Annual Report 2007

PULSION – the leading specialist in cardiovascular monitoring of critically ill patients

PULSION
Medical Systems

Facts and Figures
PULSION 2007

PULSION (GROUP)		2007	Variance in %	2006	2005	2004
		IFRS		IFRS	IFRS	IFRS
Revenues	EUR million	**28.3**	**16%**	24.5	20.2	16.3
Gross profit	EUR million	**20.5**	**12%**	18.4	14.5	10.9
EBITDA	EUR million	**6.0**	**15%**	5.2	3.8	3.2
EBIT	EUR million	**4.1**	**21%**	3.4	2.3	1.7
Consolidated profit	EUR million	**2.5**	**–23%**	3.3	1.9	1.1
Cashflow from operating activities	EUR million	**4.5**	**42%**	3.2	3.3	1.6
Shareholders' Equity[1)]	EUR million	**17.1**	**17%**	14.6	11.3	8.9
Shareholders' Equity percentage[1)]	%	**64%**	–	64%	57%	49%
Total assets[1)]	EUR million	**26.8**	**18%**	22.7	19.8	18.1
R&D expenses	EUR million	**2.0**	**–11%**	2.2	1.3	0.8
Employees (average)	Amount	**141**	**8%**	130	101	79
Revenue per employee	KEUR	**200**	**7%**	188	200	206
Installed base - PiCCO monitors[1)]	Units	**5,256**	**14%**	4,630	4,018	3,479

[1)] as of December 31

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Bradley P. Gould
Chairman of the Management Board

Matthias Bohn
Member of the Management Board

Intervi

2007 was meant to be a year for investing in the future. What impact did this have on earnings?

GOULD: We have invested large amounts of time and money – EUR 3.2 million in total – in our strategy for the future. Most of the expenditure was on product development, streamlining production and particularly in the realignment of new sales and marketing. Although we are not entirely satisfied with the 16 % sales revenue increase to EUR 28.3 million, we nevertheless succeeded in increasing EBIT from EUR 3.4 million to EUR 4.1 million, in other words, by 21 %.

2007 was dominated by the market introduction of the new PiCCO$_2$. What is really new about this monitor?

GOULD: The increased expectations and requirements of our customers were vital considerations in the development of this new monitoring platform, which enables us to combine various monitoring technologies – previously PiCCO and CeVOX – in a single unit. We now have a much more user-friendly system, which can be operated intuitively, and which offers medical and nursing staff flexibility of application in various fields. This was not the case with the previous model.
PiCCO$_2$ enables us to reach other customer groups since we can now offer the product on a broader base for use in accident and emergency departments, operating theatres, intensive care, and step-down units. User-friendliness is particularly important in the US, as well as the UK, since nursing staff often have more involvement with equipment in order to relieve the strain on medical staff.

Despite the positive aspects, PiCCO$_2$'s market launch has been delayed slightly …

BOHN: First of all, I would point out that, with a development period of 13 months for such a sophisticated product, we were in fact exceptionally quick. It is nevertheless true that production of the first test monitors was delayed slightly so that we fell somewhat behind schedule with deliveries. This clearly played a role as we started the process of placing PiCCO equipment with customers in the summer months.

"PiCCO$_2$ enables us to reach other customer groups."

What measures have you taken to ensure that PiCCO$_2$ nevertheless gets off to a good start?

BOHN: In March, PiCCO$_2$ was very successfully presented to an expert audience at the most important congress for intensive care medicine, the ISICEM in Brussels. In our sector, PULSION and the presentation of the new monitor were the main topics of conversation.
By the time we received European approval, even before a production model existed, we had already received firm orders for more than 150 units. This is extremely unusual in the field of medical technology, and it demonstrates how highly rated the product is and the extent to which customers trust PULSION's expertise, even before testing the system.
The downside was that from that point onwards, orders for the existing PiCCO product fell drastically. As a result, we were well behind our sales revenue forecasts in the second and third quarter. We are confident, however, that we will be able to accelerate growth from the beginning of 2008 onwards.

ew with the Management Board

Interview
with the Management Board

> "Our own monitors – $PiCCO_2$ for example – will always represent the very highest level of our technology."

In response to the unfortunately slow start to series production, we successfully launched a special sales programme in Europe at the beginning of the second quarter. We made a commitment to customers within this programme that, subject to availability, monitors from the predecessor product lines PiCCOplus and CeVOX, acquired during this period, will be replaced free of charge by the new $PiCCO_2$ product platform. This gave us the boost that we needed.

How, in your opinion, does $PiCCO_2$'s market potential compare with that of the predecessor model?

GOULD: It is considerably greater. Customers who were put off because it was complicated to use can now use the equipment in a much more user-friendly way. The acceptance threshold has therefore been lowered significantly.
What is more, $PiCCO_2$ is a technology platform which enables us to expand our business model. This means that we can get the benefits of the "razor-razorblade" model with a single piece of equipment because, depending on the situation, various disposable products are required for the machine's range of monitoring functions. Previously we had to place a separate device for every new procedure – which, from a sales point of view, was extremely difficult to accomplish. This was one of the reasons why innovations such as LiMON never broke through onto the market.
This is key to the strategy that we have adopted for the new product: $PiCCO_2$ will be used more frequently than its predecessors and provides several sources of revenue from a single product.

You are aiming to become the market leader in advanced haemodynamic monitoring over the coming years. How significant do you consider PULSION's monitors and those of your strategic partners to be in this area?

BOHN: Our own monitors – $PiCCO_2$ for example – will always represent the very highest level of our technology. We want to set trends and encourage the market to move forward. We measure this on the basis of whether a product adds value in medical terms; our aim is to help patients, not to occupy technological niches.
If our innovations are well received on the market, the demand from hospitals for our products automatically increases. Our principal strategic partners significantly increase the number of installations by integrating our technology into their own products. Disposable products business depends, of course, on the existing and future installed base.

In 2007 you received the FDA approval for $PiCCO_2$ in the USA. How important is the progress of business in the USA for PULSION's future?

GOULD: The USA is the world's largest medical technology market with a share of approximately 55 % of the world market. This means that it offers enormous growth potential for us. Success there would have an impact on our fortunes in other markets, such as Japan, because many other countries view to the USA as the leader in medical standards.

This is PULSION's second attempt to enter into the US American market, what do you hope to do better this time round?

GOULD: We are pursuing a regional cluster strategy, concentrating on selected highly populated areas.

We selected an area on the East coast stretching from New England to Washington DC to use as a test market to check prices and test our business model. This phase was successfully completed in 2007.
This year we will set up additional clusters in the major densely populated areas of the USA. We will use a variety of sales channels in these areas, with the aim being to have our own sales organisation in the most crucial regions. We also cooperate with independent sales organisations which have already established their positions in intensive care units with other product lines. We are also relying on our strategic partnerships with the leading manufacturers of multiparameter monitors to help us make rapid progress.

"PULSION has a razor-razor-blade business model which makes business easier to plan and less susceptible to the effects of changes in the economic climate."

What exactly are your medium and long-term objectives for PULSION?

GOULD: All activities are geared towards our medium-term objective, called "PULSION 100", of becoming the world's market leader in the field of cardiovascular monitoring of critically ill patients. This requires us to gain a share of at least 20% of the world market. Based on an estimated market potential of USD 500 million in 2010, this would entail PULSION achieving a sales revenue figure of USD 100 million. The "PULSION 100" programme is therefore the inspiration for our medium-term business plan.
The outcome, of course, is directly linked to the expansion of PULSION's US business. In parallel, we are also pushing on with our sales activities in the major emerging markets which are expected to include the ten largest markets for our products by 2010 (e.g. Brazil, India and China).

What are your targets for 2008?

GOULD: In 2008, we intend to get back to our target sales growth rate corridor of between 20 and 30%.
We plan to achieve an EBIT margin that is at least as high as the one achieved in 2007, namely 15% – or maybe a bit more.

Why do you think that PULSION shares are attractive to investors?

BOHN: PULSION has a "razor-razorblade" business model which makes business easier to plan and less susceptible to the effects of changes in the economic climate. PULSION has a good position on the market; we have a new product, and numerous add-ons to PiCCO$_2$ are already in the pipeline. The disposable products area (catheters, probes) will also be enhanced in 2008.
Last year, significant changes in direction were made in the sales and marketing, as well as production areas, which will have a very positive effect on growth and profitability over the years to come.
All in all this represents an attractive situation for any investor – something rarely to be found in companies of our size. In our opinion, the current share price of approximately EUR 5.00 does not satisfactorily reflect the stability of our business and the prospects for continued growth.

For a glossary of technical terms see page 90.

Highlights

03

Presentation of the $PiCCO_2$ product platform – getting ready for the volume market

In March, PULSION presented the new product generation $PiCCO_2$ for monitoring cardiovascular functions in critically ill patients. With its clear, common-sense operating and innovative ergonomic display unit, it is easy for users to operate $PiCCO_2$ simply and safely. The new device is now suitable for a wider range of usage and opens up opportunities for applications which were previously only partially available. Patient care and cost effectiveness have been significantly improved.

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PULSION receives CE certification and FDA approval for $PiCCO_2$

Marketing of the new $PiCCO_2$ product platform in the EU was started in late summer as soon as CE certification had been received. By that stage, more than 150 firm orders had already been placed by customers. The FDA, the medical device and drug regulatory agency in the USA, issued its approval for $PiCCO_2$ in October, making it possible to give the go ahead for product marketing in the USA.

08

Creation of new production facilities

In August, PULSION started construction of new, ultra-modern clean room production facilities near to Munich. The new facilities will provide an efficient and flexible basis for future growth and will be commissioned during the first half of 2008.

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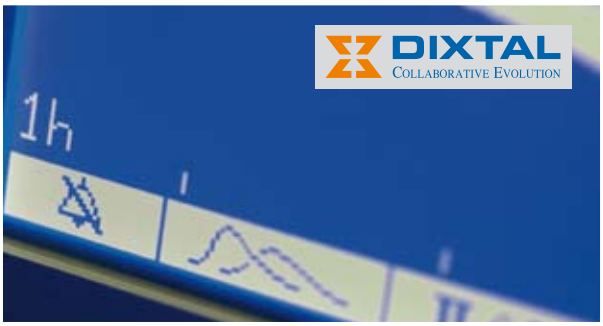


PULSION grants license for PiCCO and CeVOX to DIXTAL

DIXTAL is the Brazilian market leader in multiparameter patient monitoring. In future, DIXTAL will integrate PiCCO and CeVOX technologies into its own patient monitoring systems. Based on DIXTAL's excellent market position, there are good opportunities to push ahead with market penetration in Brazil faster than previously planned.

US drug approval for diagnostic agent, ICG-PULSION

The FDA issued its approval for ICG-PULSION (indocyanine green) in November. The drug, which is used particularly in the field of perfusion diagnostics, can now be sold on the world's largest medical market and, in future, will make a considerably larger contribution to earnings.

GE Healthcare signs letter of intent to license PiCCO Technology

The last of the three large med-tech product providers (integrated monitoring systems and similar), signed a letter of intent (LOI) with PULSION to use PiCCO technology with its own patient monitoring equipment. A licensing agreement with GE Healthcare is due to follow in 2008.

The Business Model – the Basis for Success

PULSION's two lines of business – **PULSION Critical Care** and **PULSION Pharma** – are structured in such a way that a substantial proportion of revenues are generated in the form of stable, recurring business from the sale of disposable products or drugs. Approximately 83 % of sales revenue is generated by the Critical Care business unit and the remaining 17 % by the PULSION Pharma business unit.

The **PULSION Critical Care** line of business specialises in the monitoring of cardiac, circulatory and organ functions in critically ill patients. These monitoring procedures, which are carried out in the areas of intensive care, perioperative care (i.e. monitoring before, during and after surgery) and for accident and emergency treatment, require the application of one or more sterile disposable products e.g. a PiCCO catheter or a CeVOX probe. These articles may be used for a limited length of time in the treatment of a single patient only.

In order to be able to use these disposable products, the customer must have access to PULSION's monitoring technology. Equipment is placed with customers in one of two ways:

Firstly, stand alone monitoring equipment owned by PULSION is installed and maintained by our own sales organisation (PULSION Munich, subsidiaries and joint ventures) or by authorised third-party agents (a worldwide network of distributors). The sale of monitoring equipment generates additional revenues, whereby the customer has the advantage of being able to acquire the latest technology offered by PULSION. The disposable products for installed equipment are supplied by the same sales organisations.

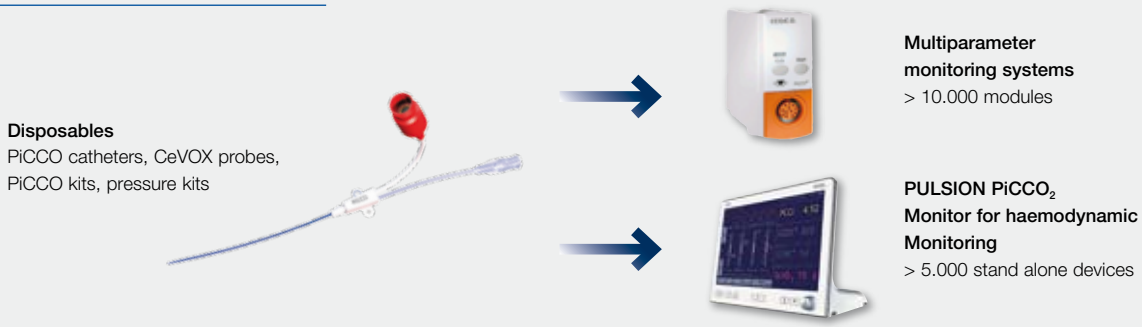
Secondly, in order to increase the installed base, PULSION has also granted licenses to the major manufacturers of multiparameter monitoring systems, such as Philips Medical Systems, Dräger Medical and others, entitling them to use PULSION's monitoring technology. They benefit from the fact that they can offer their customers integrated solutions through their own sales channels. PULSION benefits from the additional license income and the broader installed base of equipment using PULSION technology. In this case, disposable products are distributed through PULSION's own sales channels *(chart 1)*.

Chart 2 shows the high level of interest that PULSION technologies are generating amongst leading med-tech providers. Numerous well-known providers of multiparameter monitoring systems are either already working in cooperation with PULSION or planning to do so in the future.

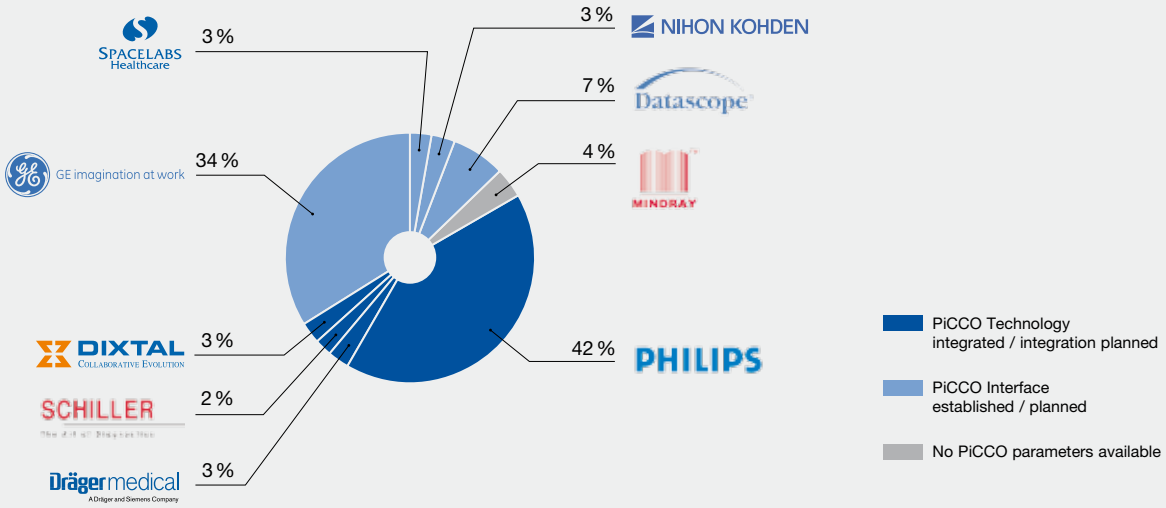
The **PULSION Pharma** line of business is focused on products and activities relating to the diagnosis and therapy management of organ and tissue perfusion in fields such as ophthalmology, surgery and hepatology. The main aspect of this line of business is the visualisation and measurement of tissue perfusion with the aid of the diagnostic drug, indocyanine green (ICG-PULSION).

As with monitoring systems, ICG can only be used if specific measuring and diagnostic equipment has already been installed. It is most commonly used at present in the fields of ophthalmology and neurosurgery. PULSION is not involved in the development or sale of the actual procedures used in these fields. Instead, the strategy is based

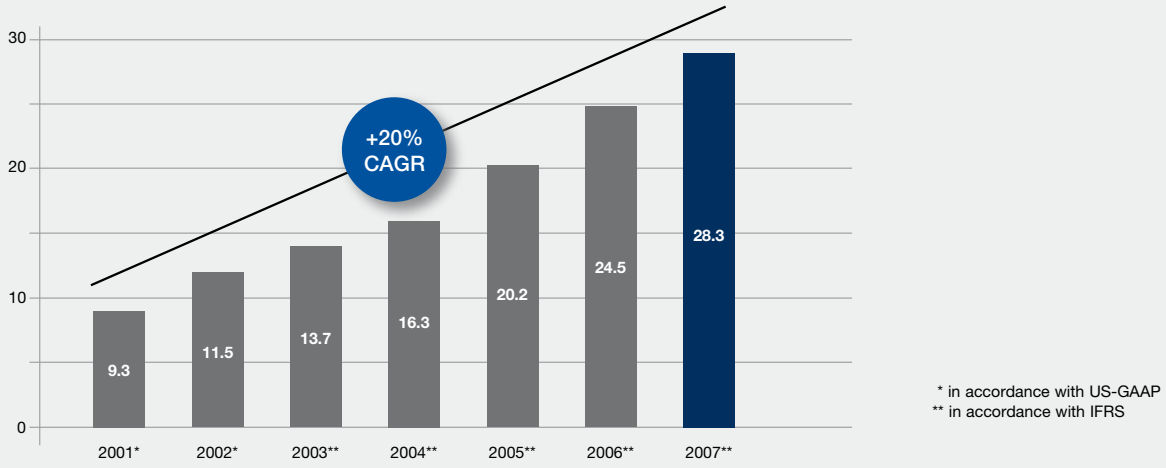
(1) Two channels to our customers



(2) Integration and interfacing with external monitoring systems (Market shares in multiparameter monitoring)



(3) Revenues (in million EUR)



on close cooperation with equipment manufacturers or arrangements with established providers such as with ZEISS Meditech in the neurosurgical field. The objective behind such arrangements is to develop the market jointly, thereby increasing the range of applications for ICG in the fields of diagnostics, therapy management and documentation.

Both of PULSION's business units are committed to a strategy of developing the markets with a view to promoting greater and more regular use of PULSION's products. A look at the development of PULSION's sales revenue over the past years shows how successful the business model has been so far. In 2001, PULSION's sales revenue was only EUR 9 million. By 2003, it had risen to EUR 14 million and in 2007 it was in excess of EUR 28 million. The average annual growth rate during this period was 20 %, reflecting the steady and stable growth based on PULSION's business models *(chart 3)*. In the medium-term Pulsion aims to accelerate sales revenue growth to 20 – 30 % p.a.

The progress made in earnings has been similar. After breaking even in 2004, earnings have increased steadily and have almost doubled since 2005. This is a remarkable achievement, especially considering the high level of investment made in 2007 to expand business in the USA.

Products and Background

The product portfolio of the **PULSION Critical Care** line of business is based on various monitoring technologies which provide medical staff with important information regarding the condition of the patient's heart, circulation and organs so that decisions about the required treatment can be made quickly and safely.
By contrast, basic vital parameters which give an indication of the patient's general condition are provided by other systems.

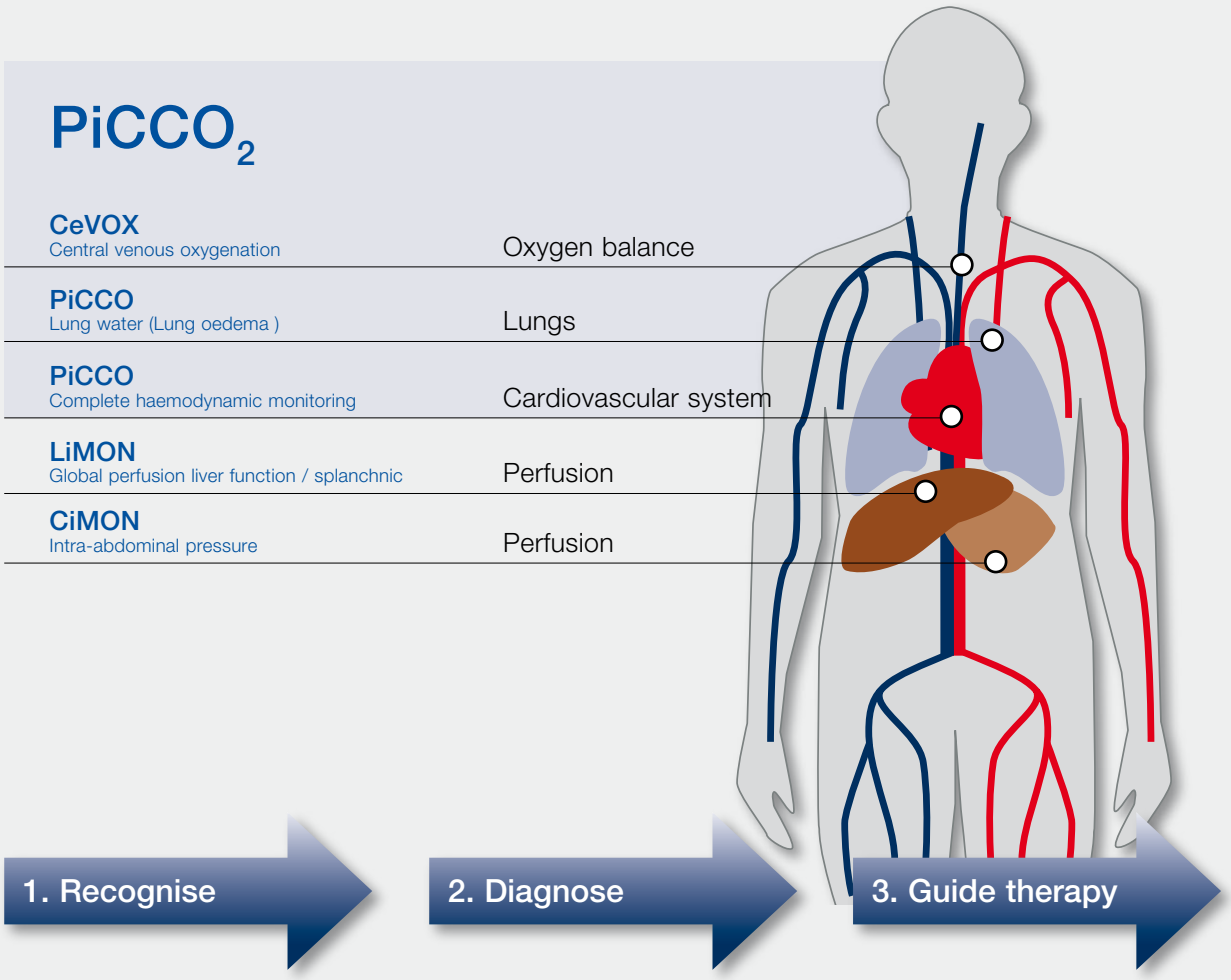
PULSION products enable a much more detailed picture to be drawn up of how a critically ill patients organs are currently functioning. A treatment path is sketched out, like a navigation system, and can make a valuable contribution towards achieving the desired therapeutic success.

The following summary shows, by way of example, some of the information that can be obtained with PULSION products *(chart 4)*:

The principal task is to ensure that there is an adequate oxygen supply to the organs. One of the reasons for an unfavourable oxygen balance is the failure of the cardiovascular system to supply sufficient amounts of oxygenated blood.

PiCCO technology provides **comprehensive data on the cardiovascular system.** This includes continuous cardiac output (volume of blood pumped per minute) or the volume of blood available for the heart to pump, the contractility of the heart and the general condition of the

(4) Advanced haemodynamic monitoring



vascular system. By contrast to our competitors' products, PULSION's products enable the user not only to recognise whether the cardiovascular system is functioning well or not, but also to determine the crucial reasons for the malfunction. This, in turn, makes it easier to specify the appropriate therapy.

The retention of fluid in the lung tissue (pulmonary oedema) is another serious complication occurring in this group of critically ill patients. It impedes the vital gas exchange in the lungs and, up until now, has only been diagnosed relatively inaccurately and cumbersomely by x-ray examination. **PiCCO technology** enables the **fluid content of the lungs** to be monitored more accurately and simply at the patient's bedside. With this technology, pulmonary oedema can be recognised at an early stage and treated appropriately.

The abdominal organs and their functions are also particularly crucial in the case of critically ill patients. Patients may suffer serious consequences if bowel or liver functions are restricted as this may be the first stage of a potentially fatal multiple organ failure. With the aid of **LiMON technology**, intensive care medical staff can monitor the status of the patient's **hepato-splanchnic system** (liver and abdominal organs) at the bedside and, thus, recognise and treat abnormalities at an early stage. In the surgical field, this technology can be used to assess the level of risk that a liver operation could entail.

One of the reasons for such serious failures could be that the abdominal organs are not being adequately supplied with oxygenated blood. Even if the cardiovascular system is functioning properly, raised intra-abdominal pressure can hinder organ perfusion. **Intra-abdominal pressure** can be monitored continuously with **CiMON technology**. This technology is used on intensive care patients following major surgery, serious accidents or after large volumes of intravenous infusions have been administered.

The various PULSION monitoring methods complement each other and support the user according to the specific needs of the patient. By combining the different pieces of information, medical staff can obtain a general overview, enabling them to make decisions more quickly and accurately. This facilitates prompt and specifically targeted treatments which can help to avoid complications and, at the same time, save costs. This was also an important consideration when developing the new $PiCCO_2$ monitoring platform. So far, PiCCO and CeVOX have been integrated into this system. **The integration of LiMON is scheduled for 2008.**

The PULSION monitor solutions contribute with a precise therapy decisively towards avoidance of complications and saving costs. In addition, the new technology platform $PiCCO_2$ forms the basis for forward-looking developments.

Christoph Manegold Manager of Research and Development

PULSION is one of the few manufacturers in the world that produces indocyanine green, the specialty of the **PULSION Pharma** line of business. At present, this dye is used mainly for imaging the perfusion of various organs. In the ophthalmics field, ICG angiography (blood vessel imaging) is not only recommended, it has become the standard method for diagnosing many eye disorders. For example, age-related macular degeneration is one of the most common causes of blindness in the Western world. New treatments in this area have recently been introduced, making appropriate diagnosis, therapeutic monitoring and documentation even more important. In the neurosurgical field, quality control **using ICG blood vessel imaging when clipping an aneurysm** (an operation to remove a life-threatening swelling of a cerebral artery), has also become important. A large number of the surgical microscopes sold for this purpose by ZEISS Meditech already include the corresponding functions.

Market and Competition

Until a short time ago the market for advanced haemodynamic monitoring was dominated by companies manufacturing right-heart catheters, in particular Edwards Lifesciences.

For a long time, advanced haemodynamic monitoring using right-heart catheters (pulmonary artery catheters or PACs) was the only way of monitoring more than just the blood pressure and pulse rate of critically ill patients. Nowadays, however, routine use of PACs to stabilise the cardiovascular system is no longer recommended; this procedure is only used now when there are certain very specific clinical problems. This is because it is highly invasive and can lead to complications for the patient.

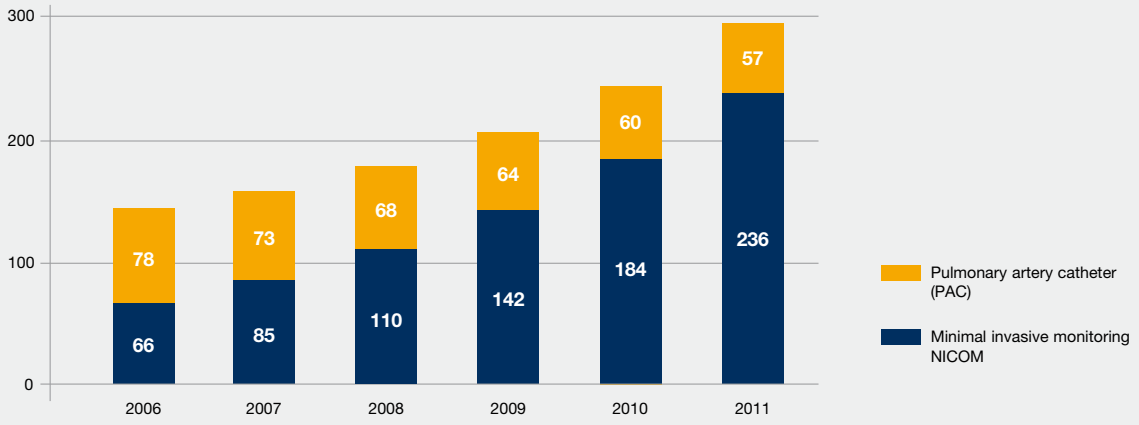
In order to obtain a measurement, the PAC must be inserted into a vein directly in front of the right chamber of the heart and then pushed through the heart and into the pulmonary artery. Extensive studies show that this method can cause complications including infection, cardiac arrest and pulmonary embolism. In the meantime, several publications have also shown that, quite apart from the risks already mentioned, the majority of patients do not benefit from the use of PACs. The readings are also very difficult to interpret and therefore only really useful to absolute experts. Wider use of right-heart catheterisation is not possible because of the lack of trained or experienced staff and, as shown above, is no longer considered to be sensible.

By contrast, less or minimally invasive methods have been in use since about 1995 and have divided the market into "invasive" and "minimally invasive advanced haemodynamic monitoring" camps. PULSION's PiCCO technology has the advantage over the right-heart catheter in that it only requires access, via the appropriate catheter, to one vein and one artery. Patients in the critical care unit or in the operating theatre usually have such catheters already in place. If the readings are sorted and presented using a sophisticated microprocessor technology – as is the case with PiCCO$_2$ – the data and measurements can be very easily interpreted. Not only experts, but also junior doctors and nursing staff, can make a confident assessment of their patient's condition.

The future lies with minimally invasive procedures

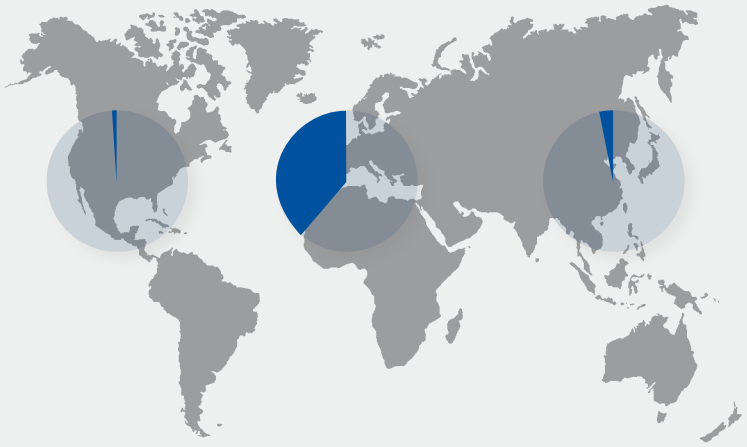
Due to the lack of any suitable alternative, the right-heart catheter dominated the market for enhanced haemodynamic monitoring for a long time. However, in recent years there has been a changeover to using less invasive methods, as innovative, safe options – such as PiCCO technology – have become available.
The worldwide market for advanced haemodynamic monitoring is growing at an average rate of 15 percent a year; indeed, the PAC is already losing between 5 and 10

(5) Advanced haemodynamic monitoring in core markets (USA, G, F, I, UK)
Market development 2006-2011 (in Mio. USD) Minimal invasive monitoring (NICOM) CAGR @ 29.4%, PA catheter: CAGR @ -6.1%)



Sources: Millenium Research Group, Toronto, 2006 and additional public information

(6) PULSION's market share in advanced haemodynamic monitoring



USA
Share of world market 55 %
Market share PULSION 0.3 %

Europe
Share of world market 35 %
Market share PULSION 42 %

Asia/Pacific
Share of world market 10 %
Market share PULSION 5 %

percent of its market share each year. By contrast, the market for minimally invasive methods is growing at a rate of more than 20 percent p.a. The main reason for this is that health services are under increasing pressure to improve quality and cost-effectiveness.

The aim is to improve the quality of care throughout the world and to avoid complications, whit at the same time reducing costs. Health budgets have been under pressure for years in the major industrial nations such as the USA and Germany. In the USA a budgetary law in place since 2006 stipulates that savings of USD 40 billion must be made over the next five years. In order to meet this target, hospitals are focusing on standard processes, including the area of cardiovascular monitoring. Such standardised processes help to shorten the length of hospital stays and to cut costs. In Europe, and particularly in Germany, PiCCO is already integrated into many of these standardised processes and has become an important aspect of quality requirements.

The Millennium Research Group estimates that the market volume for minimally invasive monitoring in the USA, Germany, France, the UK and Italy will rise to USD 184 million by 2010. By that time, right-heart catheters will only have a market of some USD 60 million (*chart 5*).

Based on a different definition of the area of application of products, PULSION expects that the worldwide market potential for haemodynamic monitoring in 2010 will be in the region of USD 500 million.

Competition in the field of minimally invasive methods

Apart from PULSION's PiCCO, only a small number of other manufacturers have a range of minimally invasive products. The largest competitor is Edwards Lifesciences whose Vigeleo/FloTrac System requires access through an arterial line. As far as PULSION is able to gauge, the interpretability of the readings taken, and the lack of crucial parameters, has so far limited this equipment to being used for monitoring stable patients, particularly in the operating theatre.

Lidco and Deltex are two further competitors, both of which are listed on the Alternative Investment Market (AIM) segment of the London stock exchange.

With PiCCO and CeVOX, PULSION already has a strong position on the relevant European markets (*chart 6*). PULSION intends to increase its market share in the future, particularly in the USA, the BRIC markets (Brazil, Russia, India and China) and Asia.

Of these, the US market is by far the world's largest medical technology market. The fact that minimally invasive methods have previously hardly been available in the USA is an ideal situation for PULSION. The increasing calls in the USA to save costs and to minimise risk make it all the more important for PULSION to engage in this market now.

Strategy

It is PULSION's aim to become the market leader in advanced haemodynamic monitoring - the area specialising in monitoring cardiovascular functions in critically ill patients safely and accurately.

In the period since the 1990s, the company has particularly established a strong market position in Europe in advanced haemodynamic monitoring. PULSION's aim of becoming market leader in this segment in the coming years entails winning a 20% share of the market and generating sales revenues of approximately USD 100 million, or EUR 65 million, by the year 2010.

The following key projects will help PULSION to reach this aim:

- continued modernisation of the product portfolio
- the realignment and internationalisation of the sales and marketing function
- rapid market entry into and development of the market in the USA
- expanding production capacities with greater manufacturing penetration.

Modernisation of the product portfolio

The continuous development of PiCCO technology, culminating in the $PiCCO_2$ monitoring platform, represents a milestone for PULSION.
The great advantage of $PiCCO_2$ – which was presented for the first at the International Symposium on Intensive Care and Emergency Medicine (ISICEM), Europe's largest intensive care congress in Brussels, in March 2007 – is that it offers straightforward, intuitive user guidance made possible by its PC-based technology.

The system's graphic processing has been ergonomically designed. The data and parameters measured by the system are presented as graphic images which can easily be understood and used as the basis for therapy decisions. The integration and combination of various technologies in $PiCCO_2$ has the advantage that it allows the user to collate and map out physiologically related parameters with a single piece of equipment. The overall picture that is created enables medical staff to make decisions more accurately and swiftly.

The $PiCCO_2$ platform technology offers a further major advantage: more parameters can be added at a later stage, with the consequence that other disposable products can also be used. In other words, the equipment will be used more times for each patient, and the number of disposable products used per item of equipment will increase.

Realignment of sales and marketing function

The initial presentation of new medical methods generally requires a science-based marketing approach in order to generate trust and acceptance. As the product gets better known, and the market entry barriers are lowered, marketing strategies must follow classic approaches.

PULSION has gone through the process of realigning its marketing strategy. For example, several clinical studies have been initiated in the USA and in Europe, aimed at demonstrating the economic benefits of using PiCCO technology.

The distribution structure has also been adapted accordingly. Whereas previous products required an extremely high degree of training, the introduction of the $PiCCO_2$ platform means that product training for users can be scaled down to the general basic level of training stipulated by law. In the meantime PULSION has introduced a two-tier sales structure in some markets in order to reach the two various target groups more efficiently: the classic "key accounter" is responsible for primary sales activities with the doctor and/or hospital administration departments.

Clinical application specialists are responsible for carrying out ongoing training courses for nursing staff and, in addition, for doctors. By taking responsibility for clinical tasks and training nursing staff, opportunities for expanding the use of PULSION technologies can be taken as they arise.

This realignment within the marketing and sales function allows employees to specialise more by reducing inefficiency and sharpening the focus within the sales process. Each member of the sales force saves valuable time. In addition, a more optimal approach and better marketing material increase the efficiency of the sales and marketing function.

(7) Modernisation of product portfolio

$PiCCO_2$ vs $PiCCO_{plus}$

– Simple and intuitive operation
– Improved interpretation through better visualisation
– Additional parameters
– Relation between use / space needed
– PC-based platform allows developments

The setting up of an enlarged production facility has greatly improved the production time for the process steps and the throughput time.

Uwe Altendorf Production Manager Disposables

Market entry into and development of the market in the USA

The year 2007 was dominated by the expansion of business in the most important medical technology market in the world, the USA. PULSION's strategy, initially applied in a single cluster on the East Coast, was to implement and then test the marketing concept devised for the US American market, recruiting the first sales and clinical specialists on the way. During the second half of the year, the FDA issued its all-important approval for PiCCO$_2$ enabling the marketing of this product to be commenced.

At the beginning of 2008 we were joined by an experienced specialist with good market connections to take over the post of Senior Vice President Sales & Marketing at PULSION's US subsidiary. He has worked exclusively in the medical technology and pharmaceutical industries for more than 20 years, and has extensive experience with medical product launches and the development and implementation of effective growth strategies on the US market.

Sales coverage will be extended to two further clusters in the first half of 2008. The number of clusters covered will be increased to six during the second half, provided that the targets set for existing clusters have been achieved by then.

New production facility with greater production depth

The strong growth enjoyed by PULSION in recent years has also raised the requirements placed on product availability. There were several good reasons to set up new production facilities near to PULSION's headquarters, but two of them were particularly crucial:

a) Additional security: this is particularly important in the light of the fact that PULSION – due to the volumes involved – only had a single supplier for some of its key production processes.

b) Focus on "design to manufacture": with the development and the production areas next to each other, it will be possible to structure processes more effectively, thereby achieving significant reductions in aggregate production and throughput times.

The decision to set up new production facilities is part of the overall strategy that will enable PULSION to maintain its present gross margin percentage, even in the face of increasing price pressure from the market.

Activities to set up the new production facilities, commenced in August 2007, are making good progress and will be completed during the first half of 2008. Deliveries from the new production site will commence before the end of the year.

Employees

PULSION, and each individual working for it, had to rise to the challenges posed in 2007. All of our employees have proved their readiness to adapt to changing demands. Having said that, the appropriate preparation and support must be provided to enable them to implement changes and develop innovative products. This cannot be achieved simply by increasing the size of the workforce. PULSION will only be able to keep up with the pace of growth if there is a willingness to learn permanently at all levels and within all functions of the business, whether it be production, administration, research and development or sales and marketing.

One key to PULSION's success is its ability to continue this process of learning. The great achievement of the PULSION team in 2007 was to face the growing challenges head-on with commitment and enthusiasm, and to deal pro-actively with the process of change. At the same time, we also increased the team's expertise and know-how with newly recruited staff, particularly in the areas of sales and R&D.

The workforce went up from 136 to 138, whereby the 1 % increase was significantly lower that the increase in sales revenue.

PULSION invested heavily in training measures in 2007 in order to promote and support employee skills. Our employees participated in a total of 72 internal training sessions and in 82 external courses. In addition, a special training programme was created for sales personnel.

In a field such as medical technology, which is driven by innovation and know-how gain, an enterprise's most important assets are its employees. PULSION works hard at enhancing its image as an attractive employer so that it can appeal to first-class employees willing to make a long-term commitment. Without such an approach, the successes of recent years would not have been possible.

PULSION Stock

Underperformance of PULSION stock in 2007 against stock market as a whole does not reflect good progress made in 2007

Development of PULSION stock compared to the Prime Pharma & Healthcare Performance Index and S-DAX (Basis: Xetra index closing price from Jan. 02, 2007 to Dec. 31, 2007)

The price of PULSION stock fell by 1 % in 2007, despite the fact that business developed well, with EBIT up by 21 % and group net income down by 23 %. In the same period, the Prime Pharma & Healthcare sector index rose by 10 %.

One of the reasons for the small market price fall is the generally poor performance of equities with a low volume of capitalisation.

The S-DAX, for example, fell by approximately 11 % in 2007 whereas the DAX itself, covering the 30 companies with the largest capitalisation, increased by approximately 19 %.

After rising steadily to Euro 7.58 during the first six months of the year, the price of PULSION stock fell at an above-average rate in the second half of the year against the background of an onset of adverse conditions on the international financial markets, and was unable to recover before the year-end.

This share price drop did not in any way reflect PULSION's encouraging sales and earnings performance in 2007. Members of the Management and Supervisory Boards therefore took advantage of the situation by buying shares at a price of EUR 5.00.

Better information for investors

Investor relations activities were continued and expanded further in 2007. 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.

In 2007, PULSION made personal presentations in Europe to potential investors at nine roadshows. In addition to quarterly reports, shareholders were also provided with 16 press releases and 7 ad-hoc notifications on important matters relating to the Group in 2007. We have also optimised our investor relations website in the internet.

Corporate Governance Report

PULSION firmly believes in responsible, transparent company management. The Board of Management and the Supervisory Board explicitly welcome the recommendations contained in the Corporate Governance Code, aimed at promoting the trust of shareholders, employees and customers in the governance of German companies. PULSION aims to comply with all the recommendations contained in the 2007 version of the code, provided there are no major reasons not to comply. Following a thorough restructuring of its business processes, PULSION complies at the end of 2007 with all the recommendations of the German Corporate Governance Code, with the exception of the formation of committees within the Supervisory Board.
In December, 2007, the Management Board and the Supervisory Board of PULSION Medical Systems AG signed the Declaration of Compliance with the German Corporate Governance Code – with the exception described above – and posted it on the company's internet site.

Principles of good corporate governance and business conduct

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. The compliance function was developed further in 2007, and integrated more firmly within the company.

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 on pages 36-42, 69-77 and 82-84 of this annual report.

Key data on PULSION stock at December 31, 2007

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	9,577,302 EUR
Bearer shares	9,577,302
Closing market price 2006*	5.68 EUR
Closing market price 2007*	5.60 EUR
Highest price (52 weeks)*	7.58 EUR
Lowest price (52 weeks)*	4.65 EUR
Market capitalisation (December 31, 2007)*	53.6 Mio. EUR
Earnings per share (diluted)	0.26 EUR

*Xetra index closing price

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Consolidated Financial Statements (IFRS) of PULSION Medical Systems AG as of December 31, 2007

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Report of the Supervisory Board

Dear Shareholders,

I am delighted to be able to report to you on another highly successful year for PULSION Medical Systems AG. Group sales revenue rose by 16 %, while the EBIT margin improved from 14 % to 15 %. This means that the target of at least € 4.0 million set for Group EBIT was marginally exceeded. The sales revenue growth rate was just below the targeted level of 20 %.

The Supervisory Board believes that the Group made some good structural improvements in 2007:

- In the sales area, numerous organisational and personnel changes have been implemented to ensure that PULSION is ready to cope with the planned acceleration in growth; as part of this process, one further group entity became 100 % subsidiary and was fully integrated into the sales organisation.
- Many processes have been reviewed and optimised across the Group to make it faster and more efficient. This was also seen as a way of reducing potential risks that could arise as a result of the planned growth. In this context, the proportion of own added value has been increased in the area of catheter production.
- The Group's key product, PiCCO, has been replaced by a new product generation which is now based on PC technology and is expected to increase market acceptance, particularly outside Germany. Based on our own critical evaluation of the situation, PULSION lost its advantage over the competition in the area of monitor technology over the past two to three years. We firmly believe, however, that we have regained that advantage with the introduction of PiCCO$_2$.

Overall, PULSION has therefore been able to extend its advantage over its competitors in the area of advanced haemodynamic monitoring and remains the indisputable market leader in this sector. We are thus confident that 2008 will see us reaping the benefits of the above-described measures and delivering growth of at least 20 %.

This progress has only been possible because the entire workforce has, under the leadership of the Management Board, risen to the challenges created by the "PULSION 100" strategy and coped admirably with the ensuing changes. I would therefore like to take this opportunity to thank all employees myself, and on behalf of the shareholders.

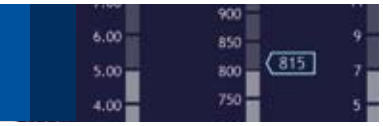
In the following section, I would like to report briefly on the work of the Supervisory Board to enable you to see how we, as your elected representatives, have acted in your interests during the year.

1. Focus of the Supervisory Board's deliberations

1.1 "PULSION 100" strategy

In 2005, the Supervisory Board, together with the Management Board, drew up the "PULSION 100" strategy and adopted this as the basis for PULSION's targets for the years 2006 – 2010. This strategy was devised against the background that the global market for haemodynamic monitoring was worth some USD 250 million in 2005, and is growing by approximately 15 % p.a. This means that by 2010 the market value will be in the region of USD 500 million.

Back in 2005, PULSION had a 5 – 7 % share of the market as a whole. We believe that this level of market share is insufficient to gain acceptance in the medical world and to do well in the long term against significantly larger competitors. The competitive edge provided by a good product will erode over time, and what ultimately counts is having a high market share. Based on this thinking, we are targeting a market share of 20 % by 2010, which, arithmetically, would translate into sales revenue of USD 100 million for PULSION – hence the strategy name "PULSION 100".



We were equally convinced that it should be possible to achieve a 20% return on sales with such a market share since the targeted growth would result in considerable economies of scale. Experience shows that a business model based on the razor-razorblade principle is a good foundation for high margins. We therefore plan for costs to rise at a slower rate than sales revenue, thus enabling the return on sales to rise to up to 20%.

Having missed our growth target for 2007, the target of USD 100 million (EUR 65 million) for the year 2010 appears ambitious. The Management Board and the workforce are nevertheless fully committed to this target, and are currently working on a package of measures that will enable PULSION to attain its objective.

We continue to believe that a return on sales target of approximately 20% by 2010 is realistic.

1.2 Negative budget variance recorded for European business

In two meetings, the Supervisory Board addressed the reasons for the negative budget variance for sales revenue generated with the Group's core business in Europe. We concluded that the reasons are basically self-inflicted, in particular due to the product change from PiCCO to $PiCCO_2$ and the numerous organisational measures in sales.

We saw no indication that PULSION's business has any structural weaknesses, compared with the competition, or that it is losing ground in the market.

If this diagnosis is correct, growth will accelerate again in 2008, as $PiCCO_2$ and the newly structured sales function should be making a positive impact by then. We are confident that sales revenue growth will again be within our medium-term corridor of 20 – 30%.

1.3 Phase II of commercialisation in the USA

This issue was on the agenda several times: on the one hand, it is essential to engage in the US market in order to achieve the target of a 20% market share by 2010. On the other hand, PULSION lost more than EUR 5 million in the USA in the period 2000 – 2003, and effectively withdrew from the market altogether. With this in mind, risk limitation was right at the top of the priority list in the context of our second attempt.

In the light of positive test market results, we decided to expand sales activities to other regions in the USA. We believe that the approach taken avoids some major pitfalls, primarily by

- focusing expenditure on the intensive care market, where PULSION enjoys the best competitive advantages for its size
- continuing to use the existing PiCCO installations already in place with Philips systems
- establishing small, highly qualified sales organisations with a clear focus on university clinics and opinion-makers
- substantiating the medical benefits of PULSION's products by means of US-based clinical studies with clearly defined conclusions.

1.4 PULSION presence in key regional markets by 2012

The Supervisory Board and Management Board also discussed how PULSION is preparing for rapid growth on various emerging markets. PULSION is now benefiting from the fact that, 5 – 10 years ago, it set up a number of joint ventures with well-connected local partners in markets outside Germany.

This strategy must now be applied to the emerging markets so that the foundation can be laid for a significant contribution to group sales revenue by 2012. The first decisions have been taken in this direction.

1.5 The R & D pipeline

At two meetings, the Supervisory Board took a close look at PULSION's development pipeline, in other words specific projects and products still at the pre-development

stage. The purpose of our review was to ensure that there will be a continuous flow of product improvements and genuine product innovations in the coming years.

Unlike in the first 10 years of PULSION's existence, however, we are careful to direct resources to the core area of advanced haemodynamic monitoring. CeVOX is a good example of such an innovation, broadening our product spectrum in this area and thereby enhancing PULSION's expertise and brand-name.

2. Due process

During the financial year 2007, the Supervisory Board carried out all its tasks in accordance with the law, company statutes and its own terms of reference, and assured itself of the proper governance of the company by executive management. It monitored the activities of the Management Board on a regular basis and stood by it in an advisory capacity.

In all, 10 meetings were held, of which 6 were attended in person and 4 were telephone conferences. The Supervisory Board was directly involved in decisions of fundamental importance to the enterprise. Any business transactions requiring approval were examined, discussed and authorised by the Supervisory Board.

As Chairman of the Supervisory Board, I was also in regular contact with the Management Board at other times to discuss major issues and forthcoming decisions.

3. Corporate governance

The Supervisory Board examined how corporate governance principles could be further developed within the enterprise. PULSION remains intent on complying with all of the recommendations of the current version of the German Corporate Code, unless major reasons dictate otherwise.

In December 2007, the Management Board and Supervisory Board issued a revised Declaration of Compliance, stating that all of the recommendations contained in the most recent version of the Code June 14, 2007 are being complied with, with the exception of the establishment of committees. We believe this requirement to be impractical in the case of a Supervisory Board comprising three persons.

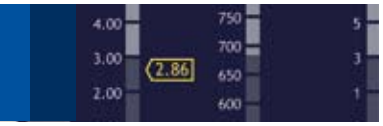
I firmly believe that taking an active interest in the well-being of the company is at least as important as complying with the formal aspects of corporate governance. A Supervisory Board that merely carries out the formalities, but is made up of members primarily interested in their own remuneration is only fulfilling its duties on paper.

I think that PULSION Medical Systems AG's Supervisory Board has proved its commitment over many years, holding many meetings to discuss in depth the issues that are crucial to the company's future development.

4. Audit of the annual and consolidated financial statements

The consolidated financial statements have been drawn up 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 11, 2008, the relevant documents were discussed in detail following the report of the auditors, and in the presence of the auditors.



The Supervisory Board examined the annual financial statements and company management report, the proposed appropriation of results, as well as the consolidated financial statements and group management report. No objections were raised. At the meeting on March 11, 2008, the Supervisory Board concurred with the results of the external audit. The annual and consolidated financial statements prepared by the Management Board are thus approved and the annual financial statements adopted in accordance with § 172 AktG (German Stock Corporation Act). The Supervisory Board agrees with the management report and the assessment of the enterprise's position and future development presented therein.

5. Increasing the value of the business

5.1 Creating value on capital employed

PULSION has not paid a dividend since its initial public offering in 2001. Its representative bodies are again proposing that the profit for 2007 be retained. The Management Board and Supervisory Board must therefore face the question from time to time whether sufficient value is generated for the shareholders with the funds retained.

In theory, a company should retain profits if those funds can be reinvested at a rate of return that the shareholder cannot normally generate directly, and that is higher than the shareholder's cost of capital. In my opinion, PULSION satisfies both of these criteria:

a) Property, plant and equipment required for the business amounted to approximately EUR 8.4 million at December 31, 2007. Net current assets required for the business (inventories plus receivables minus trade creditors) amounted to approximately EUR 8.0 million, in total therefore approximately EUR 16.4 million.
b) The EBIT in 2007 was EUR 4.1 million, giving a pre-tax rate of return on capital employed of 25 %. In my opinion, PULSION is therefore in the top 25 % of all stock exchange listed German companies.

As a shareholder, you can rest assured that PULSION is creating added value on your behalf. The return on capital employed is well above the cost of capital and any interest rate that you, as shareholder, can normally earn.

If we are able to use the profits generated to finance growth at comparable rates of return, we should do, so and continue to retain profits within the company. As soon as the company can achieve this with lower levels of funding, the two boards will reconsider the situation and distribute excess funds to you in a suitable manner.

5.2 Value increase in 2007

The Management Board and Supervisory Board agree that the best way to increase value on behalf of the shareholders is to increase earnings and rates of return. On top of this, an increase in value is also to be achieved by improving the structure of the balance sheet, in particular by reducing net financial liabilities.

Based on this measure, we have significantly increased the intrinsic value of PULSION in 2007

a) the operating profit was up by 21 %.
b) the net balance of cash at bank and financial liabilities (liabilities to banks, non-current debt and lease liabilities) improved by approximately EUR 1.5 million.

If PULSION were not listed, we, as owners, would probably conclude that the business is 20 – 25 % more valuable than at the end of 2006. This is also my own personal view of things for the financial year 2007.

In actual fact, PULSION's share price fell by 1% in 2007. Experience shows that the financial markets often tend towards share price under or over-valuations. In the medium to long term, however, it is probable that the share price will move towards its intrinsic value. We at PULSION will therefore continue to work at raising that intrinsic value.

We will not attempt to increase the share price in the short term through marketing or public relation activities, since we believe that this approach ultimately does more damage than good.

6. Risk management

The Supervisory Board addressed the issue of PULSION's risk management system at two meetings during 2007, and interviewed the members of the risk team in the second tier of management.

We were not made aware of any major weaknesses in the system. The Management Board has informed us that one limited risk, highlighted during the course of these meetings, has since then been eliminated.

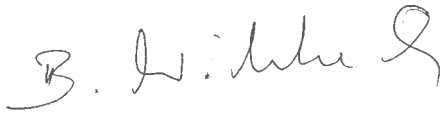
7. Changes in the Management Board

The Management Board member, Stefan Land, who was responsible for finance and administration, left PULSION with effect from August 31, 2007. He performed valuable services on behalf of the company during some difficult times, and we wish him well in his new position.

In January 2008, we signed a contract with a successor and hope to be able to present him in person at the next Annual General Meeting. We believe that he will be an excellent addition to the Management Board team and will add impetus in the area of project work, in particular the improvement of internal processes and the roll-out of those improvement to all subsidiaries.

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 2007. I hope that they will be able to reap the benefits of the numerous measures in 2008 that they have initiated in 2007 – hard work is always easier when you can see the rewards of success!

Munich, March 11, 2008
On behalf of the Supervisory Board



Dr. Burkhard Wittek
Chairman

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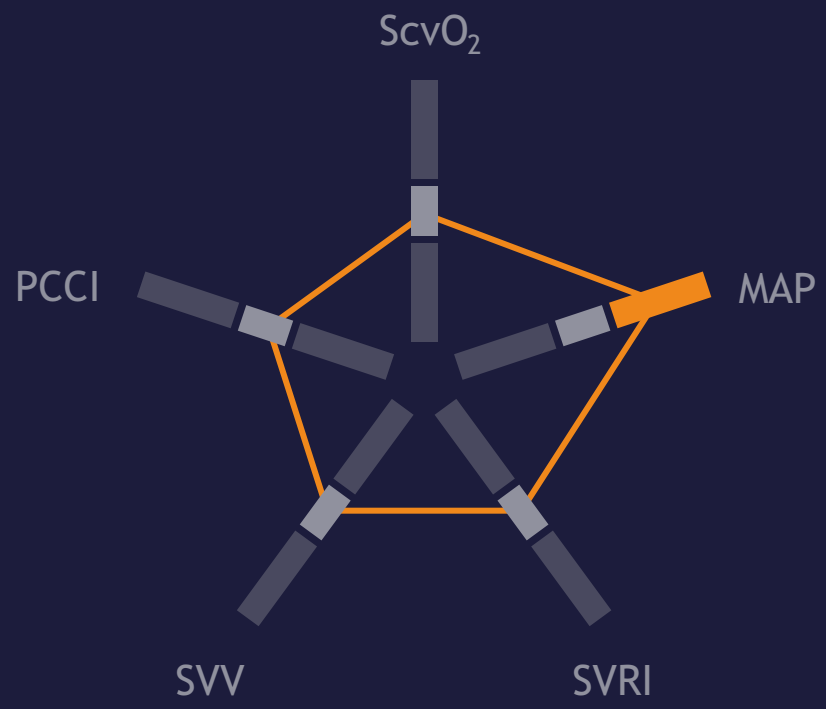


Group Management Report

A Review of the Financial Year

Summary

- Group revenues up by 16 %, EBIT up by 21 %
- Earnings per share decrease by 24 % to 26 cents
- Successful market launch of the new product generation PiCCO$_2$
- PiCCO and CeVOX licensed to DIXTAL
- Letter of intent for PiCCO license signed with GE Healthcare
- CE and US (FDA) approval received for PiCCO$_2$
- US approval received for ICG-PULSION

PULSION Medical Systems AG (PULSION) was again able to increase revenues during the past financial year.

Group sales increased in 2007 by 16 % from EUR 24.5 million to EUR 28.3 million, with the whole of the increase achieved through organic growth.

At the same time, PULSION was able to increase profitability at a faster rate than sales revenue. The profit before interest and taxes (EBIT) increased during the period under report to EUR 4.1 million (+21%) and the EBIT margin climbed from 13.9 % to 14.6 %. Group net profit after minority interests fell by 23 % to EUR 2.5 million (2006: EUR 3.3 million), whilst earnings per share decreased to 26 cents (-24 %).

The presentation, receipt of approval (in the CE region and the USA) and launch of the PiCCO$_2$ platform on the markets represent an important milestone for PULSION on its way towards becoming the leader in the advanced haemodynamic monitoring of critically ill patients.

In 2007, PULSION signed a licensing agreement with DIXTAL, the market leader in the area of multiparameter patient monitoring in Brazil. Under the terms of the licensing agreement, DIXTAL will proceed to integrate the PiCCO and CeVOX technologies into its own patient monitoring systems. In addition, a letter of intent was also signed with GE Healthcare, the world's leading provider of med-tech products, with the aim of integrating PiCCO technology into its own patient monitoring systems.

ICG-PULSION was given US approval, thus enabling us to bring a longstanding project to a successful conclusion. The first deliveries of ICG to the USA took place in December 2007.

Capital expenditure for the year totalling EUR 3.9 million (2006: EUR 2.9 million), enabled PULSION to make good progress with a number of major projects which will help to maintain and secure future growth.

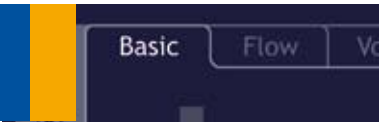
Net financial liabilities were reduced by EUR 1.5 million (64 %) in 2007. Including short-term deposits, liquidity improved from EUR 5.2 million at the end of the previous year to EUR 7.0 million at December 31, 2007.

Group structure

Stability as foundation for future growth

The PULSION Group reporting entity remained unchanged in 2007. The investment in PULSION Medical Systems Iberica S.L., Spain, was increased from 60 % to 100 % and the investment in PULSION Pacific Pty. Ltd. was increased from 51% to 58 % following a capital reduction at that entity.

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 PULSION's products in the corresponding market segments:



PULSION Medical Systems AG, Germany			
PULSION Medical Inc., USA	100 %	100 %	PULSION France S.A.R.L., France
PULSION Pacific Pty. Ltd., Australia	58 %	100 %	PULSION Benelux N.V., Belgium
PULSION Medical Systems Iberica S.L., Spain	100 %	51 %	PULSION Medical UK Ltd., United Kingdom

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. Winding-up proceedings are expected to be completed during the first quarter of 2008.

Financial Report

General and sector business environment

The global economy continued to grow strongly in 2007. The Projektgruppe Gemeinschaftsdiagnose (joint report by a group of leading economic research institutes in Germany) forecasts that the gross domestic product will increase worldwide by 3.2 % in 2007. The rate of growth of emerging markets, which was already running at a high level, even accelerated in 2007, particularly in the Asian region and most noticeably in China.

Growth in the world's industrial countries in 2007 was also at a level not seen for many years. Germany itself registered a growth of 2.6 – 2.8 %, and was thus able to achieve a sustainable reduction in unemployment figures for the first time in many years.

The general economic environment in 2007 was therefore as good as it has been for a long time for PULSION and helped to create "tailwind" for the business. That having been said, there is some doubt as to whether that tailwind will be maintained in 2008 and thereafter.

The healthcare sector in general – and the medical technology sector in particular – are growth markets the world over. The global market for medical technology was worth approximately EUR 184 billion in 2004 and is growing continuously. Medical advances, demographic changes 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 Critical Care line of business are aimed at the advanced haemodynamic monitoring market. It is calculated that the American and Western European markets taken together account for up to 70 % of the world market. The latter is estimated to be worth up to USD 240 million in 2008 compared with USD 210 million in 2007. The potential size of this market worldwide for 2010 is estimated by the sources quoted to grow to up USD 500 million (sources: The BBI Newsletter, edition 28, no. 5, February 2005; Millennium Research, Toronto: Critical Care Patient Monitoring Devices 2006/2007).

Organisation

In order to achieve its core goal in the medium term, namely to achieve leadership in the advanced haemodynamic monitoring market, PULSION is having to focus very clearly on developing the Group's worldwide organisation. 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 only possible to minimise inefficiency, reduce the potential to make mistakes and achieve growth on a long-term profitable basis if an efficient organisational structure is in place which can spread the workload over experienced shoulders and, if the organization is tailored towards meeting customer needs.

The organisational structure at the headquarters in Munich was further adapted and expanded in response to the growth generated in both Germany and abroad. The marketing, sales and production functions were all strengthened, with sector specialists added to the various teams.

During the coming year, PULSION will continue to focus on this ongoing process of adaptation and improvement, particularly with its sales activities in the USA and in the area of production.

The existing majority shareholdings in the group's international sales companies are being successively increased. In the past year, the minority shareholder's shares in PULSION Medical Systems Iberica S.L., Spain, were all acquired and the shareholding in PULSION Pacific Pty. Ltd., Australia, increased from 51% to 58%. It is considered that both of these measures will help to strengthen PULSION's sales position locally.

Revenue trends

PULSION reports sales of EUR 28.3 million for the financial year 2007, an increase of 16% over the previous year. Due to the length of time between the announcement of the new product PiCCO$_2$ and the first delivery of that product, the sales performance fell short of the targeted growth corridor of 20–30%, which PULSION had previously communicated to the markets.

Lines of business

PULSION's *Critical Care* line of business failed to achieve its growth target for the financial year 2007. Sales increased by 10% on a year-on-year comparison and totalled EUR 23.5 million in 2007 (2006: EUR 21.3 million).

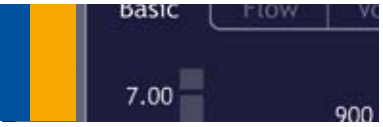
Revenues generated by the sale of monitors (PiCCO, CeVOX, LiMON) rose by 5% to EUR 5.4 million (2006: EUR 5.1 million). The installed base of PiCCO monitors – in other words the total number of all monitors sold or loaned out – increased worldwide by 626 units to stand at 5,256 monitors at December 31, 2007 (+14%).

Furthermore, the number of PiCCO modules placed on the market via PULSION's strategic sales partners (Philips Medical Systems and Dräger Medical), increased by 1,666 units to stand at 10,529 modules (+19%) at the end of 2007.

Sales of critical care disposable products – comprising mainly catheter kits, probes and ICG-PULSION in conjunction with LiMON– were adversely affected by the product changeover to the new PiCCO$_2$ platform. Sales of disposable products therefore only increased by 12% to EUR 18.1 million (2006: EUR 16.2 million). In volume terms, just over 108,000 application kits (catheters and probes) were sold in 2007, 14% more than in the previous year.

During 2007, PULSION restructured its sales function and continued to work on product improvements. These measures, together with the fact that PiCCO$_2$ technology is now fully available, will provide momentum for increased growth rates in this line of business from 2008 onwards.

in EUR million		2007	2006	Deviation
Monitors	Critical Care	5.4	5.1	5%
	Pharma	0.0	0.1	–89%
Disposables	Critical Care	18.1	16.2	12%
	Pharma	4.8	3.1	56%
Subtotal	Critical Care	23.5	21.3	10%
Subtotal	Pharma	4.8	3.1	52%
Total		**28.3**	**24.5**	**16%**



The PULSION *Pharma* line of business is focused on products and activities relating to the diagnosis and therapy management of organ and tissue perfusion in fields such as ophthalmology, surgery and hepatology. The main aspect of this line of business is the graphic depiction and measurement of tissue perfusion with the aid of the drug, indocyanine green (ICG-PULSION).

Sales generated by this line of business jumped by 52 % to EUR 4.8 million in 2007. This increased the sale of disposable products (ICG-PULSION) which rose by 56 % to EUR 4.8 million.

Receipt of the US approval for ICG-PULSION in the fourth quarter of 2007 will provide the impetus for faster growth in the coming year. Greater market penetration will also be achieved in Europe with the aid of further approvals.

Regions

The core region of PULSION's sales activities continued to be Europe, where 87 % of total sales (EUR 24.5 million) were generated. The growth rate for the core European region in 2007 was 9 %. The so-called DACH region (Germany, Austria and Switzerland), with sales of EUR 13.1 million (+12 % compared to 2006) remained PULSION's strongest market.

in EUR million	2007	2006	Deviation
DACH*	13.1	11.7	12 %
Europa (excluding DACH)	11.4	10.7	7 %
USA	1.7	0.3	547 %
Australia-Pacific	0.9	0.7	19 %
Other	1.1	1.1	6 %
Total	**28.3**	**24.5**	**16 %**

* Germany, Austria, Switzerland

Sales generated in the USA went up from EUR 1.4 million in 2006 to EUR 1.7 million in 2007. This includes EUR 1.3 million generated in the fourth quarter of 2007 following the start of ICG marketing in the USA.

Following the start of active sales of $PiCCO_2$ in one cluster (restricted sales area) on the East Coast of the USA, PULSION was able to set up a number of test placements at leading clinics and hospitals. PULSION believes that the addition of further clusters in the USA, as well as the receipt of the US approval for $PiCCO_2$ in October and for ICG-PULSION in November, will help to maintain this rapid rate of growth in 2008.

Sales generated in Australia rose by 19 % to EUR 0.9 million on a year-on-year basis. Sales generated with dealers outside Europe (Other) increased by only 6 % to EUR 1.1 million.

Earnings performance

The gross profit in the financial year 2007 increased from EUR 18.4 million to EUR 20.5 million, whilst the gross profit percentage slipped from 75 % to 73 % primarily as a result of the changed sales mix, lower margins on monitor sales due to the introduction of $PiCCO_2$, and the pronounced increase of sales revenue generated in the USA where even lower margins have so far been achieved. It is planned that a further reduction in the production cost of disposable products, and more efficient serial production of monitors, should reduce the cost of sales in 2008 and therefore stabilize the gross profit percentage.

Fixed costs increased compared to the previous year. 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 14.4 million (+13 %). PULSION invested heavily in 2007, in particular in the area of sales and marketing with a view to strengthening the organisational structure so that sustainable growth can be achieved.

Spending on research and development in 2007 totalled EUR 2.0 million and was therefore slightly lower than in the previous year's figure of EUR 2.2 million. This was partly due to lower expense incurred for clinical studies.

The profit before interest and taxes (EBIT) for the financial year 2007 improved by 21% to EUR 4.1 million (2006: EUR 3.4 million). Profit before taxes (EBT) developed even more positively because of the improved net interest result rising from EUR 3.3 million in 2006 to EUR 4.0 million in 2007 (+25 %).

The net profit for the group (attributable to shareholders of PULSION Medical Systems AG) was EUR 2.5 million, reflecting a higher tax expense due to the fact that the tax losses available for carryforward in Germany have now been fully utilized. The net profit was 23 % down on the previous year. Earnings per share before minority interests (diluted) therefore decreased from 34 cents to 26 cents.

Key performance indicators:

Indicator	Basis of computation	2007	2006
Return on sales	Group net profit / group sales	8.9 %	13.3 %
Return on equity	Group net profit / average equity	16.2 %	25.7 %
Return on total capital	Group net profit / average total capital*	10.1 %	15.3 %

* Total capital employed = balance sheet total

The return on sales, the return on equity and the return on total capital were all down as result of tax expense factors.

Assets, liabilities and financial position

Financial performance indicators

PULSION's solid balance sheet structure was further optimised and strengthened in 2007. The consolidated balance sheet total (total assets/total capital employed) amounted to EUR 26.8 million at December 31, 2007, up by 18 % compared to one year earlier (EUR 22.7 million).

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

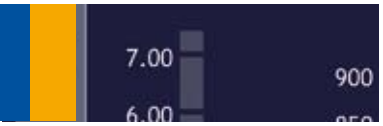
Indicator	Basis of computation	Units	2007	2006	Change
Days of Sales Outstanding	Trade accounts receivable x 360 days / Group sale	days	74	66	13 %
Inventory turnover	Cost of sales / Average level of inventories		2.0	2.0	0 %
Net financial liabilities	Liabilities subject to interest less cash and cash equivalents (cash at bank and in hand and available-for-sale financial assets)	EUR m.	–3.7	–2.2	64 %
Equity ratio	Equity / Balance sheet total	%	64	64	0 %
Fixed assets coverage	Shareholders' equity / Fixed assets		2.0	2.0	–1 %
Liquid funds*	Cash on hand and at bank and available-for-sale financial assets	EUR m.	7.0	5.2	34 %
Net working capital	Current assets less liquid funds and less current liabilities	EUR m.	3.6	2.6	36 %

*including pledged cash of EUR 0.3 million (2006: EUR 0.3 million)

On the assets side of the balance sheet, non-current assets increased during the financial year 2007 from EUR 9.2 million to EUR 9.4 million (+3 %). Intangible assets (mostly relating to approvals, patents and product development) increased by EUR 0.9 million, trade accounts receivable edged up by EUR 0.1 million and property, plant and equipment went up by EUR 0.5 million. By contrast, deferred tax assets decreased by EUR 1.1 million.

Current trade accounts receivable rose by 30 % from EUR 4.2 million to EUR 5.5 million, mainly as a result of the increase in sales revenue.

During the same period, inventories were increased from EUR 3.5 million to EUR 4.2 million (+21%), partly to meet higher sales volumes and partly to reduce supply risks.



Cash funds (including available-for-sale financial assets) increased, reflecting the growth in business and the increase in borrowing, with loans increasing from EUR 5.2 million at the beginning of the year to EUR 7.0 million at the year-end (+34 %). At December 31, 2007, EUR 0.3 million (December 31, 2006: EUR 0.3 million) of the cash and cash equivalents, held in accounts of the Group, remained pledged. Theses pledges relate to guarantees for office/building rental contracts and for the Spanish subsidiary.

Other current assets and tax receivables increased overall by EUR 0.1 million to EUR 0.7 million.
On the equity and liabilities side of the balance sheet, provisions and liabilities increased by EUR 1.7 million (+21%) to stand at EUR 9.8 million at the end of the year (December 31, 2006: EUR 8.1 million). This was largely due to new loans taken up. Lease liabilities and financial debt decreased by EUR 0.5 million and EUR 0.2 million respectively, whereas trade account receivables and liabilities to banks increased overall by EUR 1.7 million.

Other liabilities and provisions were EUR 0.6 million higher than one year earlier.
Minority interests decreased marginally to EUR 0.3 million (-9 %).

As a result of the profit recorded for 2007 and stock options exercised during the year, equity rose again to stand at EUR 17.1 million at the year-end (December 31, 2006: EUR 14.6 million). The equity ratio was unchanged at 64 %.

A deferred tax expense was recorded in 2007 since all tax losses available for carryforward at the level of the parent company have been utilised. Deferred taxes recognised in the previous year in conjunction with impairment losses on investments in subsidiaries, were reallocated in the light of the assessed ability to utilize tax losses available for carryforward.

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, was increased from EUR 3.2 million in the previous year to EUR 4.5 million in 2007.

The cash outflow for investing activities in 2007 totalled EUR 3.2 million and increased therefore by EUR 0.8 million (+32 %) compared to the previous year. This was attributable to increased capital expenditure on monitors and work relating to the new production building.

The cash outflow for financing activities in 2006 was turned round to a cash inflow of EUR 0.4 million in 2007. This change was attributable to lower repayments of bank loans and financial debt on the one hand, and the proceeds of a new non-current loan (EUR 1.1 million) to finance activities relating to a new production site on the other hand.

Adjusted for the cash-relevant change in cash funds, PULSION's liquidity pursuant to IAS 7 – including available-for-sale financial assets – rose from EUR 5.2 million at the end of 2006 to EUR 7.0 million at December 31, 2007 (+34 %).

Non-financial performance indicators

In 2007, 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").

Capital expenditure

Total capital expenditure in 2007 amounted to EUR 3.9 million and therefore remained at a high level (2006: EUR 2.9 million).

Capital expenditure related to the following:

- EUR 2.0 million was invested in monitors.
- EUR 1.1 million was invested in intangible assets including
  - EUR 0.5 million to expand approval coverage of ICG-PULSION (Europe and USA) and
  - EUR 0.6 million to obtain patents and on product development and software.

- EUR 0.8 million was invested in technical equipment, plant and machinery as well as other equipment, furniture and fixtures, including EUR 0.5 million already spent in conjunction with the new production site.

The capital expenditure ratio (i.e. the ratio of capital expenditure to group sales) was 14% (2006: 12%). This comparatively high ratio is intended on the one hand to safeguard and extend PULSION's competitive lead and, on the other hand to lay the foundation for future growth.

Internationalisation – USA

The American market is a key region for future growth and therefore of key strategic significance in the most important target set by PULSION – namely to achieve leadership in the advanced haemodynamic monitoring market.

In 2007, PULSION ramped up its activities in this market, starting sales in the first quarter of 2007 with a small team in a single initial cluster. Numerous test placements were set up with renowned opinion leaders and relationships with customers from the past reactivated. As a consequence the number of PiCCO disposable products sold increased sharply.

As a result of the receipt of the US approval for the new $PiCCO_2$ platform and for ICG-PULSION during the fourth quarter of 2007, a further significant sales surge in the USA is now planned for 2008, whereby the cluster strategy will be gradually extended.

Purchasing, production, logistics

PULSION's core areas of expertise are product development, the design of key production processes and the marketing of new technologies.

The process of creating new production facilities for PULSION's disposable products was commenced in 2007 in response to the expanded volume of business and as part of its long-term strategy. The first deliveries from the new production site will be made at some stage during the financial year 2008. Capital expenditure on the new site in Munich will cut the manufacturing cost of disposable products, improve flexibility, reduce dependence on suppliers and bring down the amount of capital employed to fund inventories. These investments also ensure that PULSION has sufficient production capacity headroom for future growth. By contrast, the production depth for monitors was scaled down in 2007 because the required volumes in this area are too small and can be met in the future by a single production partner.

In conjunction with the changes in production, PULSION will also continue to standardise logistics and purchasing processes. This will help to improve product availability even more, while throughput times are reduced.

An efficient network of longstanding suppliers and partners 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.

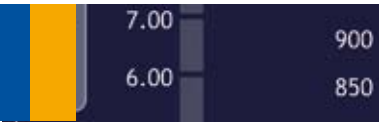
Personnel development

PULSION's profitable growth has been achieved primarily thanks to the dedication of its employees who have risen to the challenges posed by the necessary changes. Volume growth, quality assurance and technological advances will continue to require ongoing alignment of personnel capacities and the continuous development of know-how with the production, administration, R&D and sales and marketing functions.

The company continued to invest in staff training in 2007 to enable PULSION's employees to handle all of the demands placed on them. In parallel, experienced staff were also recruited for the sales and marketing and R&D functions.

In addition, a performance-related compensation scheme in place across the Group and the stock option programme are both intended to tie in the workforce to the Group and to leverage further potential.

The Group employed a workforce of 138 people at the end of the year (2006: 136), an increase of 1%. The average number of employees increased to 141 (2006: 130). The qualitative build-up of human resources in conjunction with organisational restructuring, in particular in the area of sales and marketing, is reflected in the fact that personnel expense increased by 19% to EUR 9.6 million (2006: EUR 8.1 million).



Environmental care and quality management

PULSION's quality management system was again certified by Dekra ITS Certification Services GmbH in 2007 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.

PULSION's quality management system complies with the requirements of the US agency, the FDA, which carried out an audit at PULSION for the first time in 2007. This audit was completed without any objections being raised by the FDA. In addition, PULSION's quality management system also complies with the Canadian approval directives CM DC AS.

PULSION complies with all relevant environmental care regulations and also endeavours at all times to reduce or optimise energy consumption and waste. Neither the production process, nor the products themselves, pose any direct or indirect risks to the environment.

Corporate governance

PULSION is committed to responsible corporate governance and takes a long-term approach to value creation. By a combination of efficient cooperation between the Management and Supervisory Boards, and open and timely communication in general, PULSION actively reinforces the trust placed in it by investors, customers, employees, 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-based variable component. The variable component is determined, to a large extent, on the basis of changes in reported sales and earnings for each year and, to a lesser extent, on the basis of individual targets. As a long-term incentive, Management Board members also receive options on PULSION stock in conjunction with the existing stock option programmes. Full details of the remuneration of Management Board members, analysed by individual, are provided in the notes to the consolidated financial statements.

In 2007, PULSION again based its approach to corporate governance of the principles set out in the German Corporate Governance Code, as updated on June 14, 2007. PULSION complied with all of the recommendations of this code in 2007 with the exception of the creation of committees within the Supervisory Board. Due to the fact that the Supervisory Board comprises only three members, it does not consider that this recommendation makes sense in PULSION's case.

The most recent Declaration of Compliance of the Management Board and the Supervisory Board was issued on December 14, 2007 and is available on the company's website at the address www.PULSION.com.

Research and Development Report

Research and development activities

Research and development (R&D) is one of the mainstays of PULSION's business strategy and is a prerequisite for PULSION's target of attaining leadership in advanced haemodynamic monitoring in the near future. For this reason, the R&D function was restructured and significantly strengthened in 2006. In 2007, only a small number of targeted enhancements were made.

The key project – the development of PiCCO$_2$ – was carried out in 2007 largely in line with schedule, thanks to effective organisation, a strict focus on core areas of expertise and PULSION's highly motivated workforce. The new product platform was presented in March and CE approval received in August, after which it was possible to commence the process of supplying customers.

PiCCO$_2$ offers a general overview, as well as detailed insights into the different aspects of the cardiovascular system through a combination of different technologies, thereby enabling the attending physician and nursing staff to make prompt and accurate diagnoses and better therapeutic decisions. The ease of use and the new ergonomic data visualisation enable both the physician and nursing staff to utilise the full range of features and functions very flexibly, quickly and easily.

Whereas capital expenditure in this area increased, the expense recognized in the income statement for research and development costs was reduced marginally from EUR 2.2 million in 2006 to EUR 2.0 million in 2007. This was partly due to the lower level of costs incurred for clinical studies.

Patents and approvals

At the end of 2007, PULSION has 156 national patents (2006: 151) at its disposal in various countries. This comprised 121 patents held by PULSION and 35 patent rights licensed to PULSION. In addition, PULSION is currently in the process of applying for a further 323 patents (2006: 375) in various countries. The patents and patent applications relate to 43 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 28 (2006: 22) registered trade names which are either already in force or have been applied for.

PULSION was successfully able to conclude several major approval proceedings in 2007. In particular, the CE label and US approval were received for the new PiCCO$_2$ platform. The FDA issued its approval for ICG-PULSION in November.

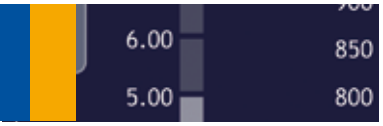
Risk Report

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 recognise economic opportunities and make the best possible use of them; on the other hand, they must be able to identify the risks accompanying every business activity, analyse the effects they may have on the enterprise and, as far as possible, use 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 established an early warning system which enables potential threats to the going-concern status to be identified by measuring existing risks.

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. PULSION's risk management manual, which is continually revised to take account of internal and external changes, provides staff with a tool for



identifying and correctly evaluating potential damage and the probability of occurrence. 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.

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 provides the basis for variance analysis.

Market and competition

Developments in the MedTech and Life Science sectors are generally subject to a high degree of technological change. In the light of this market segment's attractiveness and the needs of the market, 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 or improved 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 (see section on R&D activities) and improving patent protection on the one hand, and by permanently observing the market via intermediary organisations and networks on the other. Last but not least, it is also engaged in a continuous process of optimising manufacturing costs.

Product liability risk

Product liability has always represented a substantial risk for enterprises in the MedTech and Life Science sector since products can, in the worst case, cause physical damage or injury to patients which, in turn, can result in substantial product liability claims.

PULSION counters this risk with a comprehensive Total Quality Management (TQM) system to ensure the highest standards of safety and product quality. A product liability insurance policy with international coverage for substantial amounts is in place. No material claims relating to product warranty have been brought against PULSION to date. It can, of course, not be ruled out that PULSION will have to face such claims in the future, and that the amounts involved could exceed insured amounts. The fact that ICG-PULSION has been on sale in the USA since the fourth quarter of 2007 increases the Group's risk exposure. The insurance coverage will therefore be increased appropriately in 2008.

Growth and financing

In the light of the further growth 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.

PULSION addresses this risk with a very detailed forecasting and control system, which compares actual and budget figures on a weekly and monthly basis so that variances can be identified at an early stage and counter measures taken.

Product 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 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 level of PULSION's revenues and earnings and could result in an impairment of capitalised development costs.

PULSION works together continuously 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 has so far kept production depth to a low level, it has been necessary to buy 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. This exposes PULSION to risks should individual major suppliers be lost.

The Group maintains a high level of inventory of key components and materials to enable it to make alternative supply arrangements in the case that a supplier fails to deliver.

In order to reduce risks further, PULSION has increased the proportion of its own added value to key products by investing in its own production facilities. This process will be completed in 2008.

Financial risks

PULSION has an equity ratio of 64 % at December 31, 2007. Unpledged cash and cash equivalents of EUR 6.7 million and current receivables of EUR 5.5 million also provide financial flexibility. The cash flow from operating activities in 2007 amounted to EUR 4.5 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 organisations 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 (up to now mainly relating to material purchases) to suppliers. International dealers are billed 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.

A negative outcome of patent infringement or patent vindication proceedings could impair the net assets, financial position and results of operations of the Group.

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 optimised and expanded continually.

In order to minimise 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 working hours.

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 depend 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 utilises 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, the loss of important data, 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.

Litigation

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

The District Court I of Munich ruled on October 18, 2007 that ownership of a specific patent family should be assigned to Dr. Ulrich Pfeiffer, former member of the company's Management Board. On November 25, 2007, the company appealed against the ruling to the Regional Appeal Court of Munich.

On July 31, 2007 and November 4, 2007, Dr. Ulrich Pfeiffer submitted further claims to the District Court I of Munich, claiming ownership of certain of the company's patent families that have been created with his involvement.

The company's legal counsel is of the opinion that the claims are unfounded. As with all legal proceedings, however, it cannot be ruled out that the court responsible for the proceedings will not have a different legal opinion. In the worst scenario, it is possible that it might be necessary to discontinue production and/or the sales of important products since PULSION would then have no rights to the patents. The probability of this happening is considered by the legal counsel to be low, and it is expected that the company will win the proceedings.

Notwithstanding these claims, the company is endeavouring to establish alternative commercial and technical solutions for the patent families in question.

Opportunities

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

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

- A wide range of products in the advanced haemodynamic monitoring field which allow it to offer integrated and flexible solutions.
- A strong international presence thanks to its subsidiaries in France, Spain, Belgium, the UK, the USA and Australia, as well as an extensive network of distributers.
- Strong licensing partners in the form of Philips Medical Systems, Dräger Medical, Zeiss, Schiller and Dixtal. A letter of intent is also in place with GE Healthcare regarding a license for PiCCO technology.
- Innovative strength driven by extensive expertise and application knowledge in all of the fields in which PULSION operates.
- Experienced management team with longstanding international experience in the MedTech sector.

Disclosures pursuant to § 315 (4) HGB

The share capital at December 31, 2007 is EUR 9,577,302, divided into a total of 9,577,302 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.

Absolute Germany Fund Limited, George Town / Grand Cayman, Cayman Islands, gave notice on February 8, 2007 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG, Munich, surpassed the mandatory reportable of 5% on May 22, 2006 and that it held 5.163% of the voting rights at that stage (corresponds to 490,235 votes). In a letter dated September 7, 2007, Absolute Germany Fund Limited gave notice pursuant to § 21 (1) WpHG that its voting rights had surpassed the mandatory reportable of 10% on August 31, 2007 and that it held 12.022% of the voting rights at that stage (number of shares: 1,150,047; share capital 9,566,302 shares). Absolute Germany Fund Limited subsequently gave notice in a letter dated October 12, 2007 pursuant to § 21 (1) WpHG that its holdings had reduced on October 08, 2007 to below the mandatory reportable thresholds of 10%, 5% and 3% of the voting rights and that it held 0% of the voting rights at that stage (corresponds to zero shares / zero voting rights).

FORUM Private Equity GmbH, Munich, gave notice in a letter dated August 29, 2007 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG, Munich, (WKN 548790) surpassed the mandatory reportable of 10% on August 7, 2007 and that it held 966,316 shares in the Company at that date. Based on a total of 9,554,302 outstanding shares, this corresponds to 10.11% of the Company's shares and therefore 10.11% of the voting rights.

Absolute Capital Management Holdings Limited George Town, Grand Cayman, Cayman Islands / British Overseas Territory, gave notice to the Company in a letter dated September 7, 2007 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG surpassed the mandatory reportable of 10% on August 31, 2007 and that it held 12.022% of the Company's shares at that stage (number of shares: 1,150,047; total share capital: 9,566,302 shares). Accordingly, 12,022% of the voting rights were attributable to Absolute Capital Management Holdings Limited pursuant to § 22 (1) sentence 1 no. 1 and no. 6 WpHG (number of shares: 1,150,047; total share capital: 9,566,302). The following entities hold more than 3% of the voting rights of the Company: Absolute Germany Fund Limited. In addition, the Company was given notice on October 12, 2007 pursuant to § 21 (1) WpHG that it had reduced its holdings to below the mandatory reportable thresholds of 10%, 5% and 3% of the voting rights on October 8, 2007 and that it held 0% of the voting rights at that stage (corresponds to zero votes).

Dr. Burkhard Wittek, Germany gave notice to the Company on October 18, 2007 pursuant to § 21 (1) WpHG that his voting rights in PULSION Medical Systems AG, Munich had surpassed the mandatory reportable thresholds of 3%, 5% and 10% on October 8, 2007 and he held 12.45% of the voting rights at that stage (corresponding to 1,191,354 votes). These voting rights are all attributable to Dr. Burkhard Wittek pursuant to § 22 (1) sentence 1 no. 1 WpHG. The voting rights attributable to him are held via entities controlled by him which hold more than 3% of the voting rights of PULSION Medical Systems AG, namely Forum European Smallcaps GmbH, Munich. Also in the letter dated October 18, 2007, Dr. Burkhard gave notice pursuant to § 21 (1) WpHG that his voting rights in the Company had surpassed on October 11, 2007 the mandatory reportable threshold of 15% and that he held 17.57% of the voting rights at that stage (corresponding to 1,680,941 votes and a total of 9,566,302 outstanding shares). These voting rights are all attributable to Dr. Burkhard Wittek pursuant to § 22 (1) sentence 1 no. 1 WpHG. The voting rights attributable to him are held via entities controlled by him which hold more than 15% of the voting rights of PULSION Medical Systems AG, namely Forum European Smallcaps GmbH, Munich.

Forum European Smallcaps GmbH, Munich, gave notice to the Company on October 17, 2007 pursuant to § 21 (1) WpHG that its voting rights in the Company had surpassed the mandatory reportable threshold of 15% on October 11, 2007 and that it held 17.57% of the voting rights at that stage (corresponding to 1,680,941 votes and a total of 9,566,302 outstanding shares).

Fidelity International Limited, P.O. Box HM 670, Hamilton HMCX, Bermuda, gave notice to the Company in a letter dated November 19, 2007 pursuant to § 21 (1) WpHG that its share of the Company had dropped below the 10% mandatory reportable threshold on November 14, 2007 and that it held 9.93% of the voting rights at that stage (949,885 shares). The voting rights are attributable to Fidelity International Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG. 7.60% of these voting rights are attributable to FID FDS – ESC POOL TWO.

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 2,794 was in place at the balance sheet date in accordance with shareholder

resolutions taken at the Annual General Meeting. The Management Board is authorised 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 TEUR 794 can be used to issue stock options.

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.

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 in return for cash or non-cash contributions. The Management Board is authorised, 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 May 24, 2007, the Company is authorised in accordance with § 71 (1) no. 8 AktG to acquire, prior to November 23, 2008, up to 10 % of its own present share capital. The authorisation may not be used by the corporation to trade in its own shares.

There are no restrictions relating to voting rights or the transfer of shares pursuant to § 315 (4) HGB. No shareholders have special rights. Furthermore, § 315 (4) nos. 5, 8 and 9 HGB are not applicable.

Forward-looking Report

Business strategy

The $PiCCO_2$ platform provides PULSION with the opportunity to become the world's market leader (the "Gold Standard") in advanced haemodynamic monitoring. PULSION wishes to achieve this core objective in the coming years.

There are three main sources of impetus that will help to realize this strategy:

1. The integration of existing PULSION technologies into $PiCCO_2$ is already planned and will be implemented in 2008
2. Parameters not yet included in PULSION's portfolio, can be integrated simply into $PiCCO_2$whenever this appears desirable
3. Regional strategies.

All of these measures are intended to broaden the scale on which $PiCCO_2$ is used significantly and to increase the volume of disposable products sold.

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 other PULSION technologies and, on the other hand as a separate diagnostic drug in ophthalmology, neurosurgery and other fields, it is seen as having significant potential. Following receipt of the US approval for ICG-PULSION in November 2007, the plan is to engage more forcefully in the US market, working together with a specialised sales partner.

Outlook

Over the past year, PULSION achieved a number of important targets set out in its strategic plan. As examples, PiCCO and CeVOX technology was licensed to the Brazilian company DIXTAL, a letter of intent was signed with GE Healthcare regarding a license for PiCCO technology, the new $PiCCO_2$ technology platform was successfully launched, the first cluster for selling activities established in the USA, the establishment of production facilities progressed in line with schedule and US approval for ICG-PULSION was received.

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.

During the financial year 2008, PULSION will continue to focus sharply on the US market and establish further sales clusters in the USA.

In addition, 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. These measures will enable the existing product portfolio to be adapted to the volume market.

PULSION will continue to pursue its sustainable strategy by investing substantial amounts of resources in medium and long-term growth.

The plan is for annual sales growth to return to within a corridor of 20 – 30 % in the coming year and to achieve an EBIT margin of at least 15 %.

For the following financial year, the target is to achieve sales growth at a similar level and an EBIT margin of over 17 %.

In the medium term, in line with the "PULSION 100" programme, sales growth of 20 – 30 % p.a. should be stabilised, with group sales rising to USD 100 million (EUR 65 million) by 2010. The EBIT margin from 2010 onwards should be in excess of 20 %.

Further prerequisites for profitable growth are the motivation and skills of its workforce. PULSION will therefore continue during the coming year to make personnel development a priority for its employees.

Subsequent Events Report

A rental agreement for new administrative premises was signed during the first quarter of 2008. Apart from that, there have been no significant events after the balance sheet date.

Munich, March 10, 2008
PULSION Medical Systems AG

Bradley P. Gould
Chairman of the Management Board

Matthias Bohn
Member of the Management Board

Consolidated Balance Sheet

PULSION Medical Systems AG at December 31, 2007

ASSETS

	Note	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR
Non-current assets			
Intangible assets	12	3,513	2,645
Property, plant and equipment	13	4,919	4,464
Investment property	15	231	248
Trade accounts receivables	17	315	216
Deferred taxes	10	442	1,582
Total non-current assets		**9,420**	**9,155**
Current assets			
Inventories	16	4,209	3,470
Trade accounts receivables	17	5,515	4,247
Other current assets	18	705	611
Tax receivables		0	23
Available-for-sale financial assets	19	1,555	1,561
Cash and cash equivalents*	20	5,429	3,666
Total current assets		**17,413**	**13,577**
Total assets		**26,833**	**22,733**

* including fixed term deposits of EUR 0.3 Mio. (Dec. 31. 2006: EUR 0.3) pledged as security

EQUITY AND LIABILITIES

	Note	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR
Equity	21, 22		
Share capital		9,577	9,526
Additional paid-in capital		20,407	20,104
Other reserves		(299)	(192)
Accumulated deficit		(12,943)	(15,155)
Minority interests	11	312	344
Total equity		**17,054**	**14,626**
Non-current liabilities			
Provisions	23	86	126
Liabilities to bank	24, 25	2,017	783
Financial liabilities	24, 26	0	210
Lease liabilities	14, 24	287	708
Other liabilities	24, 28	530	565
Total non-current liabilities		**2,920**	**2,391**
Current liabilities			
Provisions	23	197	79
Liabilities to banks	24, 25	359	610
Financial liabilities	24, 26	238	213
Trade accounts payables	27	1,735	1,065
Lease liabilities	14, 24	410	462
Tax payables	10	614	509
Other liabilities	24, 28	3,306	2,777
Total current liabilities		**6,859**	**5,716**
Total equity and liabilities		**26,833**	**22,733**

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, 2007

	Note	2007 KEUR	2006 KEUR
Sales	5	28,257	24,456
Cost of sales	6	(7,724)	(6,104)
Gross profit		**20,532**	**18,351**
Selling and marketing expenses	9	(12,091)	(10,514)
Research and development expenses	9	(1,961)	(2,214)
General and administrative expenses	9	(3,257)	(3,097)
Other operating expenses	7, 8	(49)	(341)
Other operating income	7, 8	1,014	1,224
Operating profit		**4,188**	**3,408**
Exchange losses		(124)	(62)
Exchange gains		68	59
Profit before interest and taxes (EBIT)		**4,132**	**3,404**
Interest expenses	7	(191)	(243)
Interest income	7	108	90
Profit before taxes (EBT)		**4,049**	**3,252**
Income taxes	10	(1,488)	158
Group net profit (before minority interests)		**2,562**	**3,410**
of which attributable to shareholders of the group parent company		2,515	3,250
of which attributable to minority interests	11	46	160
Earnings per share:	32		
Undiluted - ordinary operations after taxes (in €)		0.26	0.34
Diluted - ordinary operations after taxes (in €)		0.26	0.34
Average number of shares in circulation (undiluted)		9,577,302	9,526,302
Average number of shares in circulation (diluted)		9,581,655	9,551,814

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, 2007

		Note	2007 KEUR	2006 KEUR
CASH FLOW FROM OPERATING ACTIVITIES	Group net profit after minority interests		2,515	3,250
	Minority interests	11	46	160
	Dividends		(50)	(43)
	Amortization and depreciation of intangible assets and property, plant and equipment		1,884	1,830
	Changes in receivables	17	(1,336)	(1,101)
	Changes in inventories	16	(732)	(541)
	Income taxes received		23	26
	Income taxes paid		(177)	(155)
	Changes in other assets and liabilities		2,385	(161)
	Other non-cash income and expenses		(12)	(54)
	Cashflow from operating activities		**4,546**	**3,211**
CASH FLOW FROM INVESTING ACTIVITIES	Purchase of intangible assets and property, plant and equipment		(3,898)	(2,923)
	Purchase of available-for-sale financial assets (money market fund)		6	(150)
	Proceeds from disposal of intangible assets and property, plant and equipment		690	654
	Cashflow from investing activities		**(3,202)**	**(2,419)**
CASH FLOW FROM FINANCING ACTIVITIES	Payments into equity capital		201	191
	Purchase of minority interests		(130)	(130)
	Proceeds from raising current and non-current loans		1,400	405
	Repayments of bank borrowings		(412)	(192)
	Repayments of financial liabilities		(191)	(416)
	Interests received		91	61
	Interests paid		(106)	(67)
	Proceeds from finance leases		0	298
	Repayments of finance leases	14	(473)	(515)
	Cashflow from financing activities		**380**	**(365)**
CASH FUNDS AT THE END OF THE PERIOD	Decrease / increase in cash funds		1,725	427
	Cash funds at the beginning of the period		3,404	2,977
	Cash funds at the end of the period	**20**	**5,129**	**3,404**

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, 2007

	Shares	Subscribed capital KEUR	Additional paid-in capital KEUR
Balances at January 1, 2006	**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 programmes	30,500	30	126
Valuation of financial assets held-for-sale		0	–6
Total items directly recognised in equity		**30**	**218**
Total		**30**	**218**
Balances at December 31, 2006	**9,526,302**	**9,526**	**20,104**
Balances at January 1, 2007	**9,526,302**	**9,526**	**20,104**
Exchange differences		0	0
Group net profit		0	0
Purchase of shares / capital decrease		0	0
Total result for the period		**0**	**0**
Dividends		0	0
Purchase of minority interests		0	0
Employee share option programmes	51,000	51	308
Valuation of financial assets held-for-sale		0	-5
Total items directly recognised in equity		**51**	**303**
Total		**51**	**303**
Balances at December 31, 2007	**9,577,302**	**9,577**	**20,407**

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

Accumulated deficit KEUR	Other reserves KEUR	Minority interests KEUR	Total KEUR
–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	–6
–195	**0**	**–61**	**–8**
3,055	**–29**	**99**	**3,373**
–15,155	**–192**	**344**	**14,626**
–15,155	**–192**	**344**	**14,626**
0	–107	0	–107
2,515	0	46	2,561
–31	0	0	–31
2,484	**–107**	**46**	**2,423**
0	0	–50	–50
–272	0	–28	–300
0	0	0	359
0	0	0	–5
–272	**0**	**–78**	**4**
2,212	**–107**	**–32**	**2,427**
–12,943	**–299**	**312**	**17,054**

Analysis Of Changes In Fixed Assets

PULSION Medical Systems AG at December 31, 2007

ANALYSIS OF CHANGES IN FIXED ASSETS IN 2007

	Historical cost					
	Jan. 1, 2007 KEUR	Translation differences KEUR	Additions KEUR	Reclassifi-cations KEUR	Disposals KEUR	Dec. 31, 2007 KEUR
Intangible assets						
Purchased intangible assets	457	0	78	4	38	501
Internally generated intangible assets	2,778	0	1,031	0	0	3,809
	3,235	**0**	**1,109**	**4**	**38**	**4,310**
Property, plant and equipment						
Technical equipment, plant and machinery	685	0	160	18	100	763
Other equipment, furniture and fittings	6,788	–4	2,629	–136	1,344	7,933
Finance leases	1,826	0	0	114	109	1,831
	9,299	**–4**	**2,789**	**-4**	**1,553**	**10,527**
Investment property	379	0	0	0	0	379
	12,913	**–4**	**3,898**	**0**	**1,591**	**15,216**

ANALYSIS OF CHANGES IN FIXED ASSETS IN 2006

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

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

	Accumulated depreciation and impairment					Carrying amounts	
Jan. 1, 2007 KEUR	Translation differences KEUR	Additions KEUR	Reclassifi-cations KEUR	Disposals KEUR	Dec. 31, 2007 KEUR	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR
336	0	59	4	23	376	125	121
254	0	167	0	0	421	3,388	2,524
590	**0**	**226**	**4**	**23**	**797**	**3,513**	**2,645**
350	0	94	77	101	420	343	335
3,994	–2	1,140	–81	652	4,399	3,534	2,794
491	0	407	0	109	789	1,042	1,335
4,835	**–2**	**1,641**	**–4**	**862**	**5,608**	**4,919**	**4,464**
131	0	17	0	0	148	231	248
5,556	**–2**	**1,884**	**0**	**885**	**6,553**	**8,663**	**7,357**

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

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 138 and 136 people worldwide as at December 31, 2007 and 2006, respectively, of whom 107 and 105 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 10, 2008 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) issued by the International Accounting Standard Boards (IASB) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Union. 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 2007, 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.

The following Standards and Interpretations become mandatory on January 1, 2008 or later:

- IAS 1 (revised 2007): Presentation of Financial Statements
- IAS 23: Borrowing Costs
- IFRIC 12: Service Concession Agreements
  This Interpretation does not at present have any impact on the financial statements of PULSION AG.
- IFRIC 13: Customer Loyalty Programmes
  This Interpretation does not at present have any impact on the financial statements of PULSION AG.
- IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
  This Interpretation does not at present have any impact on the financial statements of PULSION AG.

Other regulations:

- IFRS 8: Operating Segments
  Application of this Standard is mandatory from January 1, 2009 onwards.
  The Group has elected to apply the Standard early, resulting in changes in disclosures in the notes to the consolidated financial statements.

The first-time application of Standards, Amendments to Standards and Interpretations in 2007 did not result in any material changes compared to previous years. This relates to following Standards and Interpretations:

- IFRIC 11: IFRS 2 – Group and Treasury Share Transactions
- IFRIC 10: Interim Financial Reporting and Impairment
- IFRIC 9: Restatement of Embedded Derivatives
- IFRIC 7: Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8: Scope of IFRS 2

The first-time application of Standards, Amendments to Standards and Interpretations in 2007 results in additional and changed disclosures to the notes to the consolidated financial statements. This relates to the following Standards:

- IAS 1 (Amendment): Presentation of Financial Statements – Capital Disclosures
- IFRS 7: Financial Instruments Disclosures

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 and the measurement of recognised financial assets and financial liabilities at their fair value. 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., East Brunswick, New Jersey	USA	October 1, 1999	100 %
PULSION Medical UK Ltd., Uxbridge	United Kingdom	August 7, 1998	51 %
PULSION Pacific Pty. Limited, Sydney	Australia	December 22, 1999	58 %
PULSION Medical Systems Iberica S. L., Madrid	Spain	November 27, 2000	100 %***

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

** The minority shareholders' interest in PULSION Benelux N.V. was acquired in accordance with an agreement dated December 21, 2006. On October 30, 2007 one of the shares was sold to PULSION France S.A.R.L., France.

***On October 22, 2007 PULSION exercised its option to purchase the shares of the minority shareholder (40 % of the share capital) held by MC Infortecnica S.L. in PULSION Medical Systems Iberica S.L., Madrid. The purchase consideration was KEUR 300 and is payable in instalments through to October 22, 2009. As a result of the transaction, PULSION holds 100% of the shares of the Spanish subsidiary.

PULSION France moved into new premises at the beginning of 2008 and will in future be based in La Montagne, France. The above subsidiaries distribute the Group's equipment and products.

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 %

Winding-up proceedings opened in 2005 are expected to be completed during the first quarter of 2008.

Basis of consolidation: The consolidated financial statements comprise all subsidiaries over which PULSION has control. Control is realised 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 unrealised 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 recognised 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, 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 recognised 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 recognised in the income statement on the line items "Exchange gains" and "Exchange losses". Exchange differences on non-monetary assets and liabilities are recognised 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, 2007	Closing rate at Dec. 31, 2006	Average rate 2007	Average rate 2006
USD	0.67940	0.75800	0.73082	0.79703
GBP	1.35710	1.48520	1.46206	1.46725
AUD	0.59570	0.59820	0.61212	0.60027

4. Accounting principles

Assets and liabilities are measured in the consolidated financial statements on the basis of their amortized 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 recognised only to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. 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, and 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 recognised 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 recognised 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 recognised in the income statement. On derecognition of the corresponding assets, the difference between the cumulative gains/losses previously recognised in equity and the gain/loss realised on disposal is recognised in the income statement.

Other assets: Other assets and deferred expenses are stated at amortized cost. Deferred expenses are recognised 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 measured using the standard cost method (2006: average cost method). The change to the standard cost method was made in order to improve the internal management of inventories. Borrowing costs are not capitalised 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 recognised 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 recognised as expense in the period in which they are incurred. Borrowing costs are capitalised when the Group has 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	5–14 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 recognised 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. Impairment losses are reversed when the reason for impairment no longer exists.

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 capitalised items are amortized on a straight-line basis.
b) Expenditure on approvals in Europe and the USA. These costs are amortized 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 recognised and the asset derecognised.

These items are recognised 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 recognised.

Deferred taxes: Deferred taxes are recognised 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 recognised 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-leaseback transactions. Lease classification is based on IAS 17.

All existing contracts are based on a standardised 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. The interest component is presented as interest expense within the net interest result.

Other items of factory and office equipment are also accounted for as finance leases in accordance with IAS 17. The leased assets are therefore recognised within tangible assets and measured at amortized cost. The agreement runs for 48 months.

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: Rental agreement with purchase option: These contracts usually have a term of 3 years and contain a favourable purchase option. Sales revenue is recognised 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.

Equity: Debt and equity capital instruments are classified as financial liabilities or equity on the basis of the underlying substance of the contractual arrangements.

Provisions: In accordance with IAS 37, a provision is recognised when the entity has a present obligation to a third party as a result of a past event, it is probable that on outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at their expected settlement amount. Provisions for warranties on products sold are recognised 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 (debt) and liabilities (accounts payable): Financial liabilities are measured on initial recognition at their fair value. Subsequent to initial recognition, they are measured at amortized 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 capitalised in the case of qualifying assets.

Revenue and cost recognition: Revenue from product sales is recognised 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 recognised 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 realised or the deferred tax liability is settled.

Deferred taxes are recognised, on the one hand, on timing differences between the accounting and tax bases of assets and liabilities. On the other hand, deferred tax assets are also recognised on tax losses available for carryforward. A deferred tax asset is recognised at the balance sheet date on all tax losses available for carryforward at the level of the parent company. A deferred tax asset is only recognised for subsidiaries if it is highly probable that the tax losses will be utilised in the future. 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 PULSION. The Group has no other pension obligations. Employees' remuneration comprises a fixed and a variable component. Bonus payments are agreed individually and disbursed in the following financial year.

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 recognised as expense over the period up to the date of the assumed exercise of the options

Segment reporting: IFRS 8, which has been adopted early by the Group, replaces IAS 14 as the Standard relevant for segment reporting. Instead of a risk and reward approach, the new IFRS 8 requires a management approach to be taken for the purposes of segment reporting. IFRS 8 requires that segment information is presented on the basis of reports provided to the chief operating decision maker. An operating segment is defined as a component of the entity that engages in business activities for which it may earn revenues and incur expenses, the operating results of which are reviewed by the chief operating decision maker, and for which discrete financial information is available.

Notes to the consolidated income statement

5. Sales

Sales by product line are as follows:

	2007 KEUR	2006 KEUR
Equipment	5,698	5,195
Disposables	17,205	15,633
Indication/diagnosis	5,128	3,413
Service and other	226	215
	28,257	**24,456**

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

6. Cost of sales and personnel expense

Cost of sales comprises primarily the cost of raw materials and supplies used (KEUR 5,221; 2006: KEUR 3,794) and of bought-in goods and services (KEUR 454; 2006: KEUR 301). Depreciation and amortization of KEUR 311 (2006: KEUR 145) are also included, of which KEUR 167 (2006: KEUR 0) relates to intangible assets. The amortization expense for 2006 was presented in selling expenses.

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

	2007 KEUR	2006 KEUR
Wages and salaries	8,140	6,788
Statutory social security	1,327	1,225
Expense for stock options	160	62
	9,627	**8,075**

Wages and salaries include personnel recruitment costs of KEUR 188 in 2007 (2006: KEUR 165). Personnel expenses include statutory social security contributions totalling KEUR 396 (2006: KEUR 348) and a pension expense of KEUR 26 (2006: KEUR 23).

The Group had 141 and 130 employees on average in 2007 and 2006, respectively. The average employee figure for 2007 included 7 people employed on a low wage-earning basis (2006: 7).

7. Income and expenses from financial assets

Sale-and-lease-back contracts gave rise to gains of KEUR 341 (2006: KEUR 413). Interest income totalling KEUR 61 (2006: KEUR 39) was recognised on available-for-sale financial assets. In addition, a fair value loss of KEUR 5 (2006: KEUR 6) was recognised directly in equity on available-for-sale financial assets. Interest expense includes KEUR 72 (2006: KEUR 75) relating to liabilities to banks, KEUR 13 (2006: KEUR 20) for financial debt and KEUR 79 (2006: KEUR 107) for lease liabilities. Interest income on lease receivables amounted to KEUR 16 (2006: KEUR 13) and interest earned on bank balances totalled KEUR 22 (2006: KEUR 26).

8. Other operating income and expenses

The following significant items of income are included in the income statement: income from the reversal of accruals (KEUR 228; 2006: KEUR 170), income from the private use of company vehicles (KEUR 110; 2006: KEUR 98), rental income (KEUR 25; 2006 KEUR 26) and income arising on the exercise of stock options (KEUR 106; 2006: KEUR 85). Other operating expenses include, in particular, expenditure incurred in conjunction with contractual obligations (KEUR 33; 2006: KEUR 111).

9. 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-capitalisable research and development costs.

10. Income taxes

	2007 KEUR	2006 KEUR
Income taxes	346	448
(of which relating to prior periods)	(–36)	(20)
Deferred tax expense	1,733	–144
Deferred tax income	–591	–462
Total tax expense (2006: income)	**1,488**	**–158**

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 the year-end amounted to KEUR 614 (2006: KEUR 509).

Deferred taxes at December 31, 2007 were computed for the German company on the basis of a corporation tax rate of 15.0% (2006: 25%). In addition, a solidarity surcharge of 5.5% on corporation tax and an effective municipal trade tax rate of approximately 16.5% (2006: 13.5%) were taken into account. Including the solidarity surcharge and municipal trade tax, an overall tax rate of 33% (2006: 40%) therefore applies to the computation of deferred taxes for the Group's German company. The changes in tax rates arise in conjunction with the business tax reform 2008.

On the basis of the positive development of earnings and the anticipated positive results of PULSION Medical Systems AG, it is sufficiently probable that taxable profit will be available to recover the deferred tax asset. Deferred tax assets were recognised at December 31, 2007 on the basis of a two-year planning period.

Unlike in the previous year, deferred tax assets and liabilities were recognised for the parent company on differences arising on the elimination of intragroup balances arising in conjunction with tax deductible impairment losses on investments in subsidiaries recorded in previous years and in the year under report. A deferred tax expense was recorded in 2007 since all tax losses available for carryforward at the level of the parent company have been utilised. Deferred taxes recognised in the previous year in conjunction with impairment losses on investments in subsidiaries were reallocated in the light of the assessed ability to utilise tax losses available for carryforward. The Group has not recognised deferred tax assets of KEUR 4,096 on unused tax losses of KEUR 12,414 which can be carried forward by non-German PULSION entities 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% (2006: 40%) for corporation tax, solidarity surcharge and municipal trade tax and the actual tax expense:

	2007 KEUR	2006 KEUR
Group profit before tax	4,049	3,252
Expected tax expense	1,620	1,301
Variances from expected tax expense:		
Tax-exempt income	–25	–24
Foreign withholding taxes	8	7
Changes in tax rates	–294	0
Non-deductible expenses, adjustments for tax rules	661	71
Changed allocation relating to usability of tax losses available for carryforward and other consolidation procedures	1,828	0
Utilisation of tax losses for which deferred tax assets were not previously recognised	–922	–947
Recognition of deferred tax on unused tax losses	–1,383	–561
Other	–5	–5
	1,488	**–158**

Deferred tax assets and liabilities relate to the following items:

	Dec. 31, 2007		Dec. 31, 2006	
	KEUR Deferred tax asset	KEUR Deferred tax liability	KEUR Deferred tax asset	KEUR Deferred tax liability
Intangible assets	140	1,123	200	1,010
Property, plant and equipment	264	320	316	534
Inventories	158	0	219	0
Receivables and other current assets	0	105	0	122
Liabilities	420	0	821	0
Consolidation procedures	897	1,917	1,809	1,875
Accumulated deficit	2,028	0	1,758	0
	3,907	3,465	5,123	3,541
Offset of deferred tax assets and liabilities	–3,465	–3,465	–3,541	–3,541
Deferred tax asset	**442**	**0**	**1,582**	**0**

It is forecast that, of the KEUR 442 (2006: KEUR 1,582) reported as deferred tax assets at December 31, 2007, deferred tax assets amounting to KEUR 1,549 (2006: KEUR 535) and deferred tax liabilities amounting to KEUR 264 (2006: KEUR 106) will be utilised within one year.

The parent company's tax assessment years 2003 – 2005 were audited by the Munich Tax Office for Incorporated Entities. The tax field audit was completed on receipt of the tax report dated July 23, 2007. All findings have been taken into account in the consolidated financial statements for the year ended December 31, 2007.

11. 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 (in the case of the Spanish company up to the date on which the minority interests were acquired by PULSION). The development of minority interests is shown in the Consolidated Statement of Changes in Equity.

Notes to the consolidated balance sheet

12. Intangible assets

Intangible assets at December 31, 2007 comprised:

	Historical cost KEUR	Accumulated amortization and impairment losses KEUR	Carrying amount KEUR
Approvals	2,219	215	2,004
Patents	643	47	596
Distribution rights	178	178	0
Product development	949	159	790
Software	321	198	123
Total	**4,310**	**797**	**3,513**

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	10 years	20 years
Product development	16 months	5 years
Software	3 months	3 years

Intangible assets include capitalised borrowing costs of KEUR 40 (2006: KEUR 12) determined using a capitalisation rate of 7.12% (2006: 7.4%). Amortization of KEUR 226 (2006: KEUR 188) was recognised in the financial year 2007. No impairment losses were recognised on intangible assets in 2007 (2006: KEUR 20).

13. Property, plant and equipment

Impairment losses of KEUR 63 (2006: KEUR 0) were recognised on property, plant and equipment (other factory and office equipment) during the financial year 2007. Depreciation for the financial year 2007 amounted to KEUR 1,578 (2006: KEUR 1,626).

The amount reported for property, plant and equipment in the balance sheet includes KEUR 452 (2006: KEUR 0) of advance payments to suppliers and assets under construction.

Changes in property, plant and equipment are shown in the analysis of changes in fixed assets.

14. 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, 2007 KEUR	Total	< 1 year	1–5 years	> 5 years
Minimum lease payments December 31, 2007	751	450	301	0
Interest expense for lease liabilities as at the balance sheet date	54	40	14	0
Present value of minimum lease payments at Dec. 31, 2007	**697**	**410**	**287**	**0**

Dec. 31, 2006 KEUR	Total	< 1 year	1–5 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**

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

	Dec. 31, 2007 KEUR
Medical and other equipment	1,831
Accumulated depreciation	789
Finance leases	**1,042**

The fair value of finance lease liabilities corresponds to the carrying amount.

15. Investment property

Rental income from investment property amounted to KEUR 25 in 2007 (2006: KEUR 26). Costs directly related to investment property amounted to KEUR 8 (2006: KEUR 5). The fair value of real estate presented as investment property corresponds roughly to the carrying amount. On the balance sheet date, mortgages on property totalled KEUR 417 (2006: KEUR 417).

16. Inventories

Inventories comprise:

	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR
Raw materials and supplies	2,349	1,314
Work in progress	335	327
Finished goods and goods for resale	1,525	1,829
	4,209	**3,470**

The figures for the previous year show inventories measured using the average cost method since it is not possible to measure inventories retrospectively at standard cost.

Write-downs on inventories were as follows:

	Dec. 31, 2007			Dec. 31, 2006		
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Raw materials and supplies	2,585			1,557		
Gross amount of which subject to write-down	236			243		
Write-downs		–236	2,349		–243	1,314
Work in progress	335	0	335	327	0	327
Finished goods and goods for resale	1,731			1,995		
Gross amount of which subject to write-down	208			406		
Write-downs		–206	1,525		–166	1,829
			4,209			**3,470**

The net impact of write-downs in 2007 was recognised as an expense within cost of sales and amounted to KEUR 81 (2006: KEUR 309). The effect of changing the measurement of inventories from a weighted average to a standard cost basis was KEUR 55 which was also recognised in the income statement.

17. Trade accounts receivable

	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR
Trade accounts receivable	5,862	4,473
(of which non-current)	(315)	(216)
less: allowances	32	10
Trade accounts receivable	**5,830**	**4,463**

The non-current trade accounts receivable include the portion of receivables relating to finance lease sales contracts and license receivables which is due later than one year.

The Group's payment periods range from 14 to 120 days depending on the customer concerned. Interest is not recognised on overdue receivables. Payment periods are exceeded significantly at the level of a number of the Group's subsidiaries. Past experience shows, however, that this does not result in a higher level of bad debts. The Group endeavours to reduce the level of arrears by increased receivables management activities. Impairment losses on trade accounts receivable are determined individually. Impairment losses are not recognised automatically when agreed payment periods are missed since most receivables relate to public sector organisations so that the bad debt risk is limited. In addition, the bad debt risk in the case of new customers outside Germany is minimised by requiring up-front payments and carrying out creditworthiness checks. Trade accounts receivable relate to individual customers and global distributors. There is therefore no concentration of receivables for individual customers.

Impairment losses were not recognised on trade accounts receivable amounting to KEUR 1,829 (2006: KEUR 1,384) which were overdue at the balance sheet date since no significant change in the debtors' creditworthiness was identified, and since all outstanding amounts are expected to be paid. The Group does not hold any collateral for these items. Specific allowances on receivables entail a significant degree of estimation and the assessments of individual balances based on the creditworthiness of each customer. Flatrate specific allowances are based on estimates.

The age structure of overdue receivables for which no impairment losses have been recognised was as follows:

December 31, 2007 KEUR	Carrying amount	of which neither subject to impairment loss nor overdue at the year-end	of which not subject to impairment loss and overdue at the year-end in the following time windows			
			1 to 30 days	30 to 60 days	60 to 90 days	more than 90 days
Trade accounts receivables	5,830	3,969	860	306	249	414

December 31, 2006 KEUR	Carrying amount	of which neither subject to impairment loss nor overdue at the year-end	of which not subject to impairment loss and overdue at the year-end in the following time windows			
			1 to 30 days	30 to 60 days	60 to 90 days	more than 90 days
Trade accounts receivables	4,463	3,069	766	259	112	247

Allowances for impairment losses changed as follows:

	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR
Balance at beginning of year	10	15
Impairment losses on receivables	21	–3
Amounts written off due to uncollectibility	1	–2
Bad debts recovered	0	0
Reversals of impairment losses	0	0
Discounting effect	0	0
Balance at end of year	**32**	**10**

Impairment losses on trade accounts receivable include KEUR 18 (2006: reversal of impairment losses KEUR -2) relating to balances already passed on to lawyers for collection. All receivables subject to a specific allowance for impairment are more than 90 days overdue.

During the reporting period, trade accounts receivable amounting to KEUR 1 (2006: reversal of impairment losses KEUR -2) were derecognised since the receivables cannot be recovered. In addition, customer accounts with credit balances totalling KEUR 17 (2006: KEUR 0) were recognised as income in 2007.

For the purposes of determining the recoverability of trade accounts receivable, all changes in the creditworthiness of the customers during the period that the payment periods were agreed, and the balance sheet date, are taken into account. Due to the structure of the customer base and the lack of correlation between customers, there is no significant concentration of credit risk. Management is therefore of the opinion that no further impairment losses require to be recognised.

Receivables due under finance lease sales contracts comprise the following:

December 31, 2007 KEUR	Total	< 1 year	1–5 years	> 5 years
Minimum lease payments at Dec. 31, 2007	352	181	171	0
Interest income contained in lease receivables at balance sheet date	19	13	6	0
Present value of minimum lease payments at Dec. 31, 2007	**333**	**168**	**165**	**0**

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

The interest rate applied to the leases is determined on contract inception for the full lease term. The fair value corresponds to the carrying amount of the lease receivables.

18. Other current assets

This item comprises the following:

	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR
Deferred expenses	308	284
Advance payments to suppliers	112	110
Receivable from Tax Office		
– valued added tax	33	38
	453	432
Other	252	179
Total	**705**	**611**

19. Available-for-sale financial assets

Available-for-sale financial assets include an investment in a money market fund which is measured at fair value on the balance sheet date.

The fair value loss on the available-for-sale financial assets was KEUR 5 in 2007 (2006: loss of KEUR 6) and was recognised directly in equity. No amounts were transferred from the fair value reserve within equity to the income statement during the year under report.

20. Cash and cash equivalents / Cash funds

Cash funds reported in the cash flow statement comprise:

	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR
Cash and cash equivalents	5,429	3,666
Available-for-sale financial assets		
(fund shares without maturity date)	0	0
Sub-total	5,429	3,666
Cash pledged as collateral	–300	–262
	5,129	**3,404**

21. 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 authorised 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 non-cash capital contribution 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 such bearers are entitled to after exercise of the conversion or option right; or
- to the extent necessary to avoid fractional amounts.

The Management Board is authorised, with the approval of the Supervisory Board, to determine the further details of the share capital increase. The Supervisory Board is authorised 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 the relevant amount of Authorised Capital utilised, and, if the Authorised Capital is not, or not fully utilised by June 8, 2009, on the expiry of the authorisation period.

In accordance with the shareholders' resolution taken at the Annual General Meeting on May 24, 2007, the Company is authorised in accordance with § 71 (1) no. 8 AktG to acquire, prior to November 23, 2008, up to 10 % of its own present share capital. The authorisation may be exercised fully or in partial amounts, in the latter case also on several occasions, for one or more purposes. The authorisation may not be used to trade in own shares. The shares may be purchased directly on the stock market or by means of a public offer addressed to all shareholders.

At December 31, 2007, Conditional Capitals I, II and III of EUR 313,837, EUR 350,000 and EUR 130,500 respectively 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 III decreased from EUR 181,500 to EUR 130,500 as a result of the conversion into Company shares of 51,000 share options with a notional value of EUR 51,000.

As a result of the exercise of 51,000 subscription rights attached to stock options to acquire 51,000 shares, the Company's share capital increased in the financial year 2007 from EUR 9,526,302 to EUR 9.577.302. The share capital is divided into a total of 9,577,302 bearer shares with no par value, each equivalent to EURO 1.

Other reserves relate primarily to translation differences.

Additional disclosures relating to capital management: Equity capital increased during the financial year 2007 by 17 %, primarily as a result of the lower accumulated deficit. The equity ratio at December 31, 2007 remained at 64 % (December 31, 2006: 64 %), whereas the return on equity fell to 16.2 % (December 31, 2006: 25.7 %) and the return on total capital decreased to 10.1 % (December 31, 2006: 15.3 %). This was primarily the result of the tax expense recognised in 2007.

Performance indicator	Basis of computation	Dec. 31, 2007	Dec. 31, 2006
Equity ratio	Equity / balance sheet total	64 %	64 %
Return on equity	Group profit / average equity	16.2 %	25.7 %
Return on total capital	Group profit / average total capital	10.1 %	15.3 %

Additional paid in capital developed during the year as follows:

	KEUR
Balance at January 1, 2007	20,104
Fair value loss on available-for-sale financial assets	–5
Premium on conversion of 51,000 share options	150
Premium on the fair value measurement of stock options	158
Balance at December 31, 2007	**20,407**

22. 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. Settlement is in the form of the issue of equity instruments.

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 can be exercised under the stock option plans within predefined exercise windows. Options under the Stock Option Plan 2000 vest 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. Under the Stock Option Plans 2003 and 2006, one half of the options can be exercised at the earliest three years after the grant date, and the other half at the earliest four years after the grant date. Fair values are determined using the Monte Carlo method. The average Xetra closing market price for PULSION stock in 2007 was EUR 6.03.

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

	December 31, 2007		December 31, 2006	
	Options	Weighted average exercise price (EUR)	Options	Weighted average exercise price (EUR)
Outstanding at the beginning of the year	224,653	5.51	184,086	5.05
Granted during the year	117,000	7.67	120,000	6.75
Exercised during the year	51,000	3.94	30,500	3.10
Expired during the year	7,653	3.07	48,933	8.30
Outstanding at the end of the year	283,000	6.76	224,653	5.51
Thereof Management Board	130,000	6.55	160,000	6,09
Exercisable at the end of the year	41,000	4.31	48,153	3.76
Thereof Management Board	10,000	4.13	20,000	4.13

The following table summarises information about options outstanding at December 31, 2007:

	Options outstanding			Options exercisable	
Exercise price	Number outstanding	Weighted average remaining contractual period	Weighted average exercise price	Number exercisable	Weighted average exercise price
EUR	Units	Years	EUR	Units	EUR
7–8	117,000	7.54	7.67	0	0
5–7	130,000	6.78	6.66	5,000	5.63
4–5	36,000	4.65	4.13	36,000	4.13
	283,000	**6.83**	**6.76**	**41,000**	**4.31**

At December 31, 2007 and December 31, 2006, conditional capital was available to meet subscription rights exercised in conjunction with incentive compensation plans. At December 31, 2007, 27 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:

	2007		2006
	first issue	second issue	
Risk-free interest rate	4.25 %	4.56 %	3.72 %
Dividend income	0 %	0 %	0 %
Volatility	52.94 %	52.94 %	53.89 %
Exercise price (EUR)	7.990	7.540	6.750
Terms of option rights	8 years	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 5, 2007 for options granted in 2007. The Group has elected to apply the earliest exercise date as its exercise strategy. The weighted-average fair value of options granted during 2007 was EUR 2.01 for the first issue and EUR 1.99 for the second issue. The weighted-average fair value of options granted in 2006 was EUR 1.77.

At December 31, 2007 and 2006, PULSION AG Management Board members held the following shares (units) and stock options (number):

	December 31, 2007		December 31, 2006	
Management Board member	Shares (Units)	Options (Number)	Shares (Units)	Options (Number)
Bradley P. Gould (CEO)	28,000	120,000	5,400	120,000
Matthias Bohn	42,313	10,000	42,313	20,000
Stefan Land (until August 31, 2007)	0	0	2,000	20,000
Total	**70,313**	**130,000**	**49,713**	**160,000**

23. Provisions

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

	Jan. 1, 2007 KEUR	Utilised KEUR	Reversed KEUR	Additioned KEUR	Dec. 31, 2007 KEUR
Warranties	79	40	0	14	53
Other contractual obligations	111	0	0	102	213
Other	15	0	0	2	17
	205	**40**	**0**	**118**	**283**

In accordance with IAS 37, a provision is recognised when it is probable that an outflow of resources will be necessary to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions were recognised primarily for warranties, in particular for monitors, in conjunction with statutory warranty obligations (KEUR 53) and for other contractual obligations (KEUR 213). With the exception of a partial amount of KEUR 86 (contractual obligations and other), provisions all have an expected maturity of up to one year. The non-current portion will be utilised in instalments through to January 31, 2022.

24. Financial liabilities

	Current		Non-current	
	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR
Unsecured financial liabilities at amortized cost				
Current account balances	0	0	0	0
Bank loans	0	0	0	0
Financial debt	215	191	0	210
Lease liabilities	410	462	287	708
Other	3,306	2,777	530	565
Secured financial liabilities at amortized cost				
Current account balances	0	55	0	0
Bank loans	359	555	2,017	783
Financial debt	23	22	0	0
Lease liabilities	0	0	0	0
Other	0	0	0	0
	4,313	**4,062**	**2,834**	**2,266**

25. Liabilities to banks

The liabilities disclosed at December 31, 2007 were subject to the following terms and conditions:

Bank	Type	Maturity	Interest rate %	Dec. 31, 2007 KEUR	Current KEUR	Non-current KEUR
Caja general de ahorros de Canarias, Santa Cruz de Tenerife / Spain	Loan	06/2008	5.4	102	102	0
Banco Pastor, Alcorcon / Spain	Loan	06/2008	5.83	89	89	0
Banco Popular CTA/CTDO / Spain	Loan	05/2008	6.0	0	0	0
HSBC, Uxbridge / United Kingdom	Loan, originally denominated in GBP	07/2008	Base rate + 2.0	28	28	0
WestLB AG, Düsseldorf	Loan	09/2013	5.4	224	40	184
WestLB AG, Düsseldorf	Loan	10/2010	6-month - EURIBOR + 1.5 percentage points	600	0	600
WestLB AG, Düsseldorf	Loan	07/2012	6.32	1,100	0	1,100
Raiffeisenbank München e.G., Munich	Loan	04/2010	5.5	233	100	133
Total				**2,376**	**359**	**2,017**

Cash at bank totalling KEUR 300 (2006: KEUR 262) was pledged as collateral. On the balance sheet date, mortgages on property totalled KEUR 417 (2006: KEUR 417). In addition, inventories and equipment have been partially pledged as collateral to secure existing and future bank liabilities (KEUR 524; 2006: KEUR 749). Assignment as collateral has also been agreed for investments (partly acquired and partly still to be acquired) totalling KEUR 720 (including value added tax) (2006: KEUR 0).

At December 31, 2007, the Group had unused credit lines of KEUR 597 (2006: KEUR 350).

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

Bank	Type	Maturity	Interest rate %	Dec. 31, 2007 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**

The maturities of loans are as follows:

	KEUR
2008	359
2009	390
2010	923
2011	290
after 2012	414
	2,376

Interest expenses in 2007 include KEUR 72 (2006: KEUR 75) for liabilities to banks.

26. Financial liabilities

Non-current financial liabilities	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR
Bayerische Beteiligungsgesellschaft mbH (BayBG)	0	51
Sterimed loan	0	159
	0	**210**

Current financial liabilities	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR
Bayerische Beteiligungsgesellschaft mbH (BayBG)	51	26
Philips loan	23	22
Sterimed loan	164	165
	238	**213**
Total financial liabilities	**238**	**423**

Sterimed loan:
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 2007, KEUR 165 was repaid under the terms of the loan. The final instalment of KEUR 148 was repaid in January 2008. Interest is computed on the basis of the Deutsche Bundesbank base rate.

Philips loan (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 realised 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. The amount reported as current financial liabilities (KEUR 23) relates to interest payable.

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. Beginning May 30, 2000 the participation is repayable in 20 equal half-yearly instalments of KEUR 13. In a letter dated December 20, 2007 notice was given that the participation will be terminated early on December 31, 2008 (originally planned for November 30, 2009).

27. Trade accounts payable

Trade accounts payable on the balance sheet date amounted to KEUR 1,735 (2006: KEUR 1,065).

The Group has payment periods of between 0 and 60 days. The Group has implemented financial risk management measures to ensure that all trade accounts payable are paid within the agreed payment periods.

28. Other liabilities

Other liabilities comprise:

Current other liabilities	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR
Year-end and audit costs	51	74
Advanced payments from suppliers	18	0
License fees	321	142
Deferred income	458	467
(of which finance lease from SALB)	(275)	(341)
Personnel-related obligations	918	1,012
Outstanding invoices	836	512
Other	704	570
	3,306	**2,777**

Non-current other liabilites	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR
Purchase minority shares Spain	102	0
Deferred income	428	565
(of which finance lease from SALB)	(162)	(437)
	530	**565**

Total other liabilities	**3,836**	**3,342**

Personnel-related obligations comprise mainly holiday and bonus entitlements.

29. 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 2 and 6 years.

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

	2007 KEUR	2006 KEUR
Up to 1 year	864	732
Later than 1 year up to 5 years	1,583	452
Later than 5 years	0	0
	2,447	**1,184**

In the profit and loss statement, expenses of KEUR 996 were recognised (2006: KEUR 879).

The obligations relate primarily to the operating lease arrangements for the production site in Feldkirchen and for the administrative building based on rental agreements dated August 16, 2007 and January 2, 2008 respectively. The rental agreement for the production site in Feldkirchen contains an option to extend the agreement.

As the lessor under operating leases: The Company rents out investment property. PULSION AG also makes monitors available to customers 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, 2007:

	Total	2008 KEUR	2009 KEUR	2010 KEUR	2011 KEUR	after 2012 KEUR
Purchase commitments	8.555	3.081	1.034	1.225	3.215	0
Other	954	954	0	0	0	0
Total	**9.509**	**4.035**	**1.034**	**1.225**	**3.215**	**0**

On the balance sheet date, the Group also had open purchase commitments for raw materials and supplies and other items amounting to EUR 2.0 million.

30. Disclosures with respect to IFRS 7

The new Standard IFRS 7 brings together the mandatory disclosures for financial instruments set out in IAS 32 and also expands the disclosure requirements. The Standard requires that financial instruments are allocated to categories of similar instruments. Disclosures are required to be made for the categories so defined. This information relates primarily to the significance of financial instruments and the nature and scale of risks attached to financial instruments, in particular quantitative and qualitative disclosures relating to credit, liquidity and market risks. The fair value – the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction – is determined on the basis of stock exchange prices. Fair value gains and losses on available-for-sale financial assets are recognised directly in equity.

Detailed disclosures relating to the quantitative and qualitative risks attached to each category are presented in the notes to the individual balance sheet items or categories.

The relevant categories at December 31, 2007 were as follows:

KEUR	Carrying amount	Amount relevant for IFRS 7 purposes	Amortized cost	Fair value Recognised directly in equity	Fair value Recognised through income statement	Carrying amount at fair value
Cash and cash equivalents	5,429	5,429	5,429	-	-	5,429
Available-for-sale financial assets	1,555	1,555	-	1,555	-	1,555
Trade accounts receivable	5,830	5,830	5,830	-	-	5,830
Other assets	705	-	-	-	-	-
Trade accounts payable	1,735	1,735	1,735	-	-	1,735
Liabilities to banks	2,376	2,376	2,376	-	-	2,376
Financial debt	238	238	238	-	-	238
Lease liabilities	697	697	697	-	-	697
Other liabilities	3,836	1,474	1,474	-	-	1,474

The relevant categories at December 31, 2006 were as follows:

KEUR	Carrying amount	Amount relevant for IFRS 7 purposes	Amortized cost	Fair value Recognized directly in equity	Fair value Recognized through income statement	Carrying amount at fair value
Cash and cash equivalents	3,666	3,666	3,666	-	-	3,666
Available-for-sale financial assets	1,561	1,561	-	1,561	-	1,561
Trade accounts receivable	4,463	4,463	4,463	-	-	4,463
Other assets	611	-	-	-	-	-
Trade accounts payable	1,065	1,065	1,065	-	-	1,065
Liabilities to banks	1,393	1,393	1,393	-	-	1,393
Financial debt	423	423	423	-	-	423
Lease liabilities	1,170	1,170	1,170	-	-	1,170
Other liabilities	3,342	793	793	-	-	793

Only assets and liabilities which fall into the categories defined by IFRS 7 are shown, so that the total amounts disclosed do not correspond to the balance sheet totals reported for each year.

31. Legal disputes and claims for damages

The District Court I of Munich ruled on October 18, 2007 that ownership of a specific patent family should be assigned to Dr. Ulrich Pfeiffer, former member of the Company's Management Board. The Company submitted an appeal against the ruling to the Regional Appeal Court of Munich on November 25, 2007.

On July 31, 2007 and November 4, 2007, Dr. Ulrich Pfeiffer submitted further claims to the District Court I of Munich, claiming ownership of certain of the Company's patent families that have been created with his involvement.

The Company's legal counsel is of the opinion that the claims are unfounded. As with all legal proceedings, however, it cannot be ruled out that the court responsible for the proceedings will not have a different legal opinion. In the worst scenario, it is possible that it might be necessary to discontinue production and/or the sales of important products since PULSION would then have no rights to the patents. The probability of this happening is considered by the legal counsel to be low and it is expected that the Company will win the proceedings.

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

32. 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 increase due to the fact that the shares are withdrawn from circulation and therefore do not result in dilution.

		2007	2006
Weighted average number of shares (undiluted)	Number	**9,577,302**	**9,526,302**
Dilutive effect of options	Number	4,353	25,512
Weighted average number of shares (diluted)	Number	**9,581,655**	**9,551,814**
Group net profit (after minority interests)	KEUR	2,515	3,250
Earnings per share (undiluted)	EUR	**0.26**	**0.34**
Earnings per share (diluted)	EUR	**0.26**	**0.34**

The computation of diluted earnings per share does not take account of 242,000 options which have an antidilutive effect.

33. Financial instruments / risk management

Significant accounting policies: Details of the Group's principal accounting policies, including recognition criteria, measurement principles and the principles for recognising income and expenses, are reported – separately for each class of financial asset, liability and equity instrument – in Note 4 of the notes to the consolidated financial statements. Impairment losses are analysed in Note 17.

Categories of financial instruments:

	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR
Financial assets		
Measured at fair value through profit or loss	0	0
Loans and receivables (including cash and cash equivalents)	11.259	8.129
Available-for-sale financial assets	1.555	1.561
Financial liabilities		
Measured at fair value through profit or loss	0	0
Other financial liabilities measured at amortized cost	6.520	4.844

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 recognise economic opportunities and make the best possible use of them; on the other hand, they must be able to identify the risks accompanying every business activity, analyse the effects they may have on the enterprise and, as far as possible, use preventive measures to avoid or stave off dangers which could arise.

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. PULSION's risk management manual, which is continually revised to take account of internal and external changes, provides staff with a tool for identifying and correctly evaluating potential damage and the probability of occurrence. 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.

Capital risk management: The Group's objectives when managing capital are to maximise the return of the various parties involved in the company by optimising the relationship between equity and debt capital. This also helps to safeguard the Group's ability to continue as a going concern. The Group's capital structure comprises debt, cash and cash equivalents and the equity attributable to shareholders of the parent company. The latter comprise issued share capital, additional paid-in capital, other reserves and accumulated deficit.

Market risk: The Group is exposed to currency and interest rate risks.

Foreign currency risks arise from expected future transactions, recognised assets and liabilities and the net investment in foreign operations. A foreign currency risk arises when expected future transactions, as well as recognised 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. The carrying amounts of the Group's foreign currency monetary assets and liabilities on the balance sheet date were as follows:

	Assets		Liabilities	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
	KEUR	KEUR	KEUR	KEUR
USD	1,434	48	113	137
AUD	426	235	95	65
GBP	508	628	286	418
CHF	65	53	0	3
JPY	0	0	0	1

The following tables show, from a group perspective, the sensitivity to a 10% change in the Euro against other currencies to which the Group is exposed. The potential impact of a 10% increase in the exchange rate against the Euro is shown; if the change were in the other direction the impact would be the same (but with negative amounts).

Assets KEUR	Carrying amount Dec. 31, 2007	Change +10 % Dec. 31, 2007	Difference Dec. 31, 2007	Carrying amount Dec. 31, 2006	Change +10 % Dec. 31, 2006	Difference Dec. 31, 2006
USD	1,434	1,578	143	48	53	5
AUD	426	468	43	235	258	23
GBP	508	559	51	628	691	63
	2,368	**2,605**	**237**	**911**	**1,002**	**91**

Liabilities KEUR	Carrying amount Dec. 31, 2007	Change +10 % Dec. 31, 2007	Difference Dec. 31, 2007	Carrying amount Dec. 31, 2006	Change +10 % Dec. 31, 2006	Difference Dec. 31, 2006
USD	113	125	11	137	151	14
AUD	95	105	10	65	71	6
GBP	286	314	29	418	460	42
	494	**544**	**49**	**620**	**682**	**62**

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 39.

Credit risk: Credit risk is defined as the risk that the Group could incur a loss as a result of one of its counterparties not fulfilling its contractual obligations. Internal rules are in place to ensure that business transactions are only entered into with creditworthy counterparties and that, where appropriate, adequate collateral is obtained to reduce risk of non-fulfilment of contractual obligations by counterparties. Trade accounts receivable mostly relate to public sector organisations and distributors and are spread over various geographical regions. The financial standing of debtors is evaluated regularly in the form of credit assessments. The default risk relating to cash funds and available-for-sale financial assets is very small since the counterparties are banks. There have been no incidences of default in the past.

Liquidity risk: The Group manages liquidity risk by maintaining adequate headroom and credit lines with banks; by ongoing monitoring of forecasted and actual cash-flows and ensuring matching maturity structure for financial assets and liabilities. In the light of further planned investments, it is possible that existing cash funds could be reduced in the future.

The following tables show the expected cash outflows (including interest) for liabilities to banks and financial debt based on contractually agreed maturity dates.

December 31, 2007 KEUR	Due immediately	Due within 3 months	Due within 3 to 12 months	Due within 1 to 5 years	Due after more than 5 years
Liabilities to banks subject to variable interest rates	0	0	37	674	0
Liabilities to banks subject to fixed interest rates	0	74	376	1,570	25
Financial debt	23	164	5	53	0
	23	**238**	**418**	**2,297**	**25**

December 31, 2006 KEUR	Due immediately	Due within 3 months	Due within 3 to 12 months	Due within 1 to 5 years	Due after more than 5 years
Liabilities to banks subject to variable interest rates	0	0	25	411	0
Liabilities to banks subject to fixed interest rates	55	68	533	679	67
Financial debt	22	0	195	226	0
	77	**68**	**753**	**1,316**	**67**

34. Segment reporting

In accordance with IFRS 8 (which has been applied early) the Group reports on its operating segments based on the way information is reported internally to the chief operating decision maker and in line with the way that the chief operating decision maker in each operating segment checks that information. Information on operating segments is presented on the basis of geographical regions (management approach). 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.

Segment information at December 31, 2007 is analysed as follows:

KEUR	Germany	Rest of Europe	USA	Australia	Reconcili-ations	Group
Sales - 3rd parties	18,222	7,553	1,616	866	0	28,257
thereof equipment	4,299	1,113	127	159	0	5,698
thereof disposables	11,035	5,366	180	624	0	17,205
thereof indication / diagnosis	2,789	976	1,297	66	0	5,128
thereof service and other	99	98	12	17	0	226
Sales - intercompany	5,717	0	0	0	–5,717	0
Depreciation and amortization	–1,572	–219	–34	–59	0	–1,884
Impairments	–54	–37	0	–3	0	–94
Non-cash income and expenses	113	–18	0	0	–107	–12
Operating segment result before interest and taxes	**4,885**	**–182**	**–733**	**–274**	**436**	**4,132**
Interest expenses	–170	–11	0	–10	0	–191
Interest income	99	8	0	1	0	108
Income taxes	-301	-65	0	0	-1,122	–1,488
Minority interests					–46	–46
Group net profit (after minority interests)						**2,515**
Segment assets	38,848	4,909	1,782	705	–19,412	26,833
Segment liabilities	8,573	6,481	4,479	2,432	–12,186	9,779
Segment capital expenditure	3,204	1,087	194	130	–717	3,898

Segment information at December 31, 2006 is analysed as follows:

KEUR	Germany	Rest of Europe	USA	Australia	Reconcili-ations	Group
Sales - 3rd parties	16,195	7,374	159	728	0	24,456
thereof equipment	3,819	1,236	52	88	0	5,195
thereof disposables	9,734	5,229	104	566	0	15,633
thereof indication / diagnosis	2,555	804	0	54	0	3.413
thereof service and other	87	105	3	20	0	215
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	–200	–40	0	-3	0	–243
Interest income	79	10	0	2	0	90
Income taxes	104	-120	1	0	173	158
Minority interests					–160	–160
Group net profit (after minority interests)						**3,250**
Segment assets	31,611	4,684	359	516	–14,436	22,733
Segment liabilities	6,782	5,693	2,473	1,864	–8,705	8,107
Segment capital expenditure	2,405	1,150	161	71	–865	2,923

The previous year's figures for the segments have been restated in accordance with IFRS 8. 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. Consolidation adjustments/eliminations and deferred taxes are shown in the reconciliation column.

The Group's customer portfolio does not give rise to any risks in terms of dependence on individual customers.

35. Representative bodies of PULSION

During the financial year 2007, the Management Board comprised the following:

Bradley P. Gould, Chairman, responsible for Marketing and Sales, and from September 2007 also for Investor Relations and Human Resources
Other mandates:
Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom
Chairman 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, member of the Management Board, responsible for Research and Development, Production, Logistics and International Registrations, and from September 2007 also for Finance and Administration
Other mandates:
Member of the Board of Directors of PULSION Medical Inc., USA
Member of the Board of Directors of PULSION Pacific Pty. Ltd., Australia
Chairman of the Board of Directors of PULSION Benelux N.V., Belgium

Stefan Land, member of the Management Board, responsible for Finance, Investor Relations, Administration and Purchases (until August 31, 2007)
Other mandates:
Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom (until July 23, 2007)
Member of the Board of Directors of PULSION Medical Inc., USA (until July 26, 2007)
Member of the Board of Directors of PULSION Pacific Pty. Ltd., Australia (until July 26, 2007)

Management Board remuneration	2007				2006	
	Fixed* KEUR	Variable** KEUR	Variable*** KEUR	Other**** KEUR	Fixed* KEUR	Variable KEUR
Bradley P. Gould	278	71	115	0	164	0
Matthias Bohn	194	50	60	24	174	57
Stefan Land (Board member until August 31, 2007)	112	97	0	43	158	55

* including private use of car, reimbursement of social security contributions and insurance benefits
** remuneration for work performed in 2006, in the case of Stefan Land including remuneration for work performed in 2007
*** estimated entitlement for 2007
**** remuneration earned on the exercise of stock options

No stock options were granted to members of the Management Board during the financial year 2007. The expense for stock option recognised in 2007 on a time-apportioned basis was KEUR 86 for Mr. Gould (2006: KEUR 10), KEUR 6 for Mr. Bohn (2006: KEUR 9) and KEUR 0 (2006: KEUR 9) for Mr. Land. The total remuneration of the Management Board for 2007 amounted to KEUR 869 (2006: KEUR 608).

During the financial year 2007, the Supervisory Board comprised the following:

Dr. Burkhard Wittek, MBA, businessman, Chairman
Further mandates:
iOnGen AG, Göttingen (member of the Advisory Board)

Michael Bourjau, Business Management Graduate, Consultant, Deputy Chairman
Further mandates:
Adcirculum Investment GmbH, Reutlingen
Schmidbauer GmbH & Co. KG, Gräfelfing

Claus F. Vogt, Business Management Graduate, Qualified Auditor, Qualified Tax Adviser
Further mandates:
ABR German Real Estate AG, Hamburg (Chairman)
Intertainment AG, Munich (replacement member)
Human Electrics GmbH, Rednitzhembach (member of the Advisory Board)

Remuneration of the Supervisory Board	2007		2006	
	Fixed KEUR	Variable KEUR	Fixed KEUR	Variable KEUR
Dr. Burkhard Wittek	40	10	40	10
Michael Bourjau	30	10	25	10
Claus F. Vogt	20	10	25	10

The total remuneration of the Supervisory Board for 2007 amounted to KEUR 120 (2006: KEUR 120). Liabilities to the members of the Supervisory Board at December 31, 2007 totalled KEUR 83 (2006: KEUR 77). Supervisory Board members gave notice to the Company at December 31, 2007 that they held 1,749,741 shares of the Company at that date.

36. Related parties

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, 2007 KEUR	Dec. 31, 2006 KEUR
PULSION France S.A.R.L.	2,128	1,730
PULSION Benelux N.V.	910	670
PULSION Medical Inc.	2,681	1,396
PULSION Medical UK Limited	172	131
PULSION Pacific Pty. Limited	1,497	922
PULSION Medical Systems Iberica	757	379
KIMAL PLC, Uxbridge, United Kingdom	61	26
MC Infortécnica, Madrid, Spain	0	16
Total	**8,206**	**5,270**

Allowances on receivables at December 31, 2007 totalled KEUR 5,282 (2006 KEUR 3,590).

Loans	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR
PULSION Benelux N.V.	1,121	1,121
PULSION Medical Inc.	1,731	988
PULSION Pacific Pty. Limited	817	853
PULSION Medical Systems Iberica	417	417
Total	**4,085**	**3,379**

Allowances on loans at December 31, 2007 totalled KEUR 4,034 (2006 KEUR 3,328).

Payables	Dec. 31, 2007 KEUR	Dec. 31, 2006 KEUR
PULSION France S.A.R.L.	18	0
PULSION Benelux N.V.	0	0
PULSION Pacific Pty. Limited	0	0
KIMAL PLC, Uxbridge, United Kingdom	56	63
MC Infortécnica, Madrid, Spain	2	25
Total	**76**	**88**

Sales	2007 KEUR	2006 KEUR
PULSION France S.A.R.L.	1,129	1,298
PULSION Benelux N.V.	900	716
PULSION Medical Inc.	1,047	223
PULSION Medical UK Limited	1,192	1,218
PULSION Pacific Pty. Limited	494	414
PULSION Medical Systems Iberica	955	978
KIMAL PLC, Uxbridge, United Kingdom	366	128
MC Infortécnica, Madrid, Spain	4	3
Total	**6,087**	**4,978**

Interest and other income	2007 KEUR	2006 KEUR
PULSION France S.A.R.L.	105	91
PULSION Benelux N.V.	107	103
PULSION Medical Inc.	140	47
PULSION Medical UK Limited	101	134
PULSION Pacific Pty. Limited	82	57
PULSION Medical Systems Iberica	45	33
Total	**580**	**465**

During the financial year 2007, services amounting to KEUR 161 (2006: KEUR 189) were purchased from KIMAL PLC, Uxbridge / United Kingdom (the minority shareholder of PULSION Medical UK Ltd.) and services amounting to KEUR 117 (2006: KEUR 62) were purchased from MC Infortécnica, Madrid / Spain (the former minority shareholder of PULSION Medical Systems Iberica).

At December 31, 2007, contingent liabilities for rental guarantees to landlords amounted to KEUR 132 (2006: KEUR 94) and for the Spanish subsidiary to KEUR 168 (2006: 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 2009.

PULSION AG has also given a guarantee of up to GBP 200 thousand (2006: GBP 200 thousand) as collateral for a bank loan of the subsidiary Pulsion Medical UK Ltd.

The entities listed in Note 3 of the notes to the consolidated financial statements are consolidated and intragroup receivables, loans, liabilities, income and expenses are eliminated.

37. Auditor's fees

In 2007, an expense of KEUR 70 was recognised for the audit of the Company and Group financial statements (2006: KEUR 69 also for the audit of the Company and Group financial statements).

38. 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.

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

Deutsche Bank AG gave notice to the Company in a letter dated January 11, 2007 pursuant to § 21 (1) and § 24 of the Securities Trading Act (WpHG) in conjunction with § 32 (2) of the Investment Act (InvG) that its subsidiary, DWS Investment GmbH, Mainzer Landstraße 178 – 190, 60327 Frankfurt, had surpassed the threshold of 5 % of the voting rights of the Company on January 5, 2007 and at that stage held 5.14 % of the voting rights. In addition, the Company was also given notice in a letter dated October 18, 2007 that DWS Investment GmbH had reduced its holdings to below the mandatory reportable thresholds of 5 % and 3 % of the voting rights of PULSION Medical Systems AG and held 0.00 % of the voting rights at that stage (corresponds to zero votes).

Absolute Germany Fund Limited, George Town / Grand Cayman, Cayman Islands, gave notice on February 8, 2007 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG, Munich, surpassed the mandatory reportable of 5 % on May 22, 2006 and that it held 5.163% of the voting rights at that stage (corresponds to 490,235 votes). In a letter dated September 7, 2007, Absolute Germany Fund Limited gave notice pursuant to § 21 (1) WpHG that its voting rights had surpassed the mandatory reportable of 10 % on August 31, 2007 and that it held 12.022 % of the voting rights at that stage (number of shares: 1,150,047; share capital 9,566,302 shares). Absolute Germany Fund Limited subsequently gave notice in a letter dated October 12, 2007 pursuant to § 21 (1) WpHG that its holdings had reduced on October 08, 2007 to below the mandatory reportable thresholds of 10 %, 5 % and 3 % of the voting rights and that it held 0 % of the voting rights at that stage (corresponds to zero shares / zero voting rights).

In a letter dated February 12, 2007, CSI Asset Management Establishment, Liechtenstein, gave notice pursuant to § 21 (1) WpHG that its holdings had reduced to below the mandatory reportable thresholds of 5 % and 3 % on February 7, 2007 and that it held 0 % of the voting rights at that stage.

FORUM Private Equity GmbH, Munich, gave notice in a letter dated August 29, 2007 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG, Munich, (WKN 548790) surpassed the mandatory reportable of 10 % on August 7, 2007 and that it held 966,316 shares in the Company at that date. Based on a total of 9,554,302 outstanding shares, this corresponds to 10.11 % of the Company's shares and therefore 10.11 % of the voting rights.

Absolute Capital Management Holdings Limited George Town, Grand Cayman, Cayman Islands / British Overseas Territory, gave notice to the Company in a letter dated September 7, 2007 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG surpassed the mandatory reportable of 10 % on August 31, 2007 and that it held 12.022 % of the Company's shares at that stage (number of shares: 1,150,047; total share capital: 9,566,302 shares). Accordingly, 12,022 % of the voting rights were attributable to Absolute Capital Management Holdings Limited pursuant to § 22 (1) sentence 1 no. 1 and no. 6 WpHG (number of shares: 1,150,047; total share capital: 9,566,302). The following entities hold more than 3 % of the voting rights of the Company: Absolute Germany Fund Limited. In addition, the Company was given notice on October 12, 2007 pursuant to § 21 (1) WpHG that it had reduced its holdings to below the mandatory reportable thresholds of 10%, 5 % and 3 % of the voting rights on October 8, 2007 and that it held 0 % of the voting rights at that stage (corresponds to zero votes).

Dr. Burkhard Wittek, Germany gave notice to the Company on October 18, 2007 pursuant to § 21 (1) WpHG that his voting rights in PULSION Medical Systems AG, Munich had surpassed the mandatory reportable thresholds of 3 %, 5 % and 10 % on October 8, 2007 and he held 12.45% of the voting rights at that stage (corresponding to 1,191,354 votes). These voting rights are all attributable to Dr. Burkhard Wittek pursuant to § 22 (1) sentence 1 no. 1 WpHG. The voting rights attributable to him are held via entities controlled by him which hold more than 3 % of the voting rights of PULSION Medical Systems AG, namely Forum European Smallcaps GmbH, Munich. Also in the letter dated October 18, 2007, Dr. Burkhard gave notice pursuant to § 21 (1) WpHG that his voting rights in the Company had surpassed on October 11, 2007 the mandatory reportable threshold of 15 % and that he held 17.57 % of the voting rights at that stage

(corresponding to 1,680,941 votes and a total of 9,566,302 outstanding shares). These voting rights are all attributable to Dr. Burkhard Wittek pursuant to § 22 (1) sentence 1 no. 1 WpHG. The voting rights attributable to him are held via entities controlled by him which hold more than 15 % of the voting rights of PULSION Medical Systems AG, namely Forum European Smallcaps GmbH, Munich.

Forum European Smallcaps GmbH, Munich, gave notice to the Company on October 17, 2007 pursuant to § 21 (1) WpHG that its voting rights in the Company had surpassed the mandatory reportable threshold of 15 % on October 11, 2007 and that it held 17.57 % of the voting rights at that stage (corresponding to 1,680,941 votes and a total of 9,566,302 outstanding shares).

Fidelity International Limited, P.O. Box HM 670, Hamilton HMCX, Bermuda, gave notice to the Company in a letter dated November 19, 2007 pursuant to § 21 (1) WpHG that its share of the voting power of the Company had dropped below the 10 % mandatory reportable threshold on November 14, 2007 and that it held 9.93 % of the voting rights at that stage (949,885 shares). The voting rights are attributable to Fidelity International Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG. 7.60 % of these voting rights are attributable to FID FDS – ESC POOL TWO.

40. Events after the balance sheet date

A rental agreement for new administrative premises was signed during the first quarter of 2008. Apart from that, there have been no significant events after the balance sheet date.

Munich, March 10, 2008
PULSION Medical Systems AG

Bradley P. Gould
Chairman of the Management Board

Matthias Bohn
Member of the Management Board

Responsiblity Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Munich, March 10, 2008
PULSION Medical Systems AG

Bradley P. Gould
Chairman of the Management Board

Matthias Bohn
Member of the Management Board

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, 2007. 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 as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 11, 2008
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(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 2008:

Press conference	March 20, 2008	Frankfurt
8th MedTech-Day	April 15, 2008	Frankfurt
Annual General Meeting	May 08, 2008	Munich
Report on 1st Quarter	May 13, 2008	
Report on 1st Half-year	August 11, 2008	
Report on 1st 9 Months	November 11, 2008	

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 to 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 the 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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PULSION
Medical Systems

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Financial Statements as of December 31, 2007
and Management Report 2007
of

PULSION Medical Systems AG
Munich

PULSION Medical Systems AG
Munich

Balance Sheet as at December 31, 2007

ASSETS

	Dec. 31, 2007 EUR	Dec. 31, 2006 EUR
A. FIXED ASSETS		
I. Intangible assets		
1. Concessions, licences and similiar rights	113,404.68	95,171.54
2. Goodwill	0.00	3,129.59
	113,404.68	98,301.13
II. Property, plant and equipment		
1. Land, buildings, including leasehold improvements	236,829.81	247,854.88
2. Technical equipment, plant, machinery	397,655.48	333,836.51
3. Other equipment, furniture and fittings	2,041,315.71	1,878,403.94
4. Payments in advance and assets under construction	382,258.44	0.00
	3,058,059.44	2,460,095.33
III. Investments		
1. Investments in affiliated companies	793,622.45	428,693.06
2. Loans to affiliated companies	51,612.10	51,612.10
	845,234.55	480,305.16
	4,016,698.67	3,038,701.62
B. CURRENT ASSETS		
I. Inventories		
1. Raw materials and supplies	2,349,146.22	1,313,699.79
2. Work in progress	334,510.88	327,197.22
3. Finished goods and goods for resale	1,152,215.18	1,478,084.33
4. Advanced payments to suppliers	112,500.00	67,950.00
	3,948,372.28	3,186,931.34
II. Assets and other receivables		
1. Trade accounts receivables	3,030,750.55	2,141,414.41
2. Receivables from affiliated companies	2,863,382.83	1,638,029.67
3. Other assets	181,002.32	158,924.47
	6,075,135.70	3,938,368.55
III. Marketable securities		
1. Other marketable securities	1,555,451.37	1,560,526.50
	1,555,451.37	1,560,526.50
IV. Cash on hand and at banks	3,529,679.50	2,977,784.38
	15,108,638.85	11,663,610.77
C. DEFERRED EXPENSES	218,038.03	201,504.91
	19,343,375.55	14,903,817.30

EQUITY AND LIABILITIES

	Dec. 31, 2007 EUR	Dec. 31, 2006 EUR
A. EQUITY		
I. Subscribed capital	9,577,302.00	9,526,302.00
(Conditional capital 2,794,337; 2006 KEUR 2,845)		
II. Additional paid in capital	22,449,131.40	22,141,148.40
III. Accumulated deficit	-20,103,548.69	-21,334,872.75
	11,922,884.71	10,332,577.65
B. PROVISIONS		
1. Tax provision	554,739.80	392,278.36
2. Other provisions	1,985,851.38	1,647,355.09
	2,540,591.18	2,039,633.45
C. LIABILITIES		
1. Liabilities to banks	2,157,293.23	897,293.19
2. Advanced payments from customers	17,556.00	0.00
3. Trade accounts payables	1,585,190.36	875,922.06
4. Payables to affiliated companies	23,071.86	0.00
5. Other liabilities	775,600.56	758,390.95
- of which for taxes: 0 EUR (2006: KEUR 96)	4,558,712.01	2,531,606.20
- of which for social security: 3,298.04 EUR (2006: KEUR 7)		
D. DEFERRED INCOME	321,187.65	0.00
	19,343,375.55	14,903,817.30

PULSION Medical Systems AG
Munich

Income Statement
For The Financial Year Ended
December 31, 2007

		2007 EUR	2006 EUR
1.	Sales	23,818,768.82	20,800,308.55
2.	Cost of Sales	7,954,529.85	6,152,141.14
3.	Gross profit	15,864,238.97	14,648,167.41
4.	Selling and marketing expenses	6,954,905.67	6,137,905.55
5.	General and administrative expenses	3,287,113.75	3,058,132.35
6.	Research and development expenses	2,641,439.88	2,638,509.83
7.	Other operating income	593,837.72	1,025,030.48
8.	Other operating expenses	1,790,227.72	1,679,989.40
9.	Investment income of which from affiliated companies EUR 49,576.45 (2006: KEUR 64)	49,576.45	64,015.85
10.	Income from loans reported as investments of which from affiliated companies EUR 159,820.24 (2006: KEUR 113)	159,820.24	113,330.39
11.	Other interests and similar income of which from affiliated companies EUR 320,276.63 (2006: KEUR 200)	403,813.83	265,939.96
12.	Impaiment losses on investments	742,251.73	308,649.66
13.	Interests and similar expenses	97,537.37	88,708.04
14.	**Profit from ordiniary activities**	1,557,811.09	2,204,589.26
15.	Income taxes	281,113.08	327,335.43
16.	Other taxes	45,373.95	132,053.58
17.	**Net profit for the year**	1,231,324.06	1,745,200.25
18.	Accumulated deficit brought forward	-21,334,872.75	-23,080,073.00
19.	**Accumulated deficit**	-20,103,548.69	-21,334,872.75

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.

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.

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).

Accounting principles and policies

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

Purchased **intangible assets** are recognized at acquisition cost and are amortized systematically over their estimated useful lives (3 - 15 years; straight-line method) where the value of the assets is subject to depletion. Goodwill is amortized 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 – 33 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 standard cost method. The effect of remeasuring inventories from average cost to standard cost was KEUR 55. 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 recognized 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 recognized on all amounts which are at risk; a general allowance of 0.5% (2006: 0.5%) is recognized on all trade accounts receivable not subject to a specific allowance.

Other securities are stated at continued historical cost. The carrying amount is restated to its fair value at the balance sheet date.

Cash on hand and at banks 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 and stated at its par value.

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 at fair value. In accordance with rule contained in IFRS 2, 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 utilized, 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.

Deferred income relates to proceeds which represent income for a specific period after the balance sheet date.

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 unrealized 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 so that the equipment is not capitalized). 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 selling 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 capitalized in the balance sheet 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. This equipment is also therefore capitalized within property, plant and equipment.

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

Fixed assets

The development of tangible, intangible and investment assets during 2007 and their composition at December 31, 2007 are shown, together with the depreciation/amortization expense for the year, in the analysis of changes in fixed

assets (appendix to the Notes). Impairment losses of KEUR 41 were recognized during the period under report.

Investments

The composition of investments is shown below in the section "Investment disclosures". The disclosed amounts relate to December 31, 2007 or the financial year 2007.

Investment disclosures

	Investment %	Equity KEUR	Profit/loss KEUR
PULSION France S.A.R.L., Aix en Provence, France	100.0	- 1,111	- 509
PULSION Benelux N.V., Gent, Belgium	99.96	- 1,134	- 9
PULSION Medical Inc., East Brunswick, New Jersey, USA	100.0	- 2,657	- 847
PULSION Medical UK Limited, Uxbridge, United Kingdom	51.0	601	44
PULSION Pacific Pty. Limited, Sydney, NSW, Australia	58.0	- 1,735	- 341
PULSION Medical Systems Iberica S.L., Madrid, Spain	100.0	116	- 35
KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu, Hungary	25.0	-	-

PULSION France moved into new premises at the beginning of 2008 and will be based in future in La Montagne, France.

On October 22, 2007 PULSION exercised its option to purchase the shares of the minority shareholder (40% of the share capital) held by MC Infortecnica S.L. in PULSION Medical Systems Iberica S.L., Madrid. The purchase consideration was KEUR 300 and is payable in instalments through to October 22, 2009. As a result of the transaction, PULSION holds 100% of the shares of the Spanish subsidiary.

The minority shareholders' interest in PULSION Benelux N.V. was acquired in accordance with an agreement dated December 21, 2006. The contractually agreed "Earn – out consideration" has been taken into account as at December 31, 2007, with the consequence that the cost of investment in PULSION Benelux N.V. increased by KEUR 65. On October 30, 2007 one of the shares was sold to PULSION France S.A.R.L., France.

The investment in PULSION Pacific Pty Ltd. was increased from 51% to 58% following a capital reduction at that entity.

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. Winding-up proceedings are expected to be completed during the first quarter 2008.

Receivables and other assets

All receivables and other assets, except for an amount of KEUR 225, are due within one year.

The receivables from affiliated companies relate to trade accounts receivables (KEUR 2,689) and other assets (KEUR 174). Interest in charged on these balances at normal market conditions.

Other assets comprise mainly taxes receivable relating to foreign value added tax (KEUR 30), advance payments to suppliers (KEUR 18) and suppliers accounts with debit balances (KEUR 26).

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 (KEUR 3,132) balances, as well as 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, 2007 is EUR 9,577,302, divided into a total of 9,577,302 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 51,000 subscription rights attached to stock options to acquire 51,000 shares, the Company's share capital increased in the financial year 2007 from EUR 9,526,302 to EUR 9,577,302.

At the balance sheet date, a total of 283,000 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. Under the Stock Option Plan 2000, one half of the options could 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 expired after a period of five years. Under the Stock Option Plans 2003 and 2006, one half of the options can be exercised at the earliest three years after the grant date, and the other half at the earliest four years after the grant date. The options for these stock option plans expire eight years after grant date.

Conditional capital

At December 31, 2007, a Conditional Capitals I, II and III of EUR 313,837, EUR 350,000 and EUR 130,500 respectively 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 III decreased from EUR 181,500 to EUR 130,500 as a result of the conversion into Company shares of 51,000 share options with a notional value of EUR 51,000.

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.

In accordance with the shareholders' resolution taken at the Annual General Meeting on May 24, 2007, the Company is authorized in accordance with § 71 (1) no. 8 AktG to acquire, prior to November 23, 2008, up to 10% of its own present share capital. The authorization may be exercised fully or in partial amounts, in the latter case also on several occasions, for one or more purposes. The authorization may not be used to trade in own shares. The shares may be purchased directly on the stock market or by means of a public offer addressed to all shareholders.

Statutory reserve

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, 2007	22,141
Premium on conversion of 51,000 share options	150
Premium on the fair value measurement of stock options	158
Balance at December 31, 2007	22,449

Provisions

Tax provisions and other provisions amounted to KEUR 555 and KEUR 1,986 respectively.

Other provisions comprise mainly accruals for employee bonuses (KEUR 553), year-end accounting and audit costs (KEUR 25), licence fees (KEUR 321), warranties (KEUR 53), leasehold improvement reversal obligations (KEUR 148), outstanding supplier invoices (KEUR 230) and holiday entitlements (KEUR 76).

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, 2007 Maturity			Dec. 31, 2006 Maturity		
Nature of liability	up to 1 year	later than 5 years	Total	up to 1 year	later than 5 years	Total
1. Liabilities to banks	140	24	2,157*	140	64	897*
2. Advance payments received on orders	18	0	18	0	0	0
3. Trade accounts payable	1,585	0	1,585	876	0	876
4. Payables to affiliated companies	23	0	23	0	0	0
5. Other liabilities	618	0	776	548	0	758
	2,384	24	4,559	1,564	64	2,531

*) The following collateral has been given to secure liabilities to banks totalling KEUR 2,157: At the balance sheet date, mortgages on property totalled KEUR 417 (Dec. 31, 2006: KEUR 417). Cash at bank totalling KEUR 300 (Dec. 31, 2006: KEUR 262) was pledged as collateral. In addition, inventories and equipment have been partially pledged as collateral to secure existing and future bank liabilities (KEUR 524; 2006: KEUR 749). Assignment as collateral has also been agreed for investments (partly acquired and partly still be acquired) totalling KEUR 720 (including value added tax) (Dec. 31, 2006: KEUR 0).

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

	Dec. 31, 2007 KEUR
Bayerische Beteiligungsgesellschaft mbH	51
Interest payable	3
	54

The silent participation of Bayerischen Kapitalbeteiligungsgesellschaft mbH was terminated early in a letter dated December 20, 2007 with effect from December 31, 2008.

Contingent liabilities

The Company has contingent liabilities of KEUR 132 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 2009.

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

There were no contingent liabilities at the balance sheet date.

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
2008	5,188
2009	1,804
2010	1,797
2011	3,511
2012	124
	12,424

In addition, at December 31, 2007, the Company had purchase commitments for the purchase of raw materials, supplies and other items in the year 2008 amounting to EUR 2.0 million.

Notes to the income statement

Sales

	2007 KEUR	2006 KEUR
Sales by product group		
Equipment	5,293	4,476
Disposables	13,922	13,201
Indication/diagnosis	4,022	3,063
Other/ customer service	582	60
	23,819	20,800

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).

	2007 KEUR	2006 KEUR
Sales by geographical region		
Germany	11,149	10,038
Europe excluding Germany	9,985	9,052
Other	2,685	1,710
	23,819	20,800

Sales by business lines: Sales of the Critical Care and Pharma business lines in 2007 amounted to KEUR 20,106 (2006: KEUR 18,029) and KEUR 3,713 (2006: KEUR 2,771) respectively.

Other operating income

Other operating income comprises mainly income from the private use of company vehicles (KEUR 110; 2006: KEUR 98), prior year income from the reversal of provisions (KEUR 97; 2006: KEUR 168), income arising on the exercise of stock options (KEUR 106; 2006: KEUR 85) and income from the reversal of an impairment loss on non-current loans to PULSION Pacific (KEUR 36).

Cost of materials

	2007 KEUR	2006 KEUR
Cost of raw materials and supplies and merchandise	5,221	3,794
Cost of purchased services	454	301
	5,675	4,095

Personnel expense

	2007 KEUR	2006 KEUR
Wages and salaries	5,720	4,946
Social security, pension and pension expense of which pension expense KEUR 422 (2006: KEUR 371)	893	870
	6,613	5,816

In addition to personnel expenses disclosed above, personnel recruitment costs amounting to KEUR 139 (2006: KEUR 71) were incurred.

Impairment losses

As a result of the losses of certain subsidiaries, impairment losses of KEUR 742 were recorded on long-term loans during the financial year 2007 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. 1, 2007	Additions Disposals	Impairment losses / reversals of impairment losses	Carrying amount Dec. 31, 2007
	KEUR	KEUR	KEUR	KEUR
PULSION USA	0	+742	-742	0
PULSION Pacific	0	-36	+36	0
PULSION Iberica	52	0	0	52
	52	+706	-706	52

During the year PULSION Pacific paid back KEUR 36 of a non-current loan on which an impairment loss had previously been recognized. The impairment loss was therefore reversed by the same amount in 2007 and the income presented in other operating income.

In addition, impairment losses of KEUR 1,692 were recognized on trade receivables from affiliated companies pursuant to § 253 (3) sentence 2 HGB in 2007 due to the on-going loss situation at the subsidiaries involved (expense presented in other operating expenses).

Write-downs on current assets

In 2007, write-downs of KEUR 81 (2006: KEUR 309) were recognized to reduce the carrying amounts of current assets to their lower fair value. The net impact of write-downs in 2007 was recognized as an expense within cost of sales.

Expenses relating to prior periods

In 2007, expenses relating to prior periods amounted to KEUR 94 (2006: KEUR 107). This relates primarily to expenses for which no provisions were recognized at the end of the previous year.

Taxes on income

Taxes on income comprise German corporation tax, solidarity surcharge and trade municipal tax for the financial year 2007 and foreign withholding taxes. This line also includes tax income of KEUR 36 relating to prior years.
Taxes on income all relate to ordinary activities.

Other disclosures

Supervisory Board

Dr. Burkhard Wittek, MBA, Businessman, Chairman

Further mandates:
iOnGen AG, Göttingen (member of the Advisory Board)

Michael Bourjau, Dipl.-Kaufmann (FH), Consultant, Deputy Chairman

Further mandates:
Adcirculum Investment GmbH, Reutlingen
Schmidbauer GmbH & Co. KG, Gräfelfing

Claus F. Vogt, Dipl.-Kaufmann, Qualified Auditor, Qualified Tax Adviser

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

The total remuneration of the Supervisory Board for 2007 amounted to KEUR 120 (2006: KEUR 120)

Management Board

The following persons served as members of the Management Board of PULSION Medical Systems AG in 2007 (as recorded in the Commercial Register):

Bradley P. Gould, Chairman, responsible for Marketing and Sales, and since September 2007, also for Investor Relations and Human Resource

Other mandates:
Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom, Chairman 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, responsible for Research and Development, Production, Logistics and International Registrations, and since September 2007 also for Finance and Administration
Other mandates:
Member of the Board of Directors of PULSION Medical Inc., USA
Member of the Board of Directors of PULSION Pacific Pty. Ltd., Australia
Chairman of the Board of Directors of PULSION Benelux N. V., Belgium

Stefan Land, Management Board member, responsible for Finance, Investor Relations, Administration and Purchases (until August 31, 2007)
Other mandates:
Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom (until July 23, 2007)
Member of the Board of Directors of PULSION Medical Inc., USA (until July 26, 2007)
Member of the Board of Directors of PULSION Pacific Pty. Ltd., Australia (until July 26, 2007)

Remuneration in KEUR

	2007			
	Fix * KEUR	**Variable**** KEUR	**Variable***** KEUR	**Other****** KEUR
Bradley P. Gould	278	71	115	0
Matthias Bohn	194	50	60	24
Stefan Land (Board member until August 31, 2007)	112	97	0	43

* including private use of car, reimbursement of social security contributions and insurance benefits
** remuneration for work performed in 2006, in the case of Stefan Land including remuneration for work performed in 2007
*** estimated entitlement for 2007
**** remuneration earned on the exercise of stock options

No stock options were granted to members of the Management Board during the financial year 2007. The expense for stock option recognized in 2007 on a time-apportioned basis was KEUR 86 for Mr. Gould (2006: KEUR 10), KEUR 6 for Mr. Bohn (2006: KEUR 9) and KEUR 0 (2006: KEUR 9) for Mr. Land. The total remuneration paid to members of the Management Board for 2007 amounted to KEUR 869 (2006: KEUR 608).

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 2007, an expense of KEUR 70 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):

	2007	2006
Salaried employees	100	93

The Company's workforce includes one apprentice. The Company does not have any blue-collared staff.

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 (AktG) 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)

Deutsche Bank AG gave notice to the Company in a letter dated January 11, 2007 pursuant to § 21 (1) and § 24 of the Securities Trading Act (WpHG) in conjunction with § 32 (2) of the Investment Act (InvG) that its subsidiary, DWS Investment GmbH, Mainzer Landstraße 178 – 190, 60327 Frankfurt, had surpassed the mandatory reportable threshold of 5% of the voting rights of the Company on January 5, 2007 and at that stage held 5.14% of the voting rights. In addition, the Company was also given notice in a letter dated October 18, 2007 that DWS Investment GmbH had reduced its holdings to below the mandatory reportable thresholds of 5% and 3% of the voting rights of PULSION Medical Systems AG and held 0.00% of the voting rights at that stage (corresponds to zero votes).

Absolute Germany Fund Limited, George Town / Grand Cayman, Cayman Islands, gave notice on February 8, 2007 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG, Munich, surpassed the mandatory reportable of 5% on May 22, 2006 and that it held 5.163% of the voting rights at that stage (corresponds to 490,235 votes). In a letter dated September 7, Absolute Germany Fund Limited gave notice pursuant to § 21 (1) WpHG that its voting rights had surpassed the mandatory reportable of 10% on August 31, 2007 and that it held 12.022% of the voting rights at that stage (number of shares: 1,150,047; total share capital 9,566,302 shares). Absolute Germany Fund Limited subsequently gave notice in a letter dated October 12, 2007 pursuant to § 21 (1) WpHG that its holdings had reduced on October 08, 2007 to below the mandatory reportable thresholds of 10%, 5% and 3% of the voting rights and that it held 0% of the voting rights at that stage (corresponds to zero shares / zero voting rights).

In a letter dated February 12, 2007, CSI Asset Management Establishment, Liechtenstein, gave notice pursuant to § 21 (1) WpHG that it had reduced its holdings to below the mandatory reportable thresholds of 5% and 3% on February 7, 2007 and that it held 0% of the voting rights at that stage.

FORUM Private Equity GmbH, Munich, gave notice in a letter dated August 29, 2007 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG, Munich, (WKN 548790) surpassed the mandatory reportable of 10% on August 7, 2007 and that it held 966,316 shares in the Company at that date. Based on a total of 9,554,302 outstanding shares, this corresponds to 10.11% of the Company's shares and therefore 10.11% of the voting rights.

Absolute Capital Management Holdings Limited George Town, Grand Cayman, Cayman Islands / British Overseas Territory, gave notice to the Company in a letter dated September 7, 2007 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG surpassed the mandatory reportable of 10 % on

August 31, 2007 and that it held 12.022% of the Company's shares at that stage (number of shares: 1,150,047; total share capital: 9,566,302 shares). Accordingly, 12,022% of the voting rights were attributable to Absolute Capital Management Holdings Limited pursuant to § 22 (1) sentence 1 no. 1 and no. 6 WpHG (number of shares: 1,150,047; total share capital: 9,566,302). The following entities hold more than 3% of the voting rights of the Company: Absolute Germany Fund Limited. In addition, the Company was given notice on October 12, 2007 pursuant to § 21 (1) WpHG that it had reduced its holdings to below the mandatory reportable thresholds of 10%, 5% and 3% of the voting rights on October 8, 2007 and that it held 0% of the voting rights at that stage (corresponds to zero votes).

Dr. Burkhard Wittek, Germany gave notice to the Company on October 18, 2007 pursuant to § 21 (1) WpHG that his voting rights in PULSION Medical Systems AG, Munich had surpassed the mandatory reportable thresholds of 3%, 5% and 10% on October 8, 2007 and that he held 12.45% of the voting rights at that stage (corresponding to 1,191,354 votes). These voting rights are all attributable to Dr. Burkhard Wittek pursuant to § 22 (1) sentence 1 no. 1 WpHG. The voting rights attributable to him are held via an entity controlled by him which hold more than 3% of the voting rights of PULSION Medical Systems AG, namely Forum European Smallcaps GmbH, Munich. Also in the letter dated October 18, 2007, Dr. Burkhard Wittek gave notice pursuant to § 21 (1) WpHG that his voting rights in the Company had surpassed on October 11, 2007 the mandatory reportable threshold of 15% and that he held 17.57% of the voting rights at that stage (corresponds to 1,680,941 votes and a total of 9,566,302 outstanding shares). These voting rights are all attributable to Dr. Burkhard Wittek pursuant to § 22 (1) sentence 1 no. 1 WpHG. The voting rights attributable to him are held via entities controlled by him which hold more than 15% of the voting rights of PULSION Medical Systems AG, namely, Forum European Smallcaps GmbH, Munich.

Forum European Smallcaps GmbH, Munich, gave notice to the Company on October 17, 2007 pursuant to § 21 (1) WpHG that its voting rights in the Company had surpassed the mandatory reportable threshold of 15% on October 11, 2007 and that it held 17.57% of the voting rights at that stage (corresponds to 1,680,941 votes and a total of 9,566,302 outstanding shares).

Fidelity International Limited, P.O. Box HM 670, Hamilton HMCX, Bermuda, gave notice to the Company in a letter dated November 19, 2007 pursuant to § 21 (1) WpHG that its voting power of the Company had dropped below the 10% mandatory reportable threshold on November 14, 2007 and that it held 9.93% of the voting rights at that stage (949,885 shares). The voting rights are attributable to Fidelity International Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG. 7.60% of these voting rights are attributable to FID FDS – ESC POOL TWO.

Events after the balance sheet date

A rental agreement for new administrative premises was signed during the first quarter 2008. Apart from that, there have been no significant events after the balance sheet date.

Proposed distribution of retained earnings

The Management Board proposes that unappropriated losses are carried forward.

Munich, March 10, 2008

PULSION Medical Systems AG

Bradley P. Gould
Chairman of the Management Board

Matthias Bohn
Member of the Management Board

PULSION Medical Systems AG
Munich

Analysis Of Changes In Fixed Assets in 2007

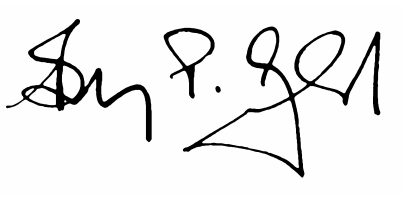
	Historical cost					Accumulated depreciation					Carrying amounts	
	Jan. 1 , 2007 EUR	Additions EUR	Reclassifications EUR	Disposals EUR	Dec. 31, 2007 EUR	Jan. 1 , 2007 EUR	Additions EUR	Reclassifications EUR	Disposals EUR	Dec. 31, 2007 EUR	Dec. 31 ,2007 EUR	Dec. 31 ,2006 EUR
Intangible Assets												
Concessions, licences and similiar rights	1,492,881.96	72,510.42	3,500.00	0.00	1,568,892.38	1,397,710.42	54,277.28	3,500.00	0.00	1,455,487.70	113,404.68	95,171.54
Goodwill	61,169.94	0.00	0.00	0.00	61,169.94	58,040.35	3,129.59	0.00	0.00	61,169.94	0.00	3,129.59
	1,554,051.90	72,510.42	3,500.00	0.00	1,630,062.32	1,455,750.77	57,406.87	3,500.00	0.00	1,516,657.64	113,404.68	98,301.13
Property, plant and equipment												
Land and buildings	379,459.36	319,910.54	0.00	0.00	699,369.90	131,604.48	16,427.17	0.00	0.00	148,031.65	551,338.25	247,854.88
Technical equipment, plant and machinery	684,763.83	158,050.00	131,900.50	99,659.76	875,054.57	350,927.32	93,558.57	77,297.84	101,259.64	420,524.09	454,530.48	333,836.51
Other equipment, furniture and fittings	5,074,103.02	1,561,425.05	-135,400.50	1,103,181.18	5,396,946.39	3,195,699.08	836,026.81	-80,797.84	606,172.37	3,344,755.68	2,052,190.71	1,878,403.94
	6,138,326.21	2,039,385.59	-3,500.00	1,202,840.94	6,971,370.86	3,678,230.88	946,012.55	-3,500.00	707,432.01	3,913,311.42	3,058,059.44	2,460,095.33
Investments												
Investments in affiliated companies	5,441,597.01	365,000.00	0.00	70.61	5,806,526.40	5,012,903.95	0.00	0.00	0.00	5,012,903.95	793,622.45	428,693.06
Loans to affiliated companies	3,665,327.34	742,251.73	0.00	36,079.37	4,371,499.70	3,613,715.24	742,251.73	0.00	36,079.37	4,319,887.60	51,612.10	51,612.10
Investments in other companies	62,559.14	0.00	0.00	0.00	62,559.14	62,559.14	0.00	0.00	0.00	62,559.14	0.00	0.00
	9,169,483.49	1,107,251.73	0.00	36,149.98	10,240,585.24	8,689,178.33	742,251.73	0.00	36,079.37	9,395,350.69	845,234.55	480,305.16
	16,861,861.60	3,219,147.74	0.00	1,238,990.92	18,842,018.42	13,823,159.98	1,745,671.15	0.00	743,511.38	14,825,319.75	4,016,698.67	3,038,701.62

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit of the Company, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Munich, March 10, 2008

PULSION Medical Systems AG



Bradley P. Gould
Chairman of the Management Board

Matthias Bohn
Member of the Management Board

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A Review of the Financial Year

Summary

- **Sales up by 15%**
- **Profit from ordinary activities of EUR 1.6 million**
- **Successful market launch of the new product generation PiCCO$_2$**
- **PiCCO and CeVOX licensed to DIXTAL**
- **Letter of intent for PiCCO license signed with GE Healthcare**
- **CE and US (FDA) approval for PiCCO$_2$**
- **US approval received for ICG-PULSION**

PULSION Medical Systems AG (PULSION) was again able to increase revenues during the past financial year.

Sales increased in 2007 by 15% from EUR 20.8 million to EUR 23.8 million, with the whole of the increase achieved through organic growth.

The gross margin fell by 3 percentage points from 70% to 67%. The profit from ordinary activities fell from EUR 2.2 million in 2006 to EUR 1.6 million in 2007. The operating margin in 2007 was therefore 7% (2006: 11%).

The net profit decreased from EUR 1.7 million in 2006 to EUR 1.2 million in 2007.

The presentation, receipt of approval (in the CE region and the USA) and launch of the PiCCO$_2$ platform on the markets represents an important milestone for PULSION on its way towards becoming the leader in the advanced haemodynamic monitoring of critically ill patients.

In 2007, PULSION signed a licensing agreement with DIXTAL, the market leader in the area of multiparameter patient monitoring in Brazil. Under the terms of the licensing agreement, DIXTAL will integrate the PiCCO and CeVOX technologies into its own patient monitoring systems. In addition, a letter of intent was also signed with GE Healthcare, the world's leading provider of med-tech products, with the aim of integrating PiCCO technology into its own patient monitoring systems.

ICG-PULSION was given US approval, thus enabling us to bring a longstanding project to a successful conclusion. The first deliveries of ICG to the USA took place in December 2007.

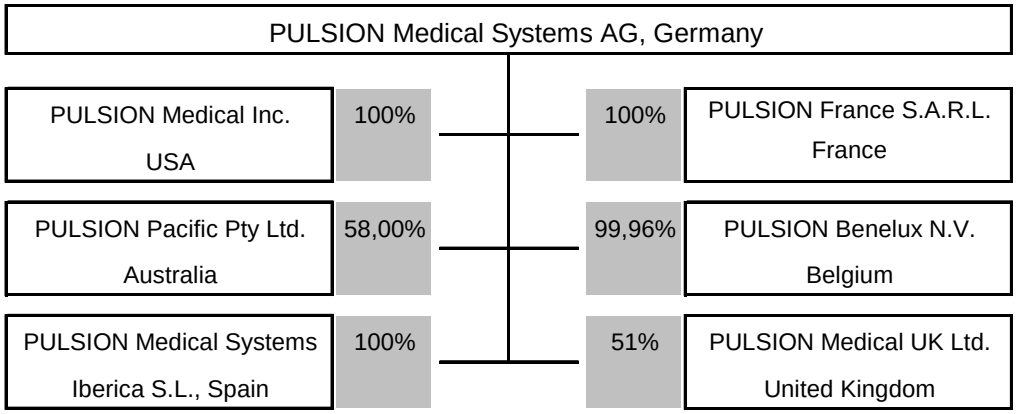
The equity ratio decreased from 69% to 62% and the net cash position (including other marketable securities) improved from EUR 4.5 million to EUR 5.1 million at the end of 2007.

Group structure

Stability as foundation for future growth

The PULSION Group reporting entity remained unchanged in 2007. The investment in PULSION Medical Systems Iberica S.L., Spain, was increased from 60% to 100% and the investment in PULSION Pacific Pty. Ltd. was increased from 51% to 58% following a capital reduction at that entity. The minority shareholders' interest in PULSION Benelux N.V. was acquired in accordance with an agreement dated December 21, 2006. The contractually agreed "Earn – out consideration" has been taken into account as at December 31, 2007, with the consequence that the cost of investment in PULSION Benelux N.V. increased by KEUR 65. On October 30, 2007 one of the shares was sold to PULSION France S.A.R.L., France.

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 PULSION'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. Winding-up proceedings are expected to be completed during the first quarter 2008.

Financial report

General and sector business environment

The global economy continued to grow strongly in 2007. The Projektgruppe Gemeinschaftsdiagnose (joint report by a group of leading economic research institutes in Germany) forecasts that the gross domestic product will increase worldwide by 3.2% in 2007. The rate of growth of emerging markets, which was already running at a high level, even accelerated in 2007, particularly in the Asian region and most noticeably in China.

Growth in the world's industrial countries in 2007 was also at a level not seen for many years. Germany itself registered a growth of 2.6 – 2.8%, and was thus able to achieve a sustainable reduction in unemployment figures for the first time in many years.

The general economic environment in 2007 was therefore as good as it has been for a long time for PULSION and helped to create "tailwind" for the business. That having been said, there is some doubt as to whether that tailwind will be maintained in 2008 and thereafter.

The healthcare sector in general - and the medical technology sector in particular - are growth markets the world over. The global market for medical technology was worth approximately EUR 184 billion in 2004 and is growing continuously. Medical advances, demographic changes 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 *Critical Care* business line are aimed at the "advanced haemodynamic monitoring" market. It is calculated that the American and Western European markets taken together account for up to 70% of the world market. The latter is estimated to be worth up to USD 240 million in 2008 compared with USD 210 million in 2007. The potential size of this market worldwide for 2010 is estimated by the sources quoted to grow to up USD 500 million

(sources: The BBI Newsletter, edition 28, no. 5, February 2005; Millennium Research, Toronto: Critical Care Patient Monitoring Devices 2006/2007).

Organization

In order to achieve its core goal in the medium term, namely to achieve leadership in the advanced haemodynamic monitoring market, PULSION is having to focus very clearly on developing the Group's worldwide organization. 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 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.

The organizational structure at the headquarters in Munich was further adapted and expanded in response to the growth generated in both Germany and abroad. The marketing, sales and production functions were all strengthened, with sector specialists added to the various teams.

During the coming year, PULSION will continue to focus on this ongoing process of adaptation and improvement, particularly with its sales activities in the USA and in the area of production.

The existing majority shareholdings in the group's international sales companies are being successively increased. In the past year, the minority shareholder's shares in PULSION Medical Systems Iberica S.L., Spain, were all acquired and the shareholding in PULSION Pacific Pty. Ltd., Australia increased from 51% to 58%. It is considered that both of these measures will help to strengthen PULSION's sales position locally.

Revenue trends

PULSION reports sales of EUR 23.8 million for the financial year 2007, an increase of 15% over the previous year. This, however, fell short of the targeted growth corridor.

Lines of business

PULSION's *Critical Care* line of business failed to achieve its growth target for the financial year 2007. Sales increased by 12% on a year-on-year comparison and totalled EUR 20.1 million in 2007 (2006: EUR 18.0 million).

Revenues generated by the sale of monitors (PiCCO, CeVOX, LiMON) rose by 19% to EUR 5.3 million (2006: EUR 4.5 million). The installed base of PiCCO monitors – in other words the total number of all monitors sold or loaned out - increased worldwide by 626 units to stand at 5,256 monitors at December 31, 2007 (+14%).

Furthermore, the number of PiCCO modules placed on the market via PULSION's strategic sales partners (Philips Medical Systems and Dräger Medical), increased by 1,666 units to stand at 10,529 modules (+19%) at the end of 2007.

Sales of critical care disposable products – comprising mainly catheter kits, probes and ICG-PULSION in conjunction with LiMON – were adversely affected by the product changeover to the new $PiCCO_2$ platform. Sales of disposable products therefore only increased by 9% to EUR 14.8 million (2006: EUR 13.6 million).

During 2007, PULSION restructured its sales function and continued to work on product improvements. These measures, together with the fact that PiCCO$_2$ technology is now fully available, will provide momentum for increased growth rates in this line of business from 2008 onwards.

in EUR million		2007	2006	Change in %
Monitors	Critical Care	5.3	4.5	19%
	Pharma	0.008	0.020	-62%
Disposables	Critical Care	14.8	13.6	9%
	Pharma	3.7	2.8	32%
Subtotal	Critical Care	20.1	18.0	12%
Subtotal	Pharma	3.7	2.8	32%
Total		**23.8**	**20.8**	**15%**

The *PULSION Pharma* line of business is focused on products and activities relating to the diagnosis and therapy management of organ and tissue perfusion in fields such as ophthalmology, surgery and hepatology. The main aspect of this line of business is the graphic depiction and measurement of tissue perfusion with the aid of the drug, indocyanine green (ICG-PULSION).

Sales generated by this line of business jumped by 32% to EUR 3.7 million in 2007. This increased sale of disposal products (ICG-PULSION) which rose by 32% to EUR 3.7 million.

Receipt of the US approval for ICG-PULSION in the fourth quarter 2007 will provide the impetus for faster growth in the coming year. Greater market penetration will also be achieved in Europe with the aid of further approvals.

Regions

The core region of PULSION's sales activities continued to be Europe, where 89% of total sales (EUR 21.1 million) were generated. The growth rate for the core European region in 2007 was 10%. Germany, with sales of EUR 11.1 million (+11% compared to 2006) remained PULSION's strongest market.

in EUR million	2007	2006	Change in %
Germany	11.1	10.0	11%
Europe (excluding Germany)	10.0	9.1	10%
Others	2.7	1.7	58%
Total	**23.8**	**20.8**	**15%**

Sales to the rest of Europe (Other) increased by 58% to EUR 2.7 million.

Earnings performance

The gross profit in the financial year 2007 increased from EUR 14.6 million to EUR 15.9 million, whilst the gross profit percentage slipped from 70% to 67%. The reduction primarily as a result of the changed sales mix and lower margins on monitor sales due to the introduction of PiCCO$_2$. It is planned that a further reduction in the production cost of disposal products and more efficient serial production of monitors should reduce the cost of sales in 2008 and therefore stabilize the gross profit percentage.

Fixed costs increased compared to the previous year. As a result, the aggregate expense for selling, marketing and general administrative functions together with other operating income and expenses went up to EUR 11.4 million, or by 16%, compared with the corresponding prior year period. PULSION invested heavily in 2007, in particular in the area of sales and marketing with a view to strengthening the organizational structure so that sustainable growth can be achieved.

Spending on research and development in 2007 totalled EUR 2.6 million and was therefore at a similar level to the previous year. R&D expenditure represented 11% (2006: 13%) of sales.

The profit from ordinary activities fell from EUR 2.2 million in 2006 to EUR 1.6 million in 2007, mainly as a result of the higher level of impairment losses recognized on investments (up by EUR 0.4 million) and a planned increase in operating costs. The net profit for 2007 was down by EUR 0.5 million to EUR 1.2 million.

Key performance indicators:

Indicator	Describtion	2007	2006
Return on sales	Net profit / Sales	5.2%	8.4%
Return on equity	Net profit / Average level of equity	11.1%	18.6%
Total capital employed*	Net profit / average level of balance sheet total	7.2%	12.4%

*Total capital employed = balance sheet total

The return on sales, the return on equity and the return on total capital were all down compared to the previous year.

Assets, liabilities and financial position

Financial performance indicators

PULSION's solid balance sheet structure was further optimized and strengthened in 2007. The balance sheet total (total assets/total capital employed) amounted to EUR 19.3 million at December 31, 2007, up by 30% compared to one year earlier (EUR 14.9 million).

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

Indicator	Describtion	Units	2007	2006	Deviation
Days of Sales Outstanding	Trade accounts receivable * 360 days / Sales	days	89	65	37%
Inventory turnover	Cost of sales / Average level of inventories		2.2	2.2	1%
Equity ratio	Equity / Balance sheet total	%	62%	69%	-11%
Fixed asset coverage	Equity / Fixed assets		3.0	3.4	-13%
Liquid funds *	Cash on hand and at bank and other marketable securities	EUR m.	5.1	4.5	12%

* including fixed term deposits of EUR 0.3 Mio. (Dec. 31, 2006: EUR 0.3) pledged as security

On the assets side of the balance sheet, fixed assets increased during 2007 from EUR 3.0 million to EUR 4.0 million (+33%). Property plant and equipment went up from EUR 2.5 million to EUR 3.1 million, while intangible assets stayed at approximately the same level. Investments went up from EUR 0.5 million at the end of 2006 to EUR 0.8 million at December 31, 2007.

Inventories were increased from EUR 3.2 million to EUR 3.9 million (+22%), partly to meet higher sales volumes and partly to reduce supply risks. Trade accounts receivable went up by 43% from EUR 2.1 million to EUR 3.0 million, mainly as a result of the increase in sales revenue. Receivables include an amount of EUR 0.2 million which is due after more than one year. This also contributed to the increase in trade accounts receivable. Receivables from affiliated companies increased by 81% to EUR 2.9 million (2006: EUR 1.6 million). Other current assets remained roughly at the previous year's level. Total cash funds (including other marketable securities) climbed from EUR 4.5 million at the beginning of the year to EUR 5.1 million at December 31, 2007. At that date, an amount of EUR 0.3 million of cash funds on bank accounts had been pledged as security (2006: EUR 0.3 million). Theses pledges relate to guarantees for office/building rental contracts and for the Spanish subsidiary.

On the equity and liabilities side of the balance sheet, provisions and liabilities increased by EUR 2.1 million (+84%) to stand at EUR 4.6 million at the end of the year (2006: EUR 2.5 million).
The main factors behind these changes were as follows: Liabilities to banks (mostly non-current) were increased by EUR 1.3 million to EUR 2.2 million as a result of planned investment activities. Trade account payable went up by EUR 0.7 million to EUR 1.6 million.
Higher business volumes, a larger workforce (personnel-related provisions) and tax provisions resulted in total provisions increasing from EUR 2.0 million to EUR 2.5 million (+25%).

As a result of the profit recorded for 2007 and stock options exercised during the year, equity rose again to stand at EUR 11.9 million at the year-end (2006: EUR 10.3 million). The equity ratio nevertheless fell from 69% to 62%.

Non-financial performance indicators

In 2007, 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

The development of the 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 down from EUR 2.3 million in the previous year to EUR 1.6 million in 2007. This is in particular effected by the reduced net profit and the higher depreciation.

The cash outflow for investing activities in 2007 totalled EUR 2.5 million, up by 61% compared to the previous year (2006: EUR 1.5 million). This increase was largely due to the increase of the non current loans and higher volume of loan equipment placed on the market.

The cash outflow for financing activities in 2006 was turned round to a cash inflow of EUR 1.4 million in 2007. This change was attributable to lower repayments of bank loans and financial debt on the one hand and the proceeds of a new non-current loan (EUR 1.1 million) to finance activities relating to a new production site.

Capital expenditure

Total capital expenditure in 2007 was increased by 78% to EUR 3.2 million (2006: EUR 1.8 million).

Capital expenditure related to the following:

- 34% related to measures to strengthen the Company’s subsidiaries, in particular to push ahead with the Company’s strategy for the USA and to acquire minority interests.
- 66% was invested in intangible assets, technical equipment, plant and machinery, other factory and operational equipment (in particular monitors) and for leasehold improvements.

This comparatively level of investment 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

The American market is a key region for future growth and therefore of key strategic significance in the most important target set by PULSION – namely to achieve leadership in the advanced haemodynamic monitoring market.

In 2007, PULSION ramped up its activities in this market, starting sales in the first quarter 2007 with a small team in a single initial cluster. Numerous test placements were set up with renowned opinion leaders and relationships with customers from the past reactivated. As a consequence the number of PiCCO disposable products sold increased sharply.

As a result of the receipt of the US approval for the new PiCCO$_2$ platform and for ICG-PULSION during the fourth quarter 2007, a further significant sales surge in the USA is now planned for 2008, whereby the cluster strategy will be gradually extended.

Purchasing, production, logistics

PULSION's core areas of expertise are product development, the design of key production processes and the marketing of new technologies.

The process of creating new production facilities for PULSION's disposable products was commenced in 2007 in response to the expanded volume of business and as part of its long-term strategy. The first deliveries from the new production site will be made at some stage during the financial year 2008. Capital expenditure on the new site in Munich will cut the manufacturing cost of disposable products, improve flexibility, reduce dependence on suppliers and bring down the amount of capital employed to fund inventories. These investments also ensure that PULSION has sufficient production capacity headroom for future growth. By contrast, the production depth for monitors was scaled down in 2007 because the required volumes in this area are too small and can be met in the future by a single production partner.

In conjunction with the changes in production, PULSION will also continue to standardize logistics and purchasing processes. This will help to improve product availability even more, while throughput times are reduced.

An efficient network of longstanding suppliers and partners 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.

Personnel development

PULSION's profitable growth has been achieved primarily thanks to the dedication of its employees who have risen to the challenges posed by the necessary changes. Volume growth, quality assurance and technological advances will continue to require ongoing alignment of personnel capacities and the continuous development of know-how with the production, administration, R&D and sales functions.

The Company continued to invest in staff training in 2007 to enable PULSION's employees to handle all of the demands placed on them. In parallel, experienced staff was also recruited for the sales and marketing and R&D functions.

In addition, a performance-related compensation scheme and the stock option program are both intended to tie in the workforce to the Company and to leverage further potential.

The Company employed a workforce of 107 people at the end of the year (2006: 105), 2% more than one year earlier. The average number of employees increased to 107 (2006: 101). The qualitative build-up of human resources in conjunction with organizational restructuring, in particular in the area of sales and marketing is reflected in the fact that personnel expense increased by 14% to EUR 6.6 million (2006: EUR 5.8 million).

Environmental care and quality management

PULSION's quality management system was again certified by Dekra ITS Certification Services GmbH in 2007 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.

PULSION's quality management system complies with the requirements of the US agency, the FDA, which carried out an audit at PULSION for the first time in 2007. This audit was completed without any objections being raised by the FDA. In addition, PULSION's quality management system also complies with the Canadian approval directives CM DC AS.

PULSION complies with all relevant environmental care regulations and also 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

PULSION is committed to responsible corporate governance and takes a long-term approach to value creation. By a combination of efficient cooperation between the Management and Supervisory Boards, and open and timely communication in general, PULSION actively reinforces the trust placed on it by investors, customers, employees, 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-based variable component. The variable component is determined to a large extent on the basis of changes in reported sales and earnings for each year and, to a lesser extent, on the basis of 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 2007, PULSION again based its approach to corporate governance of the principles set out in the German Corporate Governance Code, as updated on June 14, 2007. PULSION complied with all of the recommendations of this code in 2007 with the exception of the creation of committees within the Supervisory Board. Due to the fact that the Supervisory Board comprises only three members, it does not consider that this recommendation makes sense in PULSION's case.

The most recent Declaration of Compliance of the Management Board and the Supervisory Board was issued on December 14, 2007 and is available at the company's website at the address www.PULSION.com.

Research and development report

Research and development activities

Research and development (R&D) is one of the mainstays of PULSION's business strategy and is a prerequisite for PULSION's target of attaining leadership in advanced haemodynamic monitoring in the near future. For this reason, the R&D function was restructured and significantly strengthened in 2006. In 2007, only a small number of targeted enhancements were made.

The key project - the development of PiCCO$_2$ - was carried out in 2007 largely in line with schedule, thanks to effective organisation, a strict focus on core areas of expertise and PULSION's highly motivated workforce. The new product platform was presented in March and CE approval received in August, after which it was possible to commence the process of supplying customers.

PiCCO$_2$ offers a general overview as well as detailed insights into the different aspects of the cardiovascular system through a combination of different technologies, thereby enabling the attending physician and nursing staff to make prompt and accurate diagnoses and better therapeutic decisions. The ease of use and the new ergonomic data visualization enable both the physician and nursing staff to utilize the full range of features and functions very flexibly, quickly and easily.

R&D expenditure in 2007 totalled EUR 2.6 million and was therefore at a similar level to the previous year.

Patents and approvals

At the end of 2007, PULSION has 156 national patents (2006: 151) at its disposal in various countries. This comprised 121 patents held by PULSION and 35 patent rights licensed to PULSION. In addition, PULSION is currently in the process of applying for a further 323 patents (2006: 375) in various countries. The patents and patent applications relate to 43 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 28 (2006: 22) registered trade names which are either already in force or have been applied for.

PULSION was successfully able to conclude several major approval proceedings in 2007. In particular, the CE label and US approval were received for the new PiCCO$_2$ platform. The FDA issued its approval for ICG-PULSION in November.

Risk report

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 established an early warning system which enables potential threats to the going-concern status to be identified by measuring existing risks.

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. PULSION's risk management manual, which is continually revised to take account of internal and external changes, provides staff with a tool for identifying and correctly evaluating potential damage and the probability of occurrence. 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. 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 Company and this provides the basis for variance analysis.

Market and competition

Developments in the MedTech and Life Science sectors are generally subject to a high degree of technological change. In the light of this market segment's attractiveness and needs of the market, 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 or improved 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 (see section on R&D activities) and improving patent protection on the one hand, and by permanently observing the market via intermediary organizations and networks on the other. Last but not least, 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 products can, in the worst case, cause physical damage or injury to patients which, in turn, can result in substantial product liability claims.

PULSION counters this risk with a comprehensive Total Quality Management (TQM) system to ensure the highest standards of safety and product quality. A product liability insurance policy with international coverage for substantial amounts is in place. No material claims relating to product warranty have been brought against PULSION to date. It can, of course, not be ruled out that PULSION will have to face such claims in the future and that the amounts involved could exceed insured amounts. The fact that ICG-PULSION has been on sale in the USA since the fourth quarter 2007 represents increases in the Group's risk exposure. The insurance coverage will therefore be increased appropriately in 2008.

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.

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.

Product 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 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 level of PULSION's revenues and earnings and could result in an impairment of capitalized development costs.

PULSION works together continuously 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 has so far kept production depth to a low level, it has been 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. This exposes PULSION to risks should individual major suppliers be lost.

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 has increased the proportion of its own added value to key products by investing in its own production facilities. This process will be completed in 2008.

Financial risks

PULSION has an equity ratio of 62% at December 31, 2007. Unpledged cash and cash equivalents of EUR 4.8 million and current receivables of EUR 2.8 million also provide financial flexibility. From a current perspective, the financing and liquidity situation of the Company can be considered to be solid.

The Company 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 partially obtains payments in advance to protect it against bad debts. The risk is also mitigated by the fact that the Company 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 (up to now mainly relating to material purchases) to suppliers. International dealers are billed 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.

A negative outcome of patent infringement or patent vindication proceedings could impair the net assets, financial position and results of operations of the Group.

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.

Warehousing and transportation

Risks relating to warehousing and transportation of products risks 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 depend 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, the loss of important data, 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. The earning position could be further on be negative influenced by future operating losses of the subsidiaries.

Litigation

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

The District Court I of Munich ruled on October 18, 2007 that ownership of a specific patent family should be assigned to Dr. Ulrich Pfeiffer, former member of the Company's Management Board. The Company appealed against the ruling to the Regional Appeal Court of Munich on November 25, 2007.

On July 31, 2007 and November 4, 2007, Dr. Ulrich Pfeiffer submitted further claims to the District Court I of Munich, claiming ownership of certain of the Company's patent families that has been created with his involvement.

The Company's legal counsel is of the opinion that the claims are unfounded. As with all legal proceedings, however, it cannot be ruled out that the court responsible for the proceedings will not have a different legal opinion. In the worst scenario, it is possible that it might be necessary to discontinue production and/or the sales of important products since PULSION would then have no rights to the patents. The probability of this happening is considered by the legal counsel to be low and it is expected that the Company will win the proceedings.

Notwithstanding these claims, the Company is endeavouring to establish alternative commercial and technical solutions for the patent families in question.

Opportunities

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

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

- A wide range of products in the advanced haemodynamic monitoring field 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 distributors.
- Strong licensing partners in the form of Philips Medical Systems, Dräger Medical, Zeiss, Schiller and Dixtal. A letter of intent is also in place with GE Healthcare regarding a license for PiCCO technology.
- Innovative strength driven by extensive expertise and application knowledge in all of the fields in which PULSION operates.
- Experienced management team with longstanding international experience in the MedTech sector.

Disclosures pursuant to § 289 (4) HGB

The share capital at December 31, 2007 is EUR 9,577,302, divided into a total of 9,577,302 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.

Absolute Germany Fund Limited, George Town / Grand Cayman, Cayman Islands, gave notice on February 8, 2007 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG, Munich, surpassed the mandatory reportable of 5% on May 22, 2006 and that it held 5.163% of the voting rights at that stage (corresponds to 490,235 votes). In a letter dated September 7, 2007, Absolute Germany Fund Limited gave notice pursuant to § 21 (1) WpHG that its voting rights had surpassed the mandatory reportable of 10% on August 31, 2007 and that it held 12.022% of the voting rights at that stage (number of shares: 1,150,047; share capital 9,566,302 shares). Absolute Germany Fund Limited subsequently gave notice in a letter dated October 12, 2007 pursuant to § 21 (1) WpHG that its holdings had reduced on October 08, 2007 to below the mandatory reportable thresholds of 10%, 5% and 3% of the voting rights and that it held 0% of the voting rights at that stage (corresponds to zero shares / zero voting rights).

FORUM Private Equity GmbH, Munich, gave notice in a letter dated August 29, 2007 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG, Munich, (WKN 548790) surpassed the mandatory reportable of 10 % on August 7, 2007 and that it held 966,316 shares in the Company at that date. Based on a total of 9,554,302 outstanding shares, this corresponds to 10.11% of the Company's shares and therefore 10.11% of the voting rights.

Absolute Capital Management Holdings Limited George Town, Grand Cayman, Cayman Islands / British Overseas Territory, gave notice to the Company in a letter dated September 7, 2007 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG surpassed the mandatory reportable of 10% on August 31, 2007 and that it held 12.022% of the Company's shares at that stage (number of shares: 1,150,047; total share capital: 9,566,302 shares). Accordingly, 12,022% of the voting rights were attributable to Absolute Capital Management Holdings Limited pursuant to § 22 (1) sentence 1 no. 1 and no. 6 WpHG (number of shares: 1,150,047; total share capital: 9,566,302). The following entities hold more than 3% of the voting rights of the Company: Absolute Germany Fund Limited. In addition, the Company was given notice on October 12, 2007 pursuant to § 21 (1) WpHG that it had reduced its holdings to below the mandatory reportable thresholds of 10%, 5% and 3% of the voting rights on October 8, 2007 and that it held 0% of the voting rights at that stage (corresponds to zero votes).

Dr. Burkhard Wittek, Germany gave notice to the Company on October 18, 2007 pursuant to § 21 (1) WpHG that his voting rights in PULSION Medical Systems AG, Munich, had surpassed the mandatory reportable thresholds of 3%, 5% and 10% on October 8, 2007 and he held 12.45% of the voting rights at that stage (corresponding to 1,191,354 votes). These voting rights are all attributable to Dr. Burkhard Wittek pursuant to § 22 (1) sentence 1 no. 1 WpHG. The voting rights attributable to him are held via entities controlled by him which hold more than 3% of the voting rights of PULSION Medical Systems AG, namely Forum European Smallcaps GmbH, Munich. Also in the letter dated October 18, 2007, Dr. Burkhard Wittek gave notice pursuant to § 21 (1) WpHG that his voting rights in the Company had surpassed on October 11, 2007 the mandatory reportable threshold of 15% and that he held 17.57% of the voting rights at that stage (corresponding to 1,680,941 votes and a total of 9,566,302 outstanding shares). These voting rights are all attributable to Dr. Burkhard Wittek pursuant to § 22 (1) sentence 1 no. 1 WpHG. The voting rights attributable to him are held via entities controlled by him which hold more than 15% of the voting rights of PULSION Medical Systems AG, namely Forum European Smallcaps GmbH, Munich.

Forum European Smallcaps GmbH, Munich, gave notice to the Company on October 17, 2007 pursuant to § 21 (1) WpHG that its voting rights in the Company had surpassed the mandatory

reportable threshold of 15 % on October 11, 2007 and that it held 17.57% of the voting rights at that stage (corresponding to 1,680,941 votes and a total of 9,566,302 outstanding shares).

Fidelity International Limited, P.O. Box HM 670, Hamilton HMCX, Bermuda, gave notice to the Company in a letter dated November 19, 2007 pursuant to § 21 (1) WpHG that its voting power of the Company had dropped below the 10% mandatory reportable threshold on November 14, 2007 and that it held 9.93% of the voting rights at that stage (949,885 shares). The voting rights are attributable to Fidelity International Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG. 7.60% of these voting rights are attributable to FID FDS – ESC POOL TWO.

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 2,794 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 794 can be used to issue stock options.

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.

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 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 May 24, 2007, the Company is authorized in accordance with § 71 (1) no. 8 AktG to acquire, prior to November 23, 2008, up to 10% of its own present share capital. The authorization may not be used by the corporation to trade in its own shares.

There are no restrictions relating to voting rights or the transfer of shares pursuant to § 289 (4) HGB. No shareholders have special rights. Furthermore, § 289 (4) sentence 5, 8 and 9 HGB is not applicable.

Forward-looking report

Business strategy

The PiCCO$_2$ platform provides PULSION with the opportunity to become the world's market leader (the "Gold Standard") in advanced haemodynamic monitoring. PULSION wishes to achieve this core objective in the coming years.

There are three main sources of impetus that will help to realize this strategy:

1. the integration of existing PULSION technologies into PiCCO$_2$ is already planned and will be implemented in 2008.

2. parameters not yet included in PULSION's portfolio, can be integrated simply into PiCCO$_2$ whenever this appears desirable.

3. regional strategies.

All of these measures are intended to broaden significantly the scale on which PiCCO$_2$ is used and to increase the volume of disposable products sold.

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 other PULSION technologies and also as a separate diagnostic drug in ophthalmology, neurosurgery and other fields it is seen as having significant potential. Following receipt of the US approval for ICG-PULSION in November 2007, the plan is to engage more forcefully in US market working together with a specialized sales partner.

Outlook

Over the past year, PULSION achieved a number of important targets set out in its strategic plan. As examples, PiCCO and CeVOX technology was licensed to the Brazilian company DIXTAL, a letter of intent was signed with GE Healthcare regarding a license for PiCCO technology, the new PiCCO$_2$ technology platform was successfully launched, the first cluster for selling activities established in the USA, the establishment of production facilities progressed in line with schedule and US approval for ICG-PULSION received.

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.

During the financial year 2008, PULSION will continue to focus sharply on the US market and establish further sales cluster in the USA.

In addition, 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. These measures will enable the existing product portfolio to be adapted to the volume market.

PULSION will continue to pursue its sustainable strategy by investing substantial amounts of resources on medium and long-term growth.

Sales volumes should again grow at double-digit rates in 2008 and 2009 and the operating profit is forecast to improve.

Further prerequisites for profitable growth are the motivation and skills of its workforce. PULSION will therefore continue during the coming year to make personnel development a priority for its employees.

Subsequent events report

A rental agreement for new administrative premises was signed during the first quarter 2008. Apart from that, there have been no significant events after the balance sheet date.

Munich, March 10, 2008
PULSION Medical Systems AG

Bradley P. Gould
Chairman of the Management Board

Matthias Bohn
Member of the Management Board