585.14
2. Advanced payments from customers	0.00	74,121.00
3. Trade accounts payables	875,922.06	1,351,840.15
4. Payables to affiliated companies	0.00	55,825.69
5. Other liabilities	758,390.95	1,189,412.46
- of which for taxes: 96,431.44 EUR (2005: KEUR 75)	2,531,606.20	3,386,784.44
- of which for social security: 6.734,81 EUR (2005: KEUR 105)		
	14,903,817.30	13,308,118.36

PULSION Medical Systems AG
Munich

Income Statement
For The Financial Year Ended
December 31, 2006

	2006 EUR	2005 EUR
Sales	20,800,308.55	16,676,276.87
Cost of sales	6,152,141.14	5,481,048.53
Gross profit	14,648,167.41	11,195,228.34
Selling and marketing expenses	6,137,905.55	6,558,607.84
General and administrative expenses	3,058,132.35	3,105,257.43
Research and development expenses	2,638,509.83	2,650,276.29
Other operating income	1,025,030.48	1,337,117.05
Other operating expenses	1,679,989.40	901,775.51
Investment income of which from affiliated companies EUR 64,015.85 (2005: KEUR 56)	64,015.85	55,915.78
Income from loans reported as investments of which from affiliated companies EUR 113,330.39 (2005: KEUR 168)	113,330.39	167,883.93
Other interests and similiar income of which from affiliated companies EUR 200,321.55 (2005: KEUR 159)	265,939.96	232,739.06
Impairment losses on investments and marketable securities	308,649.66	405,262.40
Interests and similiar expenses	88,708.04	153,571.83
Profit/Loss from ordinary activities	2,204,589.26	-785,867.14
Income taxes	327,335.43	79,895.97
Other taxes	132,053.58	20,197.99
Net profit / loss for the year	1,745,200.25	-885,961.10
Accumulated deficit brought forward	-23,080,073.00	-22,194,111.90
Accumulated deficit	-21,334,872.75	-23,080,073.00

General information

The annual financial statements of PULSION Medical Systems AG, Munich, 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 Incorporation 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 its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The income statement 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 principles and 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. Acquisition and manufacturing cost are measured using the average cost method. Manufacturing cost comprises the direct cost of production material and wages and a proportion of production overheads, including depreciation. Acquisition cost comprises the purchase price plus all ancillary acquisition costs. 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.

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 0.5% (2005: 1.0%) is recognised on all trade accounts receivable not subject to a specific allowance.

Other marketable securities are valued at their historical costs. The carrying amount is restated to its fair value at the balance sheet date.

Cash in hand and at bank is stated at its nominal amount.

Prepaid expenses relate to payments which represent an expense for a specific period after the balance sheet date.

Equity is accounted for in accordance with § 272 HGB.

Three **stock option plans** 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 and Stock Option Plan 2006) are measured in accordance with the draft German Financial Reporting Standard 11 (E-DRS 11) at fair value, and the resulting amount is recognized as expense over the period up to the date of the assumed exercise of the options.

Tax provisions and other provisions cover all liabilities of uncertain amount and timing and are 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 profit or loss.

Accounts payable and advance payments from customers 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 includes licence fee income and is stated after deduction of rebates, customer bonuses and settlement discount.

Leases

As the lessee under operating leases: PULSION finances a part of its manufactured medical equipment via sale-and-leaseback transactions. All existing contracts are based on a standardized framework agreement and have a lease term of 48 months. PULSION can acquire the leased assets at the end of the term or continue to lease the assets (the criteria for a finance lease are not met). Accordingly, sales revenue and cost of sales arising in conjunction with sales to a leasing company are recognized as other operating income. Lease expenditure is presented within sales expenses.

As the lessor under operating leases: The Group makes equipment available to customers on the following terms:

a) Free-of-charge usage: 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 purchase option (the criteria for a finance lease are not met). Sales revenue is recognized on the basis of the relevant monthly billing. Legal ownership of the equipment remains with the Company until expiry of the contract term.

As the lessee under finance leases: Items of factory and office equipment are leased under terms and conditions which qualify as a finance lease from the perspective of Pulsion AG. The leased assets are therefore recognized within tangible assets and measured at amortized cost. The agreement runs for 48 months.

Notes to the Balance Sheet

Tangible, intangible and investment assets

The development of tangible, intangible and investment assets during 2006 and their composition at December 31, 2006 are shown, together with the depreciation/amortization expense for the year, in the analysis of changes in fixed assets (appendix 3 to the Notes).

Investments

The composition of investments is shown below in the section "Investment disclosures". The disclosed amounts relate to December 31, 2006 or the financial year 2006.

Investment disclosures

	Investment %	Equity KEUR	Profit/loss KEUR
PULSION France S.A.R.L., Aix en Provence, France	100.0	- 602	- 343
PULSION Benelux N.V., Gent, Belgium	100.0	- 1,125	25
PULSION Medical Inc., Vista, California, USA	100.0	- 2,086	- 701
PULSION Medical UK Limited, Uxbridge, United Kingdom	51.0	614	132
PULSION Pacific Pty Limited, Randwick, NSW, Australia	51.0	- 1,350	- 354
PULSION Medical Systems Iberica S.L., Madrid, Spain	60.0	151	85
KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu, Hungary	25.0	-	-

Due to the opening of insolvency proceedings, the minority investment (25%) in KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu, Hungary, amounting to KEUR 63, was written down in full in 2005. The proceedings had not been completed by the balance sheet date.

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 (KEUR 1,601) and other assets (KEUR 37). Interest in charged on these balances at normal market conditions.

Other assets comprise mainly taxes receivable (KEUR 54), advance payments to suppliers (KEUR 22) and suppliers accounts with debit balances (KEUR 14).

Marketable securities

The amount reported contains an investment in a money market fund which is measured at its closing price on the balance sheet date.

Cash on hand and at banks

Cash and cash equivalents comprise cash (KEUR 3) and bank balances (KEUR 2,580), including short-term deposits (KEUR 395) with an original term of up to three months. These items are measured at their nominal value.

Equity

Subscribed capital

The share capital at December 31, 2006 is EUR 9,526,302, divided into a total of 9,526,302 non-par shares issued to bearer. Each share represents EUR 1 of the share capital. The holders of shares of common stock are entitled to one vote per share and to dividends as declared.

As a result of the exercise of 30,500 subscription rights attached to stock options to acquire 30,500 shares, the Company's share capital increased in the financial year 2006 from EUR 9,495,802 to EUR 9,526,302.

At the balance sheet date, a total of 224,653 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 years (Stock Option Plan 2000) or eight years (Stock Option Plans 2003 and 2006) after the grant date.

Conditional capital

At December 31, 2006, a Conditional Capital I of EUR 313,837 and a Conditional Capital III of EUR 181,500 are in place for the issue of shares in conjunction with stock option plans. In addition, a Conditional Capital V of up to EUR 2,000,000 is in place for the issue of convertible bonds or bonds with warrants.

Conditional Capital I decreased from EUR 332,837 to EUR 313,837 as a result of the conversion into Company shares of 19,000 share options with a notional value of EUR 19,000. Conditional Capital III decreased from EUR 193,000 to EUR 181,500 as a result of the conversion into Company shares of 11,500 share options with a notional value of EUR 11,500.

In accordance with the shareholders' resolution passed at the Annual General Meeting on June 22, 2006, the Company's share capital was conditionally increased by EUR 350,000 (Conditional Capital II). Conditional Capital IV expired fully due to the passage of time and its wording was changed by shareholder resolution on the same day.

Authorized 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 or non-cash contributions. 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 a 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. The Supervisory Board is authorized to amend the wording of the Company's Articles of Incorporation after the share capital has been increased, either fully or in part, in line with relevant amount of Authorized Capital utilized, and, if the Authorized Capital is not, or not fully utilized by June 8, 2009, on the expiry of the authorization period.

Statutory reserves

As a result of the existing accumulated deficit, no statutory reserve has been created.

Additional paid in capital

Additional paid in capital developed during the year as follows:

	KEUR
Balance at January 1, 2006	22,015
Premium on conversion of 30,500 share options	64
Premium on the fair value measurement of stock options	62
Balance at December 31, 2006	22,141

Provisions

Tax provisions and other provisions amounted to KEUR 392 and KEUR 1,647 respectively.
Other provisions comprise mainly accruals for employee bonuses (KEUR 518), year-end accounting and audit costs (KEUR 50), licence fees (KEUR 142), warranties (KEUR 79) and holiday entitlements (KEUR 92).

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, 2006			Dec. 31, 2005		
			Maturity			Maturity	
		up to	later than		up to	later than	
Type of liability		1 year	5 years	Total	1 year	5 years	Total
1.	Liabilities to banks	140	64	897*	113	212	716*
2.	Advance payments received on orders	0	0	0	74	0	74
3.	Trade accounts payable	876	0	876	1,352	0	1,352
4.	Payables to affiliated companies	0	0	0	56	0	56
5.	Other liabilities	548	0	758	666	0	1,189
		1,564	64	2,531	2,261	212	3,387

*) At the balance sheet date, mortgages on property totalled KEUR 417 (Dec. 31, 2005: KEUR 417). Cash at bank totalling KEUR 262 (Dec. 31, 2005: KEUR 436) was pledged as collateral. In addition, inventories and equipment have been partially pledged as collateral to secure existing and future bank liabilities (KEUR 749; Dec. 31, 2005: KEUR 974).

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

	Dec. 31, 2006 KEUR
Seda S.p.A., Trezzano sur Naviglio, Italy	0
Bayerische Beteiligungsgesellschaft mbH	77
Interest payable	4
	81

The liability of KEUR 128 to SEDA S.p.A., Trezzano sur Naviglio, Italy, reported at the end of the previous year was repaid in full in 2006.

Contingencies

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 2008.

PULSION AG has also given a guarantee of up to GBP 200 thousand as collateral for a bank loan of the subsidiary Pulsion Medical UK Ltd.

Contingent liability

The minority shareholders' interest in PULSION Benelux N.V. was acquired in accordance with an agreement dated December 21, 2006. Under a contractually agreed "earn-out consideration" clause, payments of KEUR 65 may arise in the future.

Other financial obligations

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 and other supply agreements were as follows:

	KEUR
2007	5,000
2008	1,922
2009	1,475
2010	1,289
2011	3,215
	12,901

In addition, at December 31, 2006, the company had purchase commitments for the purchase of raw materials, supplies and other items in the year 2007 amounting to EUR 1.2 million.

Notes to the income statement

Sales

	2006 KEUR	2005 KEUR
Sales by product group:		
Equipment	4,476	3,214
Disposables	13,201	10,875
Indication/diagnosis	3,063	2,479
Other/customer service	60	108
	20,800	16,676

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).

	2006 KEUR	2005 KEUR
Sales by geographical region:		
Germany	10,038	8,131
Europe excluding Germany	9,052	7,458
Other	1,710	1,087
	20,800	16,676

Sales by business lines: Sales of the Critical Care and Perfusion business lines in 2006 amounted to KEUR 18,029 and KEUR 2,771 respectively.

Other operating income

Other operating income comprises mainly gains on sale-and-leaseback transactions (KEUR 245, 2005: KEUR 419), prior year income from the reversal of provisions (KEUR 168, 2005: KEUR 323), license fee income (KEUR 92, 2005: KEUR 192) and income from the private use of company vehicles (KEUR 98, 2005: KEUR 138).

Cost of materials

	2006 KEUR	2005 KEUR
Cost of raw materials and supplies and merchandise	3,794	3,599
Cost of purchased services	301	218
	4,095	3,817

Personnel expense

	2006 KEUR	2005 KEUR
Wages and salaries	4,946	4,147
Social security, pension and pension expense of which pension expense KEUR 371 (2005: KEUR 289).	870	646
	5,816	4,793

In addition to the personnel expense reported above for 2006, personnel recruitment costs of KEUR 71 (2005: KEUR 41) were also incurred. In 2005, these costs had been reported as part of personnel expense.

Impairment losses

As a result of the losses of certain subsidiaries, impairment losses of KEUR 172 were recorded on long-term loans during the financial year 2006 in accordance with § 253 (2) sentence 3 HGB.

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

	Carrying amount Jan. 01, 2006	Additions Disposals	Impairment losses	Carrying amount Dec. 31, 2006
	KEUR	KEUR	KEUR	KEUR
PULSION USA	0	+136	-136	0
PULSION Pacific	0	+36	-36	0
PULSION Iberica	52	0	0	52
	52	+172	-172	52

In addition, write-downs of KEUR 1,539 were recognized on trade receivables from affiliated companies pursuant to § 253 (2) sentence 3 HGB (expense reported within other operating expenses) and impairment losses of KEUR 137 were recognized on the investment in PULSION Pacific.

Write-downs on current assets

Write-downs of KEUR 309 were recognized in 2006 to reduce the carrying amounts of current assets to their lower fair value.

Expenses relating to prior periods

In 2006, expenses relating to prior periods amounted to KEUR 107 (2005: KEUR 559). This relates mainly to the expenses for which no provision was recognized at the end of the previous year. The previous year's figure related mainly to write-offs recorded on monitors (KEUR 309).

Taxes on income

Taxes on income comprise German corporation tax and trade municipal tax for the fiscal year 2006 and withholding taxes. This line also includes tax income of KEUR 88 relating to prior years. Taxes on income all relate to ordinary activities.

Other disclosures

Supervisory Board

Dr. Burkhard Wittek, MBA, Chairman

Further mandates:
iOnGen AG, Göttingen

Michael Bourjau, Business Management Graduate, Adviser, (Deputy Chairman from June 21, 2006)

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

Claus F. Vogt, Business Management Graduate, Qualified Auditor, Qualified Tax Adviser (Deputy Chairman until June 21, 2006)

Further mandates:
ABR German Real Estate AG, Munich (Chairman)
Intertainment AG, Munich (replacement member)
Human Electrics GmbH, Rednitzhembach (Member of the Advisory Board)

The total remuneration of the Supervisory Board for 2006 amounted to KEUR 120 (2005: KEUR 90)

Management Board

The following persons served as members of the Management Board of PULSION Medical Systems AG in 2006 (as recorded in the Commercial Register):

Bradley P. Gould, Chairman of the Management Board, responsible for Sales and Marketing (from May 4, 2006)
Other mandates:
Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom (from October 6, 2006)
Member of the Board of Directors and CEO of PULSION Medical Inc., USA

Member of the Board of Directors of PULSION Pacific Pty Ltd., Australia

Matthias Bohn, Management Board member for Research and Development, Production and Logistics and International Approvals
Other mandates:
Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom (until October 6, 2006)
Member of the Board of Directors of PULSION Medical Inc., USA
Member of the Board of Directors of PULSION Pacific Pty Ltd., Australia
Member of the Board of Directors of PULSION Benelux N. V., Belgium

Stefan Land, Management Board member for Finance, Investor Relations, Administration and Purchases
Other mandates:
Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom
Member of the Board of Directors of PULSION Medical Inc., USA
Member of the Board of Directors of PULSION Pacific Pty Ltd., Australia

	2006		
	Fix * KEUR	**Variable**** KEUR	**Variable***** KEUR
Bradley P. Gould (CEO from May 04, 2006)	164	0	77
Matthias Bohn	173	57	60
Stefan Land	157	55	60

* including private use of car, reimbursement of social security contributions and insurance benefits
** remuneration received for 2005
***estimated entitlement for 2006

In 2006 Bradley P. Gould received 120,000 stock options with a fair value of EUR 212,052. No other stock options were issued to members of the Management Board. The total remuneration of the Management Board for 2006 amounted to KEUR 608 (2005: KEUR 569).

The Management Board members' service contracts do not contain any specific commitment to pay compensation in the event of the early termination of their contracts. Compensation may arise, however, in conjunction with a future specific contract termination agreement.

Auditor's fees

In 2006, an expense of KEUR 69 was recognized in conjunction with the audit of the Company and Group financial statements.

Employees

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

	2006	2005
Salaried employees	93	75

The Company's workforce includes one apprentice. The Company does not have any wage-earners.

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)

Fidelity International Limited, P.O. Box HM 670, Hamilton HMCX, Bermuda, gave notice to the Company in a letter dated May 18, 2006 pursuant to § 21 (1) of the German Securities Trading Act (WpHG) that its share of the voting power of the Company exceeded the 10% threshold on May 17, 2006 and now amounts to 11.28%. The shares are attributable to Fidelity International Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG.

Priv.-Doz. Dr. med. Dr. med. habil. Ulrich J. Pfeiffer, Germany, gave notice to the Company on November 23, 2006 pursuant to § 21 (1) WpHG that his share of the voting power of the Company had fallen below the threshold of 10% on February 17, 2006 and amounted to 9.17%. He also gave notice to the Company on November 23, 2006 pursuant to § 21 (1) WpHG that his share of the voting power of the Company had fallen below the threshold of 5% on May 17, 2006 and amounted to 4.26%.

Events after the balance sheet date

In a letter received by the District Court of Munich I on January 2, 2007, the founder of the Company, Priv.-Doz. Dr. med. Dr. med. habil. Ulrich J. Pfeiffer, lodged claims for co-beneficial interests in patent applications (relating to a specific group of patents) and for all corresponding national industrial property right applications and industrial property rights. No significant economic impact affecting PULSION's financial position is evident at present.

Proposed distribution of retained earnings

The Management Board proposes that unappropriated losses are carried forward.

Munich, March 20, 2007

PULSION Medical Systems AG

Bradley P. Gould	Stefan Land	Matthias Bohn
CEO	CFO	COO

PULSION Medical Systems AG
Munich

Analysis Of Changes In Fixed Assets For The Financial Year Ended December 31, 2006

	Historical cost				Accumulated depreciation				Carrying amounts	
	Jan. 1 , 2006 EUR	Additions EUR	Disposals EUR	Dec. 31, 2006 EUR	Jan. 1 , 2006 EUR	Additions EUR	Disposals EUR	Dec. 31, 2006 EUR	Dec. 31 ,2006 EUR	Dec. 31 ,2005 EUR
Intangible Assets										
Concessions, licences and similiar rights	1,468,186.20	46,961.77	22,266.01	1,492,881.96	1,370,516.42	47,259.46	20,065.46	1,397,710.42	95,171.54	97,669.78
Goodwill	61,169.94	0.00	0.00	61,169.94	50,785.51	7,254.84	0.00	58,040.35	3,129.59	10,384.43
	1,529,356.14	46,961.77	22,266.01	1,554,051.90	1,421,301.93	54,514.30	20,065.46	1,455,750.77	98,301.13	108,054.21
Property, plant and equipment										
Land and buildings	379,459.36	0.00	0.00	379,459.36	115,153.56	16,450.92	0.00	131,604.48	247,854.88	264,305.80
Technical equipment, plant and machinery	562,806.38	148,947.04	26,989.59	684,763.83	274,586.11	94,205.05	17,863.84	350,927.32	333,836.51	288,220.27
Other equipment, furniture and fittings	4,484,227.92	1,320,811.81	730,936.71	5,074,103.02	2,703,811.21	766,463.71	274,575.84	3,195,699.08	1,878,403.94	1,780,416.71
	5,426,493.66	1,469,758.85	757,926.30	6,138,326.21	3,093,550.88	877,119.68	292,439.68	3,678,230.88	2,460,095.33	2,332,942.78
Investments										
Investments in affiliated companies	5,311,597.01	130,000.00	0.00	5,441,597.01	4,876,393.18	136,510.77	0.00	5,012,903.95	428,693.06	435,203.83
Loans to affiliated companies	3,493,188.45	172,138.89	0.00	3,665,327.34	3,441,576.35	172,138.89	0.00	3,613,715.24	51,612.10	51,612.10
Investments in other companies	62,559.14	0.00	0.00	62,559.14	62,559.14	0.00	0.00	62,559.14	0.00	0.00
	8,867,344.60	302,138.89	0.00	9,169,483.49	8,380,528.67	308,649.66	0.00	8,689,178.33	480,305.16	486,815.93
	15,823,194.40	1,818,859.51	780,192.31	16,861,861.60	12,895,381.48	1,240,283.64	312,505.14	13,823,159.98	3,038,701.62	2,927,812.92

A Review of the Financial Year

Summary

- **Sales up by 25%**
- **Profit from ordinary activities increased to EUR 2.2 million**
- **New addition to the Management Board**
- **Subsidiary established in the USA**

PULSION Medical Systems AG (PULSION) again grew strongly in 2006 and can look back on a successful financial year.

PULSION's revenues increased in 2006 by 25% from EUR 16.7 million to EUR 20.8 million, with the whole of the increase achieved through organic growth. 87% of revenues were generated in the core area of *Intensive Care* (2005: 88%).

This strong performance once again enabled PULSION to increase profitability at a faster rate than sales revenue. The gross profit percentage rose by a further 3 percentage points from 67% to 70%. The result from ordinary activities turned round from a loss of EUR 0.8 million to a profit of EUR 2.2 million, reflected in the operating margin improving from a negative one of 5% in 2005 to a positive one of 11% in 2006.

The net result for the year improved from a net loss of EUR 0.9 million in 2005 to net profit of EUR 1.7 million in 2006.

Bradley P. Gould, a highly experienced executive from the MedTech sector, joined PULSION at the beginning of 2006 to take over responsibility for marketing and sales as well as become Chief Executive Officer. Good progress was made in the second half of 2006 in setting up an active sales organization for a specific market segment in the USA with a view to stepping up selling activities in 2007.

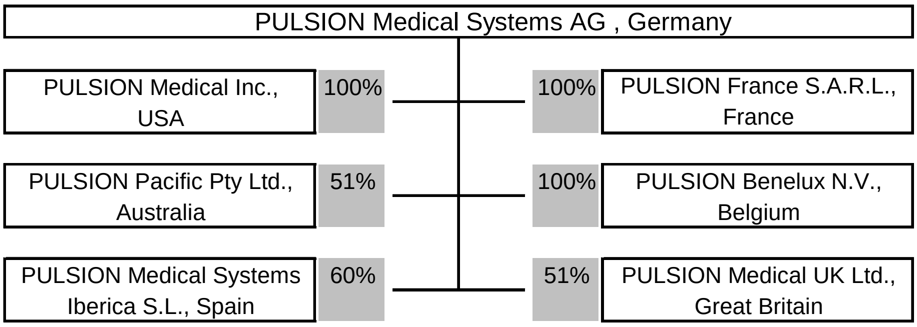
The equity ratio improved from 63% to 69% and the net cash position (including other marketable securities) improved from EUR 4.1 million to EUR 4.5 million at the end of 2006.

Group structure

Structure reinforced

The PULSION Group reporting entity remained unchanged in 2006. PULSION Medical Systems AG increased its investment in PULSION Benelux N.V. from 75% to 100% on December 21, 2006.

The PULSION Group comprises PULSION Medical Systems AG, Munich, as the group parent company, and the subsidiaries shown below, each of which is responsible for the sale of the group's products in the corresponding market segments:



PULSION Medical Systems AG, Munich, also holds a minority interest of 25% in KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu, Hungary, which has been in insolvency proceedings since 2005.

Financial report

General and sector business environment

Healthcare sector underpins general economic growth

The global economy continued its upward economic cycle in 2006, despite high oil prices and despite the fact that the growth rate in the USA tailed off slightly during the course of the year. Overall, based on the latest forecasts issued by the German Institute for Economic Research (DIW), the global economy is expected to grow in 2006 by approximately 3.7% compared to the previous year. China continued to be the world's most important motor for growth (approximately +10.5%). Gross domestic product (GDP) in the Euro region is expected to rise to 2.8% in 2006. The DIW forecasts a GDP growth in Germany of approximately 2.3% for 2006. Both of these two economic regions will therefore probably grow in 2006 at a slower rate than the world economy as a whole (source: DIW; weekly report No. 43/2006 "The Status of the Global and German Economies in Autumn 2006", October 23, 2006, Berlin).

The healthcare sector in general and, within that field the medical technology sector in particular, are growth markets the world over. The world market for medical technology was worth approximately EUR 184 billion in 2004, and according to the sector experts, grew, on average by between 6 and 7% in 2005. Medical advances, demographic changes, the wider concept of "healthcare" and the increasing degree of self-responsibility on the part of patients, will continue to add to the demand for health services and products in the future (source: BVMed Press Seminar, November 2, 2006; "Branchenbericht Medizintechnologien 2006").

The products offered by PULSION's *Intensive care* product segment are aimed at the "haemodynamic monitoring" market. The potential size of this market worldwide for 2007 is estimated to be in the region of USD 325 million and is expected to continue to rise in the future (source: The BBI Newsletter, Issue 28, No. 5, Feb. 2005).

Organization and management

Key strategic task

In order to achieve its core strategic goal in the medium term, namely to achieve leadership in the haemodynamic monitoring market, PULSION is having to focus very clearly on developing the Company's organizational structures. This is considered a key task for management. It is only possible to 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 which can spread the workload over experienced shoulders and if the organization is tailored towards meeting customer needs.

In the second quarter 2006, Bradley P. Gould, an experienced executive from the MedTech sector, was recruited to join PULSION. Bradley P. Gould assumed responsibility for marketing and sales and the chairmanship of the Management Board on May 4, 2006. This important addition will help PULSION, particularly in the US market, as it strives to achieve its international goal of becoming market leader in the field of haemodynamic monitoring.

The organizational structure at the headquarters in Munich was adapted and expanded in response to the growing workload and to meet all the requirements to which it is subject, both in Germany and at an international level. As a part of this process, three new functions were created - Medical, Pharma and Corporate Audit - and the existing functions of sales, marketing and research and development were strengthened in line with corporate objectives.

Due to the combination of its specific business model and the fact that it has experienced fast organic growth in recent years, PULSION is faced with a process of constant change. It is vital therefore that it expands its organizational structures continually, both in professional terms and in terms of its customer needs. In 2007, this process of adaptation and improvement will focus mainly on sales and production. This involves implementing the strategic plan step by step in order to reinforce the sustainability of the business model.

At an international level, existing majority shareholdings in sales subsidiaries will be expanded and realigned as necessary (see section: “Internationalization – USA“). The minority shareholder’s interest in PULSION Benelux N.V. was acquired in 2006 to enable a strengthened sales team to take better advantage of local market potential.

Revenue trends

Wider customer base creates potential for growth

PULSION reports sales of EUR 20.8 million for the financial year 2006, an increase of 25% compared to the previous year. The *Intensive Care* and *Perfusion* product segments both performed robustly, growing by 23% and 36% respectively.

The *Intensive Care* segment (including perioperative and emergency medicine) continued to develop positively in 2006. Sales of disposable articles for use in intensive care medicine grew by 19%. This means that the growth rate has slowed down compared to the previous year. The installed base of PiCCO monitors – in other words the total number of all monitors sold or loaned out - increased worldwide by 612 units to stand at 4,630 monitors at December 31, 2006 (+15% compared to the end of 2005). Furthermore, the number of PiCCO modules placed on the market via PULSION’s strategic sales partners (Philips and Dräger Medical), increased by 1,201 units to stand at 8,863 modules at the end of 2006. With CeVOX, PULSION now possesses another highly promising monitoring technology which has been marketing since May 2005. The installed base of CeVOX monitors at the end of 2006 totalled 428 units, whilst that of LiMON stood at 470 units at December 31,2006 (+11% compared to the end of 2005).

The rate of growth in the *Intensive Care* segment is forecast to increase in 2007 as a result of the following measures:

- introduction of modified and improved products onto the market,
- a new concept for marketing and sales,
- the start of sales of CiMON and
- entry onto the US market.

The *Perfusion* segment focuses 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 (the area of medicine which specialises in the liver and gall bladder). PULSION made good progress in this area in 2006. Although the installed base of IC-VIEW systems increased in 2006 by only 10 to 94 units (+12%), sales revenues generated by ICG-PULSION (mainly in the area of ophthalmology) rose sharply (+35%), due to the continual expansion of the area for which this product has received approval. This segment is expected to experience further dynamic growth in 2007 as the number of regions where approval is granted expands (particularly in the USA and the EU).

Product segments

Intensive Care product segment sales grew by 23% to EUR 18.0 million. Within that figure, sales of monitors (PiCCO, CeVOX, LiMON) rose by 39% to EUR 4.5 million. Sales of disposable products – comprising mainly catheter kits, probes and ICG-PULSION in conjunction with LiMON – improved by 19% to EUR 13.6 million.

in Mio. EUR		**2006**	**2005**	**Deviation**
Monitors	Intensive care	4,5	3,2	39%
	Perfusion	0,020	0,005	325%
Diskosables	Intensive care	13,6	11,4	19%
	Perfusion	2,8	2,0	35%
Subtotal	Intensive care	18,0	14,6	23%
Subtotal	Perfusion	2,8	2,0	36%
Total		**20,8**	**16,7**	**25%**

Perfusion product segment sales in 2006 rose by 36% to EUR 2.8 million. This includes sales of disposable products (ICG-PULSION) which rose by 35% to EUR 2.8 million. This growth was attributable primarily to ophthalmology business as ICG-PULSION is now increasingly being used at a European level. PULSION continued its efforts to extend the existing country approvals to other parts of the EU and to press ahead and complete approval procedures in the USA. As far as monitors within the Perfusion product segment are concerned, IC-VIEW systems are placed in almost all cases in return for commitments to purchase ICG-PULSION.

Regions

The core region of PULSION's sales activities continued to be Europe, where 92% of total revenues (EUR 19.1 million) were generated. The growth rate for the core European region in 2006 was 22%. Germany, with revenues of EUR 10.0 million (+23% compared to 2005) remained PULSION's strongest market.

in Mio. EUR	2006	2005	Deviation
Germany	10.0	8.1	23%
Europe (ex Germany)	9.1	7.5	21%
Other	1.7	1.1	57%
Total	**20.8**	**16.7**	**25%**

Sales outside of Europe increased by 57% to EUR 1.7 million.

Earnings
Business model manifests potential efficiency benefits

PULSION can report a significantly improved result for the financial year 2006. The gross profit percentage improved by a further three percentage points to 70%. In absolute terms, the gross profit increased by EUR 3.5 million to EUR 14.6 million. This improvement was attributable to the more pronounced increase in sales of high-margin products and to the realization of further benefits of scale in the area of production and logistics.

Fixed costs increased slightly compared to their previous year's level. As a result, the aggregate expense for selling and general administrative functions together with other operating income and expenses went up to EUR 9.9 million, or by 7% compared to the previous year. These costs therefore went up at a significantly lower rate than the 25% increase in sales. Spending on research and development in 2006 totalled EUR 2.6 million and was therefore at a similar level to the previous year. R&D expenditure represented 13% (2005: 16%) of sales.

The profit from ordinary activities improved to an encouraging EUR 2.2 million (2005: loss from ordinary activities of EUR 0.8 million). The net loss of EUR 0.9 million in 2005 was turned round to a net profit of EUR 1.7 million.

Key performance indicators:

Indicator	Describtion	2006	2005
Return on sales	Net profit / Sales	11.5%	-5.3%
Return on equity	Net profit / Average level of equity	24.6%	-10.1%
Total capital employed	Net profit / average level of balance sheet total*	16.6%	-6.4%

*Total capital employed = balance sheet total

Both the return on sales and the return on total capital employed were improved in 2006.

Assets, liabilities and financial position
Scope created for investment

Financial performance indicators

PULSION's solid balance sheet structure was further optimized and strengthened in 2006. The balance sheet total (total assets/total capital employed) amounted to EUR 14.9 million at December 31, 2006, up by 12% compared to one year earlier (EUR 13.3 million).

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

Indicator	Describtion	Units	Dec. 31, 2006	Dec. 31, 2005	Deviation
Days of Sales Outstanding	Trade accounts receivable * 360 days / Sales	days	65	71	-8%
Inventory turnover	Cost of sales / Average level of inventories		2.2	1.8	24%
Equity ratio	Equity / Balance sheet total	%	69%	63%	9%
Fixed asset coverage	Equity / Fixed assets		3.4	2.9	18%
Liquid funds *	Cash on hand and at bank and other marketable securities	EUR m.	4.5	4.1	12%

* including fixed term deposits of EUR 0.3 Mio. (Dec. 31, 2005: EUR 0.4) pledged as security

On the assets side of the balance sheet, fixed assets increased during 2006 from EUR 2.9 million to EUR 3.0 million (+4%). Property plant and equipment went up from EUR 2.3 million to EUR 2.5 million, while intangible assets stayed at approximately the same level. This was also the case for investments which totalled EUR 0.5 million at both year-ends.

Inventories were increased from EUR 2.4 million to EUR 3.2 million (+33%), partly to meet higher sales volumes and partly to reduce supply risks. Current trade accounts receivable went up from EUR 1.4 million to EUR 2.1 million, an increase by 50% and even faster than the increase in sales. Receivables from subsidiaries decreased by 13% to EUR 1.6 million at December 31, 2006 as a result of write-downs. Other current assets decreased from EUR 0.4 million to EUR 0.2 million (-57%). Total liquid funds (including other marketable securities) climbed from EUR 4.1 million at the beginning of the year to EUR 4.5 million at December 31, 2006. At that date, an amount of EUR 0.3 million of cash funds on bank accounts had been pledged as security (Dec. 31, 2005: EUR 0.4 million). The pledge relates to guarantees for rental contracts and for the Spanish subsidiary.

On the equity and liabilities side of the balance sheet, total liabilities decreased by EUR 0.9 million or 25% to stand at EUR 2.5 million at December 31, 2006 (Dec. 31, 2005: EUR 3.4 million).
The main factors behind these changes were as follows: Other liabilities were reduced as a result of the full repayment of loans from Philips Medizinsysteme Böblingen GmbH and SEDA S.p.A. totalling EUR 0.3 million. Further partial repayments amounting to EUR 0.1 million were also made. Liabilities to banks increased by EUR 0.2 million to EUR 0.9 million, most of which is available on a long-term basis. Trade account payables were reduced by EUR 0.5 million to EUR 0.9 million. Higher business volumes, a larger workforce (personnel-related provisions) and tax provisions resulted in total provisions increasing from EUR 1.5 million to EUR 2.0 million (+37%).

Equity rose sharply mainly as a result of the net profit for the year and stood at EUR 10.3 million at the end of 2006 (December 31, 2005: EUR 8.4 million). The equity ratio improved over the same period from 63% to 69%.

Non-financial performance indicators

In 2006, PULSION also succeeded in building on and strengthening its non-financial performance indicators. This includes training activities, supporting the career progression of its employees and compliance with the Corporate Governance Code.

Cash flow

The development of the Group's financial, net assets and earnings position is also reflected in the cash flow performance for the year. The cash flow from operating activities, which represents a key performance indicator to manage the business, went up from EUR 2.2 million in the previous year to EUR 2.3 million in 2006. This reflects that fact that improved earnings were offset by the increase in net working capital, in particular in the area of trade accounts receivable and inventories.

The cash outflow for investing activities in 2006 totalled EUR 1.5 million, up by 58% compared to the previous year. This increase was largely due to the high volume of loan equipment placed on the market.

The cash outflow from financing activities in 2006 decreased to EUR 0.4 million (2005: EUR 1.0 million), due to the significantly lower level of repayments of other liabilities. Overall therefore, cash and cash equivalents (including other marketable securities) rose to EUR 4.5 million, compared to EUR 4.1 million one year earlier.

Capital expenditure
Basis for future growth

Total capital expenditure in 2006 amounted to EUR 1.8 million, 42% less than in the previous year. However, due to reclassification of EUR 1.9 million in 2005, actual capital expenditure was almost at the previous year's level.

Capital expenditure related to the following:

- 17% related to measures to strengthen the Company's subsidiaries, partly to enable them to handle growing business volumes and partly to push ahead with the USA strategy,
- 83% related to intangible assets and items of property, plant and equipment, the bulk of which was used to place loan equipment on the market.

Capital expenditure is aimed at safeguarding and extending PULSION's technological lead on the one hand and at laying the foundation for future growth on the other.

Internationalization - USA
Phase 2 can get underway

The American market is an important region for PULSION's future growth and therefore central to PULSION's core strategy – market leadership in haemodynamic monitoring.

PULSION sharpened its focus on this market during the past year and, under the leadership of the new Chief Executive Officer and US expert, started the process of establishing an effective sales team in a restricted region (so-called "cluster strategy"). By adopting this strategy, PULSION aims to serve specific regional markets within the USA rather that take on the whole of the market in one go. Phase 2 of PULSION's sales thrust in the USA will get underway at the beginning of 2007. In addition to pursuing classic selling activities, contacts have already been established with key opinion-leaders and a US-specific marketing strategy has been developed.

Purchasing, Production, Logistics
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. Its approach is to keep production depth as low as possible to the extent that it helps efficiency and is feasible with a controllable level of risk.

An efficient network of longstanding suppliers working to PULSION's high quality requirements is in place. Continual efforts are made to locate additional partners to supply key components and parts, and therefore keep dependence on individual suppliers to a minimum.

In the light of the expansion of business in recent years and in conjunction with its strategic plan, PULSION intends, by the beginning of 2008, to bring its production processes into line with the changed product mix and with higher volume requirements and to realign the production depth in the area of disposable products and monitors. These measures, and the related capital expenditure, will help to lower the production cost of disposable products even further, increase flexibility, reduce supplier dependence and release working capital tied up in inventories, whilst at the same time still allowing the same high quality to be maintained. By contrast, the production depth for monitors will be reduced further.

These planned changes to the production function will enable PULSION to continue to standardize its global logistical and purchasing processes, with the view to reducing complexity, maintaining product availability and reducing throughput times.

Personnel development
Investment for the future

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

PULSION employed a workforce of 105 people at the end of the year (Dec. 31. 2005: 84), an increase of 25%. The average number of employees increased to 101 (2005: 75). As a consequence of this development, personnel expense increased from EUR 4.8 million in 2005 to EUR 5.8 million in 2006 (+21%).

In the area of personnel development, PULSION continued the *PROPULSION* project initiated in 2005. 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. In conjunction with this initiative, PULSION took on its first apprentice in 2006. In addition, a performance-related compensation scheme is in place across the Group as well as a stock option program which are both intended to tie in the workforce to the Group and to leverage further potential for efficiency.

Environmental care and quality management
Quality management system successfully reorganized

PULSION's quality management system was reorganized in 2006 and successfully certified by Dekra ITS Certification Services GmbH to EN ISO 13485:2003 standard. 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 and endeavours at all times to reduce or optimize energy consumption and waste. Neither the production process nor the products themselves pose any direct or indirect risks to the environment

Corporate governance
Transparency creates trust

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 Board, 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 options on PULSION stock in conjunction with the existing stock option programs. Full details of the remuneration of Management Board members, analyzed by individual, are provided in the notes to the financial statements.

In 2006 PULSION again carefully considered the principles contained in the Corporate Governance Code, as updated on June 12, 2006. With the approval of the Supervisory Board, all exceptions previously applied were eliminated over the course of 2006. As a result, PULSION now complies with all recommendations set out in the Code.

The Declaration of Compliance of the Management and Supervisory Board, in its modified form, was posted to the Group's website on December 15, 2006 under www.PULSION.com and is available for inspection there.

Research and development report

Research and development activities
Further strengthened

Research and development (R&D) is one of the mainstays of PULSION's business strategy. The R&D function has been further strengthened over the past year to enable it embark on and implement major future-orientated projects and to sharpen PULSION's competitive edge. In order to achieve market leadership in the field of haemodynamic monitoring, it is essential that PULSION's technologies become even more user-friendly and simple to apply in order to be suitable for an even larger volume market – whilst still, of course, maintaining a consistently high level of quality.

As well as improving existing technologies (in particular PiCCO and CeVOX), work during the year also focused on completing CiMON, a system which provides vitally significant measurements of abdominal and thoracic pressure in critically ill patients. R&D expenditure in 2006 totalled EUR 2.6 million and was therefore at a similar level to the previous year.

Patents and approvals
Further scope for opportunities

At the end of 2006, PULSION held a total of 151 national patents in various countries (Dec. 31, 2005: 138). This comprised 108 patents held by PULSION and 43 patent rights licensed to PULSION. PULSION is currently applying for further 375 patents in various countries (Dec. 31, 2005: 215). The patents and patent applications relate to 44 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 22 registered trade names which are either already in force or have been applied for.

Several approval applications were successfully progressed or completed in 2006. This will enable improved product marketing opportunities in countries where approval has already been given (e.g. USA) and should open up further regions for PULSION products. Progress was made towards obtaining US approval of ICG-PULSION and the approval application submitted to the FDA in autumn 2006.

Events after the balance sheet date

In a letter received by the District Court of Munich I on January 2, 2007, the founder of the Company, Priv.-Doz. Dr. med. Dr. med. habil. Ulrich J. Pfeiffer, lodged claims for co-beneficial interests in patent applications (relating to a specific group of patents) and for all corresponding national industrial property right applications and industrial property rights. No significant economic impact affecting PULSION's financial position is evident at present.

Risk report
Further improvement in compliance

Risk management system

In the course of its operating activities, PULSION is exposed to a number of risks which inevitably arise in connection with entrepreneurial activities. All companies are faced with a two-fold challenge - on the one hand they must promptly recognize 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 preventive 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 has put an early warning system into place to identify risks which could endanger its going-concern status. One of PULSION's objectives is to create 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 recognize 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 relevant members of staff within each function perform regular checks on processes, transactions and developments with regard to potential and existing risks, thus ensuring that risks are recognized at an early stage. Current and potential future risks, and the factors influencing them, are reported regularly to management, and these issues are discussed thoroughly at Board meetings so that appropriate measures can be initiated in good time.

PULSION's 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 potential damage and the probability of occurrence.

The Controlling department contributes to the risk management system with weekly, monthly and quarterly analyses/reports, which compare actual figures with prior year, forecast and estimated figures at various levels within the Group and this provide the basis for variance analysis.

Using the procedures described above, appropriate measures can be taken to avoid identified risks, minimize the probability of incurrence and reduce the potential financial loss that a risk could cause.

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 risk that PULSION, by comparison with its competitors, may not react quickly enough to market trends by developing new products or technologies and that a strong downward price pressure may arise. This could have an adverse impact on the financial position and the results of the enterprise.

PULSION counters these risks by continually developing its existing technologies and improving patent protection on the one hand, and by permanently observing the market via intermediary organizations and networks on the other. It is also engaged in a continuous process of optimizing manufacturing cost.

Product liability risk

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 product quality. 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 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 taken. In addition, PULSION is continually endeavouring to turn short-term interest-bearing liabilities into long-term liabilities.

Approvals

Very strict approval regulations – 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 on 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.

Production and purchasing risks

Since PULSION keeps production depth to a low level, it is necessary to buy in a relatively large volume of pre-manufactured components and parts. Due to the current size of the enterprise, it is not possible at present to operate a comprehensive second-source policy across the whole supply chain without causing a substantial decrease in margins.

In order to reduce its dependency on suppliers, PULSION pursues a second-source policy in some areas and also agrees framework agreements with suppliers containing guaranteed supply clauses. In addition, the company 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. In order to reduce risks further, PULSION will, in future, increase the proportion of its own added value to key products.

Financial risks

PULSION has an equity ratio of 69% at December 31, 2006 and has the opportunity of calling on a further loan commitment from a bank in 2007. Unpledged cash and cash equivalents of EUR 4.2 million and trade accounts receivables of EUR 2.1 million also provide financial flexibility. The cash flow from operating activities in 2006 amounted to EUR 2.3 million. From a current perspective, the financing and liquidity situation of the Group can be considered to be solid.

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 against bad debts. The risk is also mitigated 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. PULSION is not exposed to significant seasonal fluctuations in its cash flows.

The interest-rate risk with relation to financing is partially mitigated by having fixed interest rates in place for the whole term of the financing arrangements. Since the net amounts of foreign currency cash flows have not been significant to date, forward currency contracts are not employed. PULSION endeavours to pass on any currency risk that can arise on purchases to suppliers and invoices its sales to international dealers in Euro.

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. In the event of potential 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 continually.

In order to minimize the risk of personnel fluctuation as well as to find and retain good and experienced staff, PULSION has introduced a motivating remuneration system, clear lines of responsibility with room for initiative, flat hierarchies and flexible work-time arrangements. In addition, the PROPULSION initiative should further strengthen employees’ ties to the enterprise in the future.

Warehousing and transportation

Risks relating to warehousing and transportation of products are covered by appropriate insurance policies. Shifts in demand, 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 regular basis.

Litigations

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 anti-trust law.

At present, there is no knowledge of significant claims or proceedings against PULSION.

Disclosures pursuant to § 289 (4) HGB

The share capital at December 31, 2006 is EUR 9,526,302, divided into a total of 9,526,302 non-par shares issued to bearer. The holders of shares of common stock are entitled to one vote per share and to dividends as declared.

Fidelity International Limited, Bermuda, held more than 10% of the voting power of the Company in 2006.

The appointment and removal of members of the Management Board are based on the rules contained in § 84 and § 85 AktG; changes to the Articles of Incorporation are made in accordance with § 133 and § 179 AktG.

A conditional capital of KEUR 2,845 was in place at the balance sheet date in accordance with shareholder resolutions taken at the Annual General Meeting. The Management Board is authorized to issue this conditional capital to entitled persons. Of the total amount, KEUR 2,000 is intended for the issue of convertible bonds and bonds with warrants and a further KEUR 845 can be used to issue stock options. Furthermore, 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 or non-cash contributions. The Management Board is authorized, with the approval of the Supervisory Board, to determine further details of the share capital increase. In accordance with the shareholders' resolution taken at the Annual General Meeting on June 22, 2006, the Company is authorized in accordance with § 71 (1) no. 8 AktG to acquire, prior to December 21, 2007, up to 10% of its own present share capital. The authorization may not be used by the Company to trade its own shares.

Change of control arrangements are in place for two members of the Management Board. The relevant clauses take effect in the case of a take-over offer which meets certain defined criteria. In the case of early termination of the employment contracts in conjunction with a take-over, two members of the Management Board are entitled to receive the capitalized value of their remuneration for the period up to the contractual end of their employment contracts, or at a minimum, one and a half times of their annual remuneration.

Forward-looking report

Business strategy
The Gold Standard in haemodynamic monitoring

PiCCO-Technology, in combination with the related technologies CeVOX, LiMON and in the future, CiMON, has the opportunity to become 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.

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

- **Technological progress**
  As well as purposefully expanding the range of haemodynamic measurement systems on offer, the focus over the next few years will be to improve the user-friendliness and flexibility of PULSION's key technologies and to make further advances in the area of patient safety.
- **Increasing global availability**
  Further licensing arrangements and the integration of its key technologies into the products of leading manufacturers of patient monitoring systems in order to increase global availability represent an important strategic step for PULSION. Increasing the installed base gives PULSION the opportunity to increase sales of disposal products.
- **Focus on key markets**
  The two strategies of continuous expansion of the European sales organization and gaining a footing in the world's largest single world market (cluster strategy in the USA) are being pursued as top priorities.
- **Intensified marketing**
  Intensifying the targeted flow of information to the customer (doctors and hospitals) should accelerate the pace of growth and result in a wider range of applications for PULSION's products.

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.

Opportunities
Building on the existing platform

PULSION believes that its business strategy has a number of competitive advantages which will help it to perform successfully in the future. The following factors provide opportunities to expand the customer base and hence take full advantage of the market potential:

- A wide range of products in the area of haemodynamic monitoring which allow it to offer integrated and flexible solutions.
- A strong international presence thanks its subsidiaries in France, Spain, Belgium, the United Kingdom, the USA and Australia as well an extensive network of dealers.
- Strong licensing partners in the form of Philips, Dräger Medical, Zeiss and Schiller.
- Innovative strength driven by extensive expertise and application knowledge in all of the MedTech fields in which PULSION operates.
- Experienced management team with longstanding international experience in the MedTech sector.

Outlook

Focus on the USA

Over the past year, PULSION achieved a number of important targets set out in its strategic plan. This includes the licensing of PiCCO-Technology to the Swiss company, SCHILLER AG, continued further development of a new generation of products, restructuring the Group's marketing organization and setting up the sales organization of the US subsidiary in specific regions in the USA (cluster strategy).

Thanks to its robust and innovative business model, PULSION considers that it is well-equipped for the coming year. Although the pace of growth is likely to be held down by cost pressures affecting the healthcare systems of the major industrial countries, the unique features of PULSION's technologies provide a good basis for generating above-average demand – and hence a source of solid growth for PULSION.

PULSION will sharpen its focus on the US market in 2007, commencing active selling activities in a restricted region (cluster strategy) from the beginning of the year. In parallel, approval activities will be intensified and the product portfolio realigned in order to reach the volume market more quickly. The proportion of internally generated added value on disposable products will be increased in to mitigate purchasing risks, increase flexibility and reduce production costs even further.

PULSION will continue along this course, investing for medium and long-term growth and rigorously implementing its business strategy. Sales volumes should grow at double-digit rates in 2007 and the operating profit is forecast to improve.

Further prerequisites for profitable growth are the motivation and skills of its workforce. In the coming year, PULSION will continue to make personnel development a priority, allowing potential skills to be discovered and developed, and at the same time ensuring that employees are in good shape to accompany PULSION on its future course.

Management Board's statement of responsibility

The Management Board of PULSION Medical Systems AG, Munich, is responsible for drawing up the annual financial statements and the management report. The review of operations - including that of the earnings and financial position of the Company - has been presented in the management report to the best of management's knowledge such that it presents a true and fair view. It describes the Company's anticipated future development along with the principal opportunities and risks.

Munich, March 20, 2007
PULSION Medical Systems AG

Bradley P. Gould CEO	Stefan Land CFO	Matthias Bohn COO