Annual Report 2008

BACK TO BASICS

PULSION
Medical Systems

Facts and Figures
PULSION 2008

PULSION (GROUP)		2008	Variance in %	2007	2006	2005	2004
		IFRS		IFRS	IFRS	IFRS	IFRS
Revenues	EUR million	**28.0**	**–1%**	28.3	24.5	20.2	16.3
Gross profit	EUR million	**18.6**	**–9%**	20.5	18.4	14.5	10.9
EBITDA	EUR million	**2.6**	**–56%**	6.0	5.2	3.8	3.2
EBIT	EUR million	**0.6**	**–86%**	4.1	3.4	2.3	1.7
Consolidated loss/profit	EUR million	**–0.7**	**–129%**	2.5	3.3	1.9	1.1
Cashflow from operating activities	EUR million	**1.0**	**–78%**	4.5	3.2	3.3	1.6
Shareholders' Equity[1]	EUR million	**16.2**	**–5%**	17.1	14.6	11.3	8.9
Shareholders' Equity percentage[1)]	%	**68%**	–	64%	64%	57%	49%
Total assets[1)]	EUR million	**23.8**	**–11%**	26.8	22.7	19.8	18.1
R&D expenses	EUR million	**2.2**	**11%**	2.0	2.2	1.3	0.8
Employees (average)	Amount	**147**	**4%**	141	130	101	79
Revenue per employee	KEUR	**190**	**–5%**	200	188	200	206
Installed base – PiCCO monitors[1)]	Units	**5,743**	**9%**	5,256	4,630	4,018	3,479

[1)] as of December 31

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Matthias Bohn
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Chairman of the Management Board

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Member of the Management Board

"PULSION will go back to focusing more on productivity and costs in the future."

Report of the Management Board

Dear customers, shareholders and colleagues,

In 2008 a long period of steady growth in sales and EBIT came to an abrupt end for PULSION. Revenue stagnated, having consistently grown at an average rate of approximately 20% p.a. between 2001 and 2007. The EBIT margin, which had improved year by year since 1997, fell from approximately 15% in 2007 to 2% in 2008. In its report for the financial year 2007, the Management Board had predicted sales revenue growth of at least 20% in 2008 and an EBIT margin at least at the previous year's level i.e.15%. These targets were missed by a very wide mark.

In a first measure, the Supervisory Board revoked the appointment of the then Chairman of the Management Board with immediate effect on October 13, 2008. The post was taken over on October 14, 2008 by Dr. Burkhard Wittek, who has been a member of the Supervisory Board since 2005. This move ensured that someone with longstanding knowledge of the business was on hand to take on responsibility for selling and distribution. Many questions arise as a result of such a sudden and drastic turnaround and they can be divided into three main groups:

- How could this happen? What went wrong? And why was the downward trend not noticed until quite some time into 2008?
- Are the business fundamentals still sound?
- How does the newly formed Management Board intend to get the business back to the old growth rates and earnings?

We shall attempt to answer these questions in this report. The findings presented here have not been so clearly spelt out until now. It is only possible in retrospect to differentiate clearly between the individual issues involved and to assess their consequences.

Despite all the negative news, there were also some positive things to report in 2008. Production in Feldkirchen near Munich started up seamlessly and the results so far show that expectations with regard to product quality and the contribution to earnings will be fully met. Moreover, PULSION also managed to retain its highly qualified workforce in 2008, even during the difficult period of transition following the change in the Management Board – a vital factor if the turnaround is to succeed.

1. Reasons for the collapse in 2008

1.1 What went wrong?

According to the diagnosis we have so far been able to make, the collapse in sales growth and earnings over the course of 2008 came about because of changes in strategy which were introduced around the middle of 2006. Initially the negative factors were masked by positive ones.

Commodity Selling: After the new CEO joined the company several changes in course were undertaken between mid-2006 and mid-2007 which turned the business away from the hitherto successful strategy of selling for medical purposes and gradually more in the direction of sales of mass products ("commodities"). Approximately 90% of all field sales staff newly appointed since the middle of 2006 had no medical training (i.e. as nurses). By contrast, before the new CEO took up office, 80% were trained nursing personnel. Instead of using the sales approach which had proved successful in the past – namely opening up the market for haemodynamic monitoring through pioneering but sustainable "missionary work" – the approach turned more and more towards bargaining over prices.

In conjunction with major sales promotion activities that took place during the first half of 2008, new PiCCO$_2$ monitors were offered at a discount, in some cases with very high reductions in selling prices. New framework agreements were put in place with groups of buyers in Germany and abroad, including deals involving large discounts and without appropriate levels of compensation. These measures were all contrary to the basic principle that must apply when selling a product which initially requires a great deal of communication. These measures reduced margins and, at best, had little or no effect on revenue since selling prices were lower. It also led to a drop in the standard of field sales expertise and stagnation in underlying growth rate since no new customers were being "converted". In retrospect, it is clear that the negative impact of this strategy was already taking effect between mid-2007 and mid-2008. To begin with, however, the financial impact was obscured by the sluggishness of the market for medical technology and because the sales pipeline was full. From mid-2008 onwards the impact of the new approach became more and more evident. On October 13, 2008 the Chairman of the Management Board was finally replaced.

Decision-making deficits: With the change in the sales approach also came slower decision-making procedures. New hierarchical levels were introduced into the organisation, in particular in the sales and marketing area, which made the decision-making process longer and thus reduced management's grip on local operations.

In mid-2008, a field sales force employee in Germany was located at the fifth level within the company. As is often the case in such constellations, this resulted in poor communication and a loss of decision-making capability. In the meantime two levels have been totally done away with. A local manager with no experience in the field of medical technology was appointed for the USA from outside the company, providing no added value whatsoever for PULSION. In last year's Management Report, it was announced that PULSION's presence in the BRIC states (Brazil, Russia, India, China,) was to be stepped up. In fact, however, no decision was prepared or taken in 2008 to strengthen direct presence in any of the four states.

In general, there were no financial or personal consequences for variances from budget. No cost-cutting measures were initiated when sales revenue declined in the second half of the year. The only measure taken was not to fill permanent posts when they became free.

Group philosophy: From mid-2006 onwards PULSION increasingly set up and managed along the lines of a large-sized group, having previously operated as a "Mittelstand" company (medium-sized company) with all the strengths and weaknesses that that entails. Numerous examples of this loss of Mittelstand mentality can be cited. When new projects were to be embarked upon, expenditure was invested first of all in the area of costs/resources, while the return on capital was left to fend for itself at a later date. The underlying forecasts were consistently based on optimistic assumptions which generally did not prove to be correct. The idea of improving expertise with regard to clinical applications in Germany and the USA was put into practise by creating a parallel organisation in which staff were left without specific given sales targets. Customers in the USA were serviced on a continent-wide basis, thus undermining the cluster strategy that had previously been announced by the company.

Masking effect of positive factors: The strategy described above was introduced in 2006 and pursued rigorously during 2007. The first (negative) results became evident during the second half of 2007. To begin with they were offset by positive developments and only became evident in financial reports from mid-2008 onwards.

1.2 Why was the downward trend not noticed until quite some time into 2008?

Two main factors masked the problems at the beginning. In the medical technology field, customers spend a long time deliberating over their decisions but then, having made them, generally stick to them. It was therefore still possible in 2007 and 2008 to reap the benefits of work from previous years. In addition, additional revenues were generated during this period as distributors and customers built up their inventory levels. However these were one-off sales rather than regular business.

In the fourth quarter 2007, sales of approximately EUR 1.3 million – roughly 5 % of group sales for the year – were made to the American distributor in conjunction with first-time deliveries of ICG-PULSION. There were no follow-on sales in 2008. Likewise, we only expect to generate a small volume of follow-on sales from this distributor in 2009. Similar deals – many of them involving considerable rebates – were also made during first half of 2008 with end-user customers. By mid-2008 the opportunities for increasing revenue were exhausted; from then onwards the consequences of the new strategy took their full toll on earnings.

Due to the generally sluggish reaction times in the medical technology market, the detrimental developments over the past 2 ½ years will continue to have a negative effect on PULSION for some time to come. A successful change of direction will only become apparent in the income statement and in cash flows after quite a considerable lapse of time.

2. Are the business fundamentals still sound?

So far, no mention has been made of the market or competition in the analysis of the reasons for the negative developments in 2008 described above. This is because we are genuinely convinced that most of our problems have been home-made. That said, there were also a number of developments within the market and amongst the competition which also had a negative impact on business in 2008 and which could continue to have a negative impact in the coming years.

Our market is intact: The medical technology market has been growing for many years, reflecting long-term demographic developments, above all the fact that populations in western society are ageing. Within this market as a whole, the market for critical/intensive care medicine – PULSION's main area of activity – has been growing at a rate of between 4 % and 6 % p.a.

Governmental policies to hold down costs within the healthcare sector represent a risk to growth which must be taken seriously. Although none of PULSION's main markets were affected in 2008 by significant reductions in product reimbursements or fixed-sum treatment amounts, the leeway for increasing selling prices is already very limited and always needs to be underpinned by measurable improvements in treatment costs (further information is provided in the Risk Report in the section "Risks relating to government healthcare policies", page 38). We expect that the ongoing downward pressure on costs will intensify the pressure on selling prices. With practically every country incurring rising levels of debt to cover the cost of restructuring their financial systems, it is highly probable that there will be massive budgetary cutbacks once the acute crisis has been overcome. As we explain below, we will prepare ourselves for these developments by adopting a two-fold strategy of improving the way we communicate the medical and commercial benefits of PULSION's products on the one hand and keeping a tight control over costs on the other.

We still hold our unique position: Our analysis of competitors to PULSION's key product, PiCCO, shows that most of the competing systems have at least one of two weak points: they either cannot be calibrated – i.e. they do not calculate absolute values and only measure the variation in the current status, or they are not capable of continuous monitoring and only provide single measurements. In either case, patients can only be monitored in the presence of medical staff.

In PiCCO's main area of application – monitoring critically ill patients on intensive care units – it is imperative that continuous, calibrated values taken over a period of several days are available, thus giving a picture of the patient's condition around the clock and providing useful indications for their treatment. This must also be guaranteed when medical personnel are not continually present. In its key area, PiCCO can only be replaced by competitors' products if the customer is willing to make compromises in patient treatment.

Edwards Lifesciences is currently our main competitor with Vigileo/FloTrac, a product that is not calibrated. We consider this system to be more suitable for operating theatres than for intensive care units. Given Edwards Lifesciences' larger sales network, there is nevertheless a risk that the Vigileo/FloTrac-System will encroach further into intensive care units, thus impairing PULSION's future growth prospects. A detailed analysis of the competition from the Management Board's perspective is presented in the next section of the report on page 9.

A return to earlier growth rates is possible: In the last two group management reports, the Management Board and the Supervisory Board have referred to and commented on the "PULSION 100" program. In short, it consists of two medium-term goals for the business: sales revenue of USD 100 million (approximately EUR 70 million) in 2010 and a return on sales (at EBIT level) of 20%. In the light of the huge forecasting errors already made, one may well ask whether these medium-term goals are still attainable.

The sales revenue target of USD 100 million (between EUR 60 and 70 million) was derived from the market volume forecast for haemodynamic monitoring in 2012 (or thereabouts) and a prospective market share of 20%. Developments in 2008 indicate that the market has grown considerably. If this growth continues, it would still seem realistic to expect a market volume of approximately USD 500 million in 2012.

In our discussion of the reasons for PULSION's disappointing sales performance, we pointed out that the problems were largely self-inflicted. At the same time, downward cost pressure in the healthcare sector will increase more rapidly than we estimated two years ago and some competitors have improved their market position in 2008 by comparison to PULSION. We nevertheless believe that it is still possible to achieve our goal of increasing our market share from its current level of some 12% to approximately 20% – provided we do not simply carry out short-term restructuring measures but at the same time also strengthen organisational structures, systems and leadership and gain success on the US market. We cannot set a date for achieving this target until the restructuring measures have been completed.

The basis for achieving a medium term EBIT rate of return of 20% still stands – founded principally on a razor/razor blade business model combined with effective patent protection to set ourselves apart from the competition. Of course, it is long way from achieving an EBIT margin of 2% in 2008 to one of 20% at some stage in the future, a level which PULSION has so far never managed to reach.

3. Measures taken to improve sales and earnings

The measures put in place since October 14, 2008 to a large extent mirror-image the reasons given above for the collapse in sales growth and earnings in 2008. At present, it is not possible to make any predictions about future earnings. Over the course of 2009, we will of course report

as part of the quarterly reporting process on the progress made to date and comment on the extent to which the measures described have been successful.

More emphasis on medical benefits: In our opinion, PULSION products continue to provide definite and substantial medical benefits. Compared with the competition, these benefits can be witnessed most clearly in the field of intensive care medicine, particularly with regard to certain life-threatening conditions such as sepsis ("blood poisoning"), ARDS ("respiratory failure") and cardiogenic shock ("heart failure").

In future, however, we need to document and communicate these benefits much more clearly. We endeavor to ensure that medical studies also take account of the economic aspects of treatment – such as the length of stays in intensive care units, periods spent on ventilators and the incidence of complications – as primary objectives. We are increasing further training activities for employees in order to make up for any lack of medical training. In order to do this we have introduced a campaign management initiative comprising three full-day training sessions per year. To complement this, our own medically trained employees also spend more time in a supportive capacity with field sales staff and customers.

As well as giving insights into medical benefits, these training sessions also focus on an understanding of, and the arguments for, the commercial benefits of our products. The number of training events held for doctors and nursing staff has also been increased. From now on, only qualified nurses or persons with similar training are being taken on as sales field staff. The aim is to steer sales arguments away from the product and hardware and more towards developing a sales strategy based on the benefits that those products can provide.

Direct leadership: The elimination of superfluous management levels within the organisational structure has been an important aspect of attaining more streamlined and directly-focused leadership. Customer relationship management is also being reinforced in order to achieve greater transparency over selling activities and to manage selling and marketing resources in line with the potential to generate sales revenue. Selling and marketing activities within the various national companies and at a regional level are now being discussed with local management in short, regular meetings which also form the basis for setting new targets and tasks.

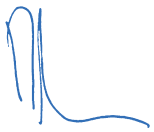
All managers and most employees receive clear written objectives upon which the conditions for their bonuses are based. The level of actual bonus payments made will be determined to a greater extent than at present on the basis of performance and profitability. In order to take advantage of new growth areas outside Germany, one or two new joint ventures are planned for 2009.

Reinforcing the Mittelstand approach: PULSION will go back to focusing more on productivity and costs in the future. Key productivity performance indicators will be measured continuously and commented as part of the quarterly reporting process. We have made it clear to all concerned that profitability must come before sales revenue whenever there is a conflict between the two.

Over the course of 2009, all lines of business will be assessed from three angles: reducing overhead costs, optimising processes and analysing the value added by products. The desired savings targets have been set: operating costs at a group level are to be reduced to at least 5 % compared with 2008. With the exception of the increase in field sales staff, there are no current plans for additions to the workforce.

The Group's sales and earnings targets will be announced at the 2009 Annual General Meeting, by which time we will have a better idea of how long it will take to reverse the current negative trend. PULSION is at present going through a phase of rapid sales revenue shrinkage: third quarter 2008 sales revenue was 2 % down on the previous year and fourth quarter 2008 sales revenue was 17 % down.

Dr. Burkhard Wittek
Chairman of the Management Board



Matthias Bohn
Member of the Management Board

Frank Posnanski
Member of the Management Board

PULSION and its main competitors

Edwards Lifesciences: Our main competitor – the US American listed company, Edwards Lifesciences – introduced the Vigileo/FloTrac onto the market in 2006; it is a catheter system for haemodynamic monitoring which represents more direct competition for PULSION than the pulmonary catheter (also known as the right heart or Swan-Ganz catheter) had previously done. According to its own disclosures, sales revenue generated with the Vigileo/FloTrac increased last year by approximately $25 million to $50 million.

We believe that the Vigileo/FloTrac and PiCCO are differently positioned in the market, each having its own target groups and applications: PiCCO can be calibrated and is therefore suitable for the longer, precise monitoring required, for example, by patients spending extended periods of time in intensive care units. The bulk of its revenues are therefore generated in the area of intensive medical care. The Vigileo/FloTrac cannot be calibrated and it is therefore destined to be used for shorter applications where the doctor wishes to take a measurement at a specific point in time and to identify a trend. In our opinion, most of the revenues arising from this product come from use in operating theatres.

Our conclusion: the halt to PULSION's revenue growth in 2008 cannot be put down to the growth in sales of the Vigileo/FloTrac. At most, it only explains a small part of the sales performance, particularly in those countries where PULSION is generally less well represented. Based on our subjective assessment, the Vigileo/FloTrac is less suited for intensive medical care. Operating theatres are the area where it can be used most usefully and where its target groups are to be found. However, it cannot be ruled out that Edwards might – on the back of its greater sales strength – also continue to make progress in intensive care units and therefore threaten PULSION's growth. In the medium and long term, Edwards remains PULSION's strongest competitor, mainly because of its enormous sales strength and financial resources.

LiDCO: Like PULSION, LiDCO (a listed British company) offers a calibratable catheter system for haemodynamic monitoring (LiDCOplus) and therefore, in our opinion, is the most directly comparable competitor to PiCCO. LiDCOplus revenues are generated mainly in Europe.

LiDCO's sales revenues grew by approximately 3 % in the first half of its 2008/09 financial year (April to September 2008). PULSION's equivalent segment – CriticalCare – grew by approximately 4 % in 2008, so that the relative position of the two companies was practically unchanged. However, LiDCO has been able to improve its production cost base significantly over the course of 2008 thanks to the loss in value of the British pound (approximately 23 % in 2008). It must be borne in mind, however, that LiDCO's sales revenues in 2007 were only approximately £4.0 million, which, at the current rate of exchange, represents only one fifth of PULSION's size. LiDCO has been making losses since it was founded.

Towards the middle of 2008, LiDCO – like Edwards – introduced a haemodynamic monitoring system which cannot be calibrated (LiDCOrapid) and which is also geared towards use in operating theatres.

Deltex: this British company also has a stock exchange listing. It offers a different technology for haemodynamic monitoring ("oesophageal Doppler") which only provides immediate recordings of the patient's current condition. It, too, cannot be calibrated. Measurement with the Deltex product involves introducing an ultrasound probe into the oesophagus. The measurements recorded enable calculations of blood flow and cardiac output to be made. The application method makes it necessary for patients to be sedated and this system has therefore become accepted mainly for use in operating theatres. Deltex grew by approximately 28 % in the first half of 2008. According to analysts' estimates, sales revenue will reach approximately £5.5 million in 2009, making it approximately one quarter the size of PULSION. Like LiDCO, Deltex is also benefiting from the loss in value of the British pound.

Up Med AG: this company – which belongs to the founder of PULSION, Dr. med. U. Pfeiffer – introduced a catheter system onto the market in spring 2008 which was very similar to the PiCCO system. However, it was not very well received on the market. Up Med AG discontinued operations in winter 2008 and has been in the process of liquidation since December 2008.

Medical Uses

PULSION's technologies provide comprehensive, reliable live data relating to various organs of the body. They enable rapid diagnosis, safe therapeutic measures and immediate assessments of whether treatment has been successful.

The depiction of measurements on the display screen has been optimized on the basis of the state-of-the-art technological advances, making it possible both for those with years of experience and for new medical and nursing staff to assess the patient's condition and use the knowledge gained to make well-founded decisions on possible treatment.

The various PULSION patient monitoring systems complement each other and provide doctors with an important overall picture of the patient. Since decisions can be made with more certainty and more rapidly, intervention can take place sooner and treatment carried out with more accuracy.

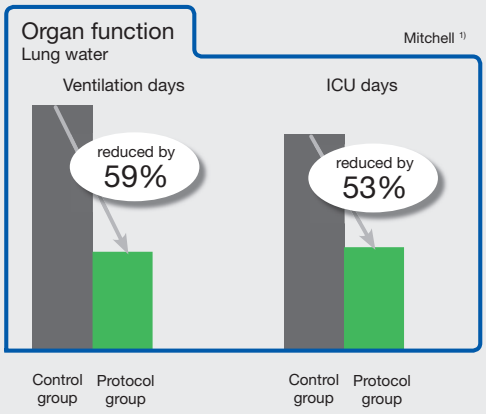
The large number of different measurements can be collated in different ways according to the clinical picture and indications. PULSION technologies can therefore be integrated into specific standard operating procedures (SOPs) for certain areas of use and indications, thus becoming a part of the standard treatment employed for a large number of clinical conditions.

"This tool is a great asset in helping manage a critically ill patient."

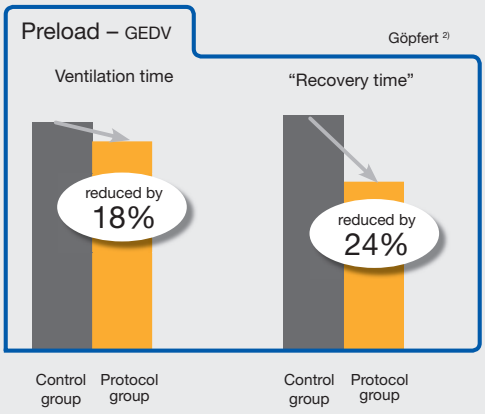
R. Lehmann, Pediatric Critical Care Medicine,
University of Virginia Children's Hospital, Charlottesville, USA

PULSION technologies help to avoid complications, shorten treatment times and reduce costs. Recent scientific studies show that the length of time spent by patients on respirators and in intensive care units has been reduced and that hospital stays generally have become shorter.

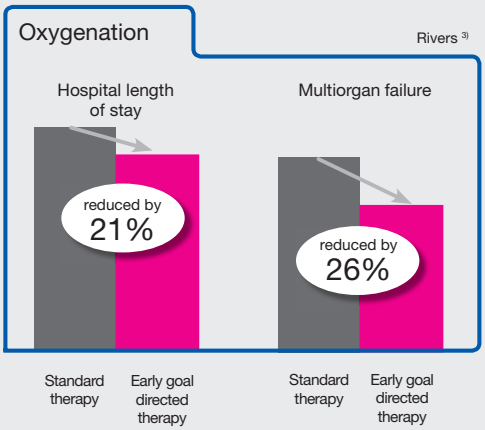
Sources and a glossary of technical terms can be found on page 90.



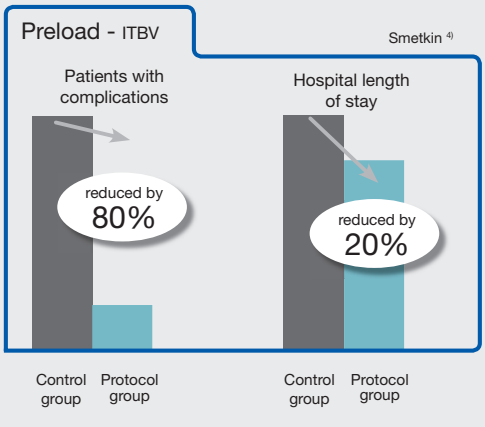
Continuous measurement of fluid in the lungs (using PiCCO) makes it possible to maintain accurate fluid balance and reduces the duration of assisted respiration and the time spent in intensive care by more than 50%.



Use of a treatment plan based on PiCCO readings reduces the duration of assisted respiration and the length of time spent on coronary care units.



For patients with toxic shock, continuous monitoring of oxygen levels (using PiCCO$_2$ or CeVOX) reduces the length of the hospital stay and the level of complications.



Using CeVOX and PiCCO technologies in combination reduces the length of hospital stay following complicated operative procedures not requiring a heart-lung machine by three days.

Business Model

Revenues generated with each application

Every time our customers use PULSION technologies, they also require our PULSION consumable products – i.e. PiCCO catheters, CeVOX probes or ICG-PULSION. Like the manufacturers of wet razors and ink jet printers, PULSION does not so much focus on sales of individual pieces of its medical equipment as on the continuous sales of related consumable products.

However, this is precisely the area where stagnation has been over the past two to three years. Even though PULSION placed many items of new equipment on the market, replaced the old PiCCO technology with a new one and also became an integral component of many patient monitoring systems, sales of catheters and probes only rose minimally over this period. The measures that PULSION is now taking to counter this stagnation are described in the section “Strategy” (page 20).

Even so, the “razor/razorblade” business model is nevertheless a huge advantage for PULSION. Unlike typical medical equipment manufacturers – whose business is largely derived from initial installations in hospitals and medical practices, investment in replacement equipment and the provision of customer services – PULSION also generates continuous revenue through the sale of consumable products. The business model is safeguarded by a multi-layered module-based patent protection concept.

Two routes to the customer

PULSION technologies reach customers via one of two possible routes:

- PULSION monitors are self-contained, complete patient monitoring systems, which are sold directly to doctors’ practices and hospitals.
- PULSION technologies are integrated into patient monitoring systems on a modular basis. Patient monitoring systems are to be found on all intensive care units, the main area of application for PULSION technologies. PULSION currently supplies PiCCO modules to four manufacturers who between them hold approximately 50 % of the market for patient monitoring systems. The module for GE (General Electrics), the second largest manufacturer, is currently in the developmental stage and is expected to be available for GE systems from 2010.

PULSION CriticalCare Business Model

Monitors + Disposables = Razor/Razorblade Model

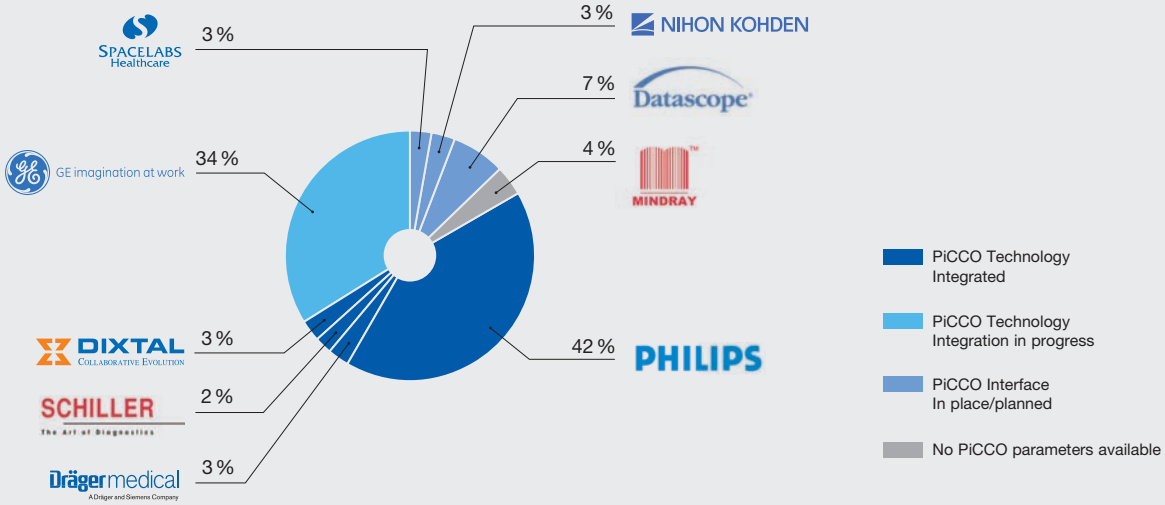
Two routes to the customer

Disposables
PiCCO catheters, CeVOX probes,
PiCCO kits, pressure kits

PiCCO Monitors
(Complete equipment for patient monitoring in doctors' surgeries and intensive care units)

PiCCO Modules
(Integrated part of a patient monitoring system for intensive care units)

PiCCO coverage with patient monitoring systems for intensive care units



Products

PiCCO

PULSION's key technology, PiCCO, is used in intensive medical care to monitor cardiovascular functions. PiCCO provides a unique range of medically significant readings. Measurements made with PiCCO are reliable and give absolute values which are continuously collated and displayed on a monitor. Reactions to medical intervention are immediately shown on the screen. PiCCO allows exact assessments to be made of cardiovascular problems, sepsis and pulmonary oedema.

Since PiCCO is a technology which requires both venous and arterial access, it only makes sense to use it on critically ill patients who will already have the appropriate lines inserted. Monitoring with PiCCO is an option for between 15 % and 20 % of all intensive care patients.

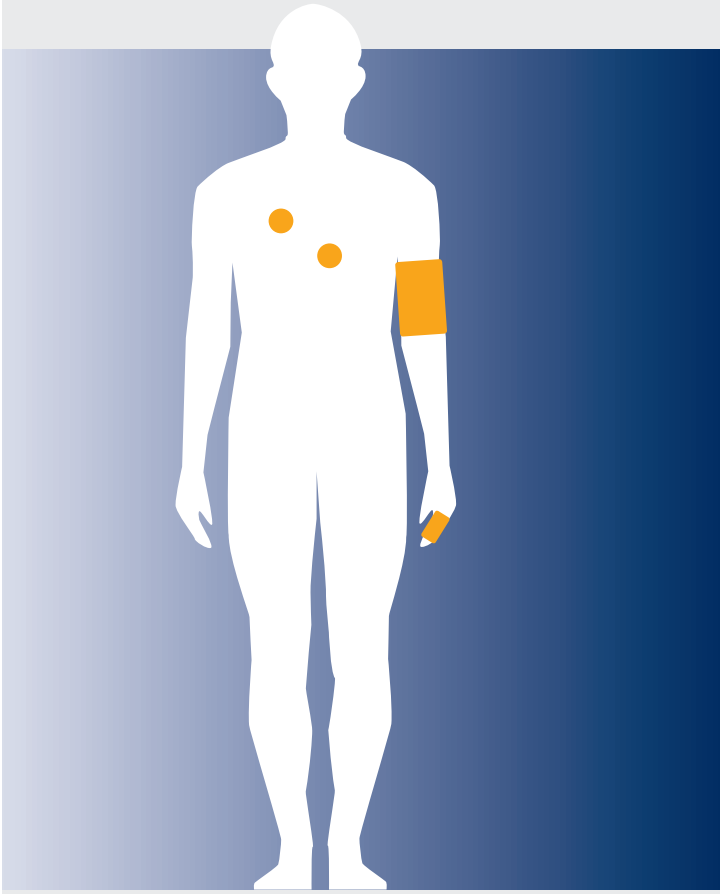
CeVOX

CeVOX technology for continuous monitoring of oxygen balance is an integral part of $PiCCO_2$, although it is also available with a separate monitor. The CeVOX probe requires a central venous line and is used to detect depletion in oxygen supply at an early stage. CeVOX is available as a single piece of equipment but can also be integrated into $PiCCO_2$.

$PiCCO_2$

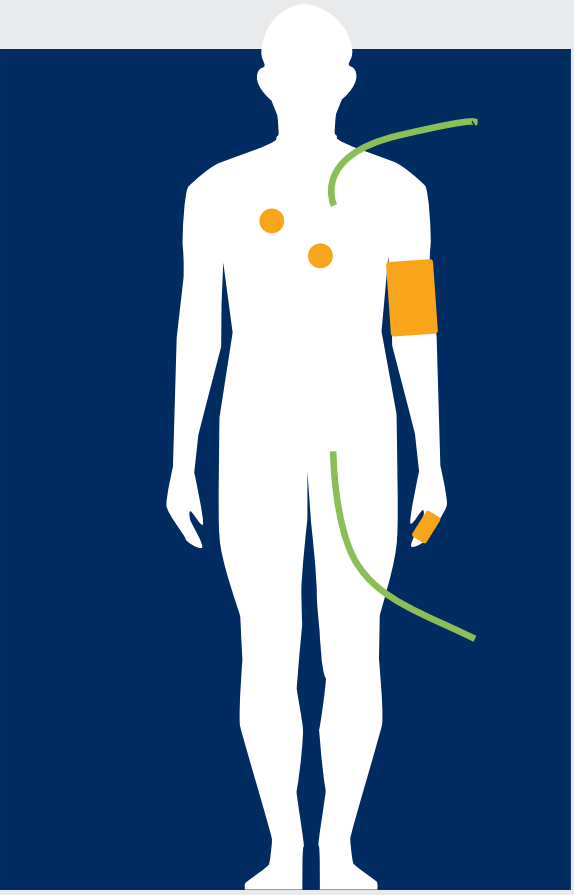
$PiCCO_2$ combines the two PULSION technologies, PiCCO and CeVOX, in a single piece of equipment. It usefully widens the range of measurements needed to monitor critically ill patients without creating additional risks to patients or extra work for hospital staff (see diagram on right).

Continuous monitoring of patients on the intensive care unit



STAGE 1 (general intensive care)

Sensors attached to the thorax continually measure the patient's *pulse rate* and *cardiac rhythm* an inflatable **cuff** measures the *blood pressure* and a **sensor on the finger** measures the *arterial oxygen level.*



STAGE 2 (critical care)

Critical care patients have **catheters inserted in both an artery and a vein** in order to obtain continuous measurements of *arterial and venous blood* pressure. It also enables measurements of *venous oxygen saturation* to be made, albeit not continuously.

STAGE 3 (critical care)

Without it being necessary to insert any more lines than those needed for stage 2, using an arterial catheter and a venous probe, **PULSION's PiCCO/PiCCO$_2$** enables ***continuous* monitoring to be carried out of all relevant data relating to the circulatory system and of the level of fluid on the lungs.**

LiMON

LiMON monitors the current function of the liver by measuring the breakdown rate of the agent, ICG-PULSION, after it has been injected into the body. LiMON can be applied in intensive care medicine to identify sepsis, septic shock and failure of one or more organs at an early stage and to monitor the course of these conditions. The related equipment can be used in the operating theatre to monitor liver function during liver surgery or transplant operations.

CiMON

With the aid of a pressure-sensitive gastric probe, CiMON measures pressure levels in the thorax and abdomen.

Increased pressure in the abdominal cavity can have a disastrous effect on the functions of the abdominal organs as well as those of the heart and lungs. Indications for using CiMON to monitor abdominal pressure in intensive care patients include labile circulation, sepsis, internal haemorrhage and severe damage to the lungs. The use of CiMON following major abdominal surgery is also advantageous.

ICG-PULSION

The diagnostic drug ICG-PULSION is in fact a dye known as indocyanine green. It can be used to diagnose a number of eye diseases. ICG-PULSION is used for diagnostic and surgical purposes to enable the blood supply to a number of organs to be visually depicted.

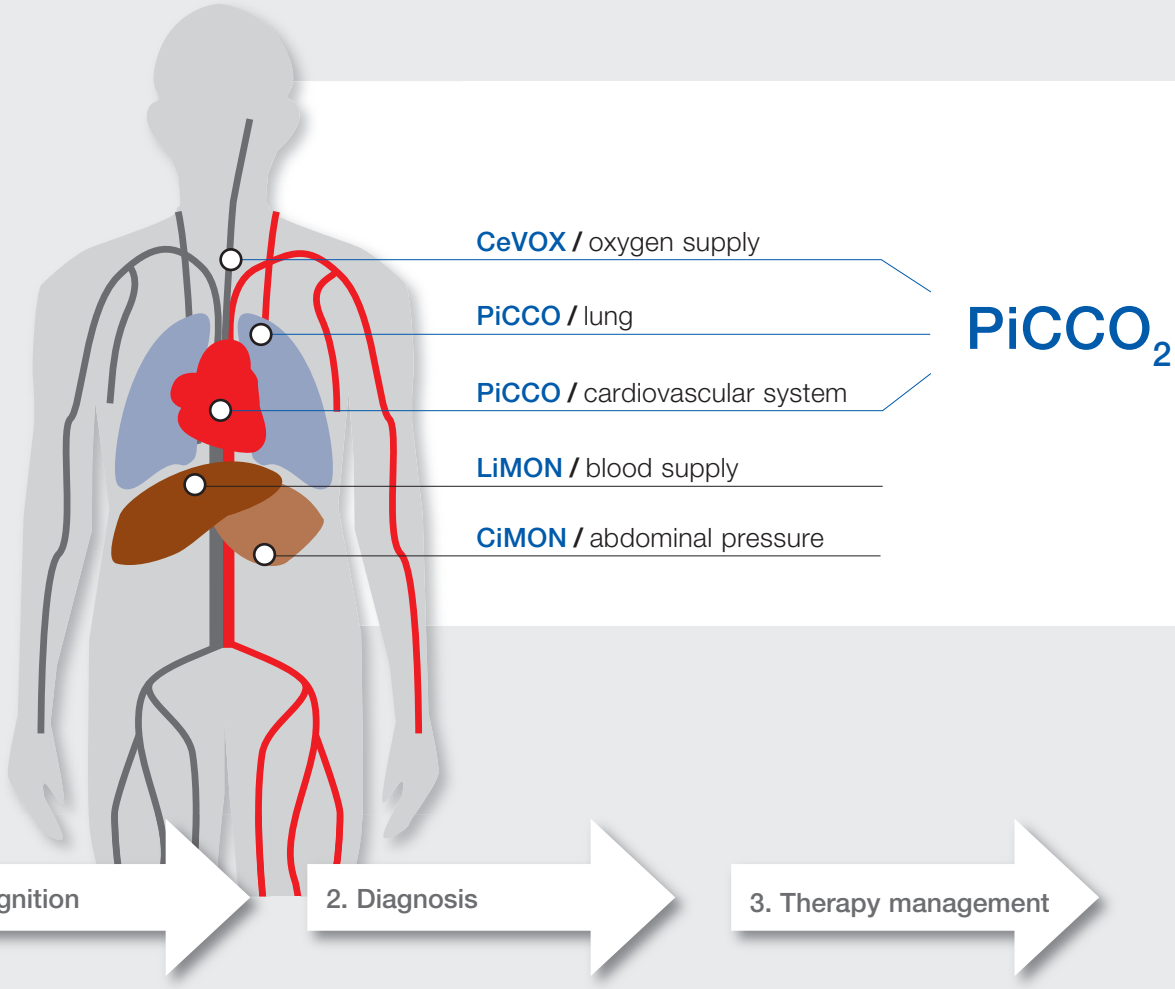
A central topic in intensive care medicine: Oxygen supply

All cells need water, nutrients and oxygen. Whereas the body can survive without water and nutrients for long periods, the oxygen supply may only be interrupted for a few minutes. Monitoring "oxygenation" is therefore extremely important on intensive care units, where patients are particularly at risk.

PULSION's products have no equals in this area because they measure
- more medically relevant parameters than other methods,
- "live", i.e. heartbeat by heartbeat,
- continuously for a period of up to 10 days,
- extremely reliable, i.e. without measurement errors due to the practitioner,
- in absolute values measured, rather than simply recording deviations.

Based on a total of 4 reading points, PULSION products make it possible to recognise and diagnose dangerous situations and to manage treatment appropriately. For example, only with continuous "live" measurement is it possible to be absolutely certain that the patient needs a blood diluent (saline solution), cardiac stimulation (drugs), or more red blood cells (blood transfusion). The results of medical intervention can be assessed immediately live on screen and this also allows optimum dosages to be administered.

Various medical studies show that patient monitoring and treatment management with the aid of PULSION products
– reduces the rate and severity of complications,
– reduces the duration of individual patients' treatment and
– reduces hospital costs.



Market and Competition

Leading position in Europe, hardly any presence in other regions

PULSION concentrates its activities on the market for monitoring critically ill patients on intensive care units. Enhanced cardiovascular monitoring is of prime importance, as is the monitoring of other vital organs.

Over the past years, PULSION has achieved absolute market leadership in Europe in enhanced cardiovascular monitoring with its core product, PiCCO. So far, other markets have hardly been tapped, even though there is very little competition in this specialized sector.

PULSION expects market growth in the area of monitoring critically ill patients to be well above that in the health care market as a whole. Demographic changes, the expansion in intensive care treatment methods to reach a wider range of patients and pressure on health service costs are all factors which will be to the benefit of automatic monitoring systems.

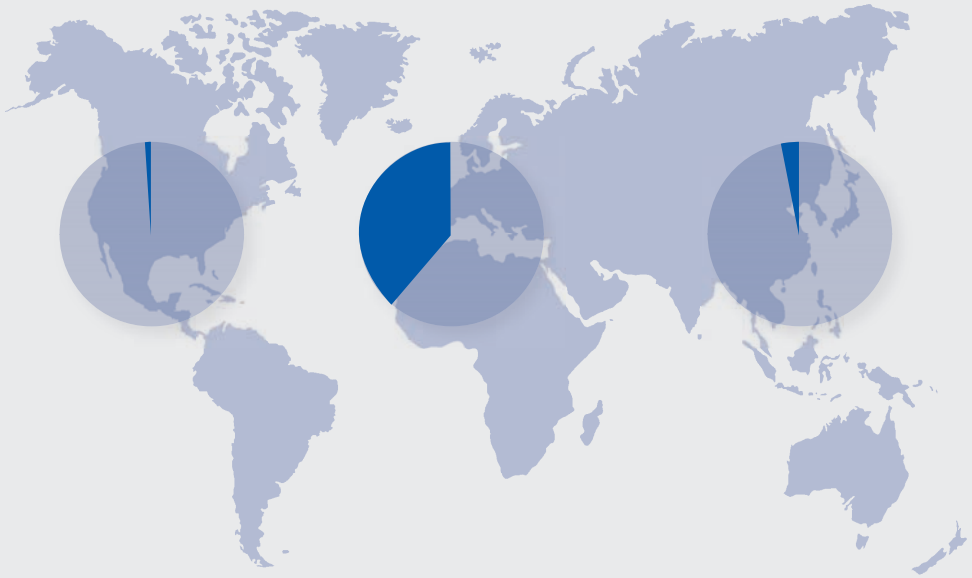
First choice in intensive medical care

PULSION only has a few competitors who are also able to offer diagnostic, monitoring and therapy management functions using their own technologies. The largest of these is Edwards Lifesciences with its product, Vigileo/FloTrac, which, like PiCCO, functions using standard access. Vigileo/FloTrac cannot be calibrated and is therefore more suitable for monitoring patients in stable conditions and for use in operating theatres.

With its focus on critically ill patients on intensive care units, PULSION has clearly set itself apart from its various competitors. Several factors strengthen its position:

- Continuous measurement enables monitoring to be carried out for a long period of time while venous and arterial lines are in situ or for as long as a feeding tube/probe is required.
- The fact that the values measured are extremely reliable and accurate guarantees that the equipment can be safely used on critically ill patients.
- Nursing staff are also able to interpret information quickly thanks to the “live” depiction on a clearly legible monitor.

PULSION's market shares in the field of enhanced haemodynamic monitoring



USA
Share of world market 55 %
PULSION's market share 0.3 %

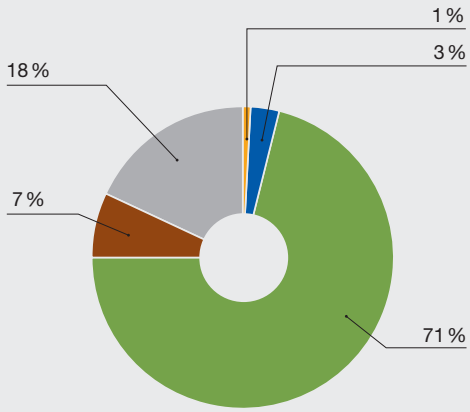
Europe
Share of world market 35 %
PULSION's market share 42 %

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

PiCCO sales by application location*

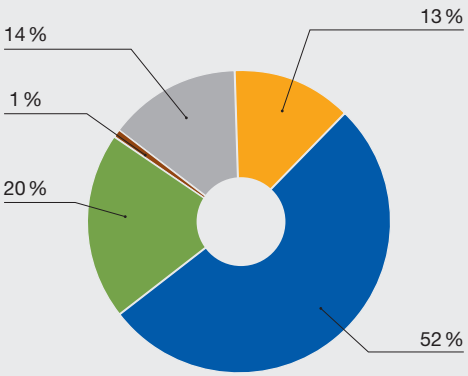
Operation room

Market volume 2007: USD 104 Mio.



Intensive care unit

Market volume 2007: USD 56 Mio.



PULSION Edwards LiDCO Deltex Others

* PULSION research

Strategy

PULSION's main objective is to become world market leader in the area of enhanced haemodynamic monitoring of critically ill patients. As described above, PULSION has set itself a target of approximately 20 percent of this growing market and is working on several long term projects to achieve this aim:

- making further improvements to the product portfolio
- optimising sales and marketing
- developing the market in the USA
- increasing production depth

Improving the product portfolio

An innovative trocar made of high quality material has been in use since 2008 and has improved the product safety of PiCCO catheters and CeVOX probes. The wire cannot kink and is therefore simpler and more easy to use.

The new PiCCO software 2.0 was completed in the autumn of 2008. PULSION's sales department will install it during the first quarter of 2009 for all of its customers in turn. The most important innovation in PiCCO 2.0 is that it now gives even more accurate readings.

Sales and marketing

The reorganisation of the sales department started in 2007 did not prove successful. The attempt to separate customer services and user training caused a significant drop in the demand for disposables. Sales revenue actually fell in the third quarter of 2008.

PULSION reacted to the situation and changed sales back to a system of providing full customer service by field staff. It has been clearly demonstrated that, above all, former nurses with practical experience of using PiCCO are particularly likely to succeed in field sales. In order to generate sales on a sustainable basis, it is essential that the staff in intensive care units are familiarised with the use of PiCCO. Once hospitals have recognised the advantages of PiCCO, they make more use of the equipment and thereby generate higher-than-average sales. Consequently, these hospitals frequently adapt to using PiCCO as a Standard Operating Procedure (SOP). SOPs are internal regulations for standardising work methods in order to achieve consistently high quality treatment in every case.

Improving customer relationship management is another crucial measure. By documenting sales potential according to individual intensive medical departments, selling activities can be managed in line with potential and the approach is adjusted according to the likely requirements of each individual department. PULSION expects that this will enhance sales force productivity particularly outside the DACH region (Germany, Austria, Switzerland).

USA

The strategy pursued by PULSION for the US market also proved to be the wrong one. The increase in revenue from EUR 319,000 to EUR 460,000 did not justify the high level of expenditure. In future, PULSION will return to concentrating on the East Coast and on A customers with the highest levels of medical provision. The segment loss – which amounted to EUR 1.3 million in 2008 – is expected to be lower in 2009.

Production

With its new production site in Feldkirchen near Munich, PULSION has gained more production depth and made improvements to the logistics chain. The previously announced investment activities and their implementation up until the start of operations at our new production site were completed by the end of the first quarter of 2008, considerably earlier than expected.

This has created a basis for

- improving product quality management,
- reducing production costs,
- achieving greater flexibility and swifter reaction to market fluctuations and
- getting in-house innovations onto the market more quickly

The financial improvements arising from the new production site will take effect in financial reporting terms from 2009 onwards. The increase in added value in the disposable products area in conjunction with greater automation of production processes will help to bring down production costs. In addition to this, PULSION has optimised its logistics chain, reduced purchase commitments and – wherever feasible and justifiable – cut expenses for bought-in parts. Here too, the effects of the measures initiated in 2008 will only take effect in financial reporting terms from 2009 onwards.

Overall, PULSION is convinced that the high level of capital expenditure of close to € 2 million has been invested purposely and efficiently in the areas of production and logistics.

Employees

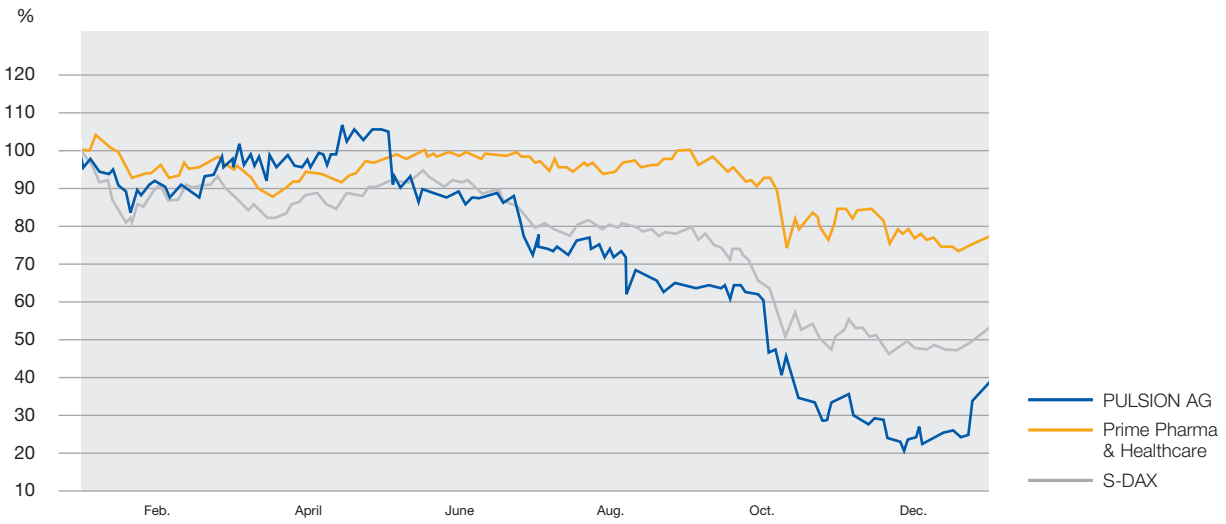
The Management Board would like to take this opportunity to thank all employees for the commitment they have shown both before and since the necessary change of leadership took place in autumn 2008. The reason for the poor result in the previous year does not lie in any lack of competence, performance or motivation on the part of the employees but was mainly due to the wrong strategy.

Despite all the upheaval, employee numbers developed in 2008 as planned. The average number of employees increased from 141 to 147, mainly as a result of the start of operations at the new site in Feldkirchen near Munich and due to the reorganisation of the sales department as described above.

Guiding principles

The "PULSION Guiding Principles on Cooperation and Leadership" were devised in 2008 with the help of an external advisor. They were drawn up in conjunction with the entire workforce on the basis of an anonymous questionnaire completed by more than 95 % of all employees and follow-up workshops. At the end of 2008 every employee received a printed version of the guidelines which define PULSION's philosophy of cooperation and its corporate culture. The guidelines have since become a normal part of everyday work at PULSION.

PULSION Stock



Development of PULSION stock compared to the Prime Pharma & Healthcare Performance Index and S-DAX (Basis: Xetra closing prices between January 2, 2008 and December 31, 2008)

The financial crisis has, since mid-2007, led to a worldwide loss of confidence in markets and companies. Many institutional investors moved out of smallcap und midcap stock and sought refuge in larger-sized companies with greater fungibility and less volatility. This resulted in steep drops in market prices during the first half of 2008 which then continued over the course of the second half of the year after the collapse of the investment bank Lehman Brothers in September and once it became evident in the third quarter that a worldwide recession was taking hold.

The price of PULSION stock also reflected the growing loss in confidence of investors in the company over the course of 2008. With the company's management and strategy being perceived as increasingly unconvincing over the period and then the poor performance in the third quarter, the share price fell overall from EUR 5.60 at December 31, 2007 to EUR 2.14 at December 31, 2008. Over the same period, the TecDAX lost 52 % in value, falling from 974.19 points to 508.31 points.

Initially, the change in top management in autumn 2008 failed to stabilise the market price of PULSION stock. It was the announcement made towards the end of December that a PiCCO module was also being developed for the GE's patient monitoring system that the share price began – from January 2009 onwards – to regain some lost ground.

Communication with investors

PULSION continued its investor relation activities in 2008. The objective of our work in this area is to build up a good relationship with investors, based on trust, and to offer investors, customers and employees alike the highest possible degree of transparency at an acceptable level of cost to the Group.

In 2008, PULSION presented itself for the first time at an Investors Day held at PULSION's premises. This event was received very positively so that a further Investor Day is now planned for 2009. The Management Board also made PULSION presentations at 2 roadshows. In 2008, in addition to quarterly reports, PULSION informed shareholders about important topical events concerning the group in 13 press releases and 4 ad-hoc reports.

Corporate Governance Report

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 2008 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 Securities Trading Act (WpHG).

Information about the remuneration and shareholdings of the members of the Management and Supervisory Boards, and of business relationships with related parties, together with details of pending legal disputes, is provided given on pages 36, 71 and 82–83 of this Annual Report.

Key data on PULSION stock at December 31, 2008

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 2007*	5.60 EUR
Closing market price 2008*	2.14 EUR
Highest price (52 weeks)*	5.85 EUR
Lowest price (52 weeks)*	1.10 EUR
Market capitalisation (December 31, 2008)*	20.5 Mio. EUR
Earnings per share (diluted)	–0.08 EUR

*Xetra index closing price

08

Consolidated Financial Statements (IFRS) of PULSION Medical Systems AG as of December 31, 2008

Report of the Supervisory Board

Dear Shareholders,

After years of performing well, PULSION's sales revenue stagnated at the previous year's level and EBIT fell from EUR 4.1 million to EUR 0.6 million, partly through exceptional and one-time expenses in 2008. The expectations placed on growth were not met. The strategy of expanding the cost base as a form of upfront investment has quite clearly not paid off and has left us with a poor earnings performance for the year. These unfavourable developments go back to the end of 2006/ beginning of 2007 but were initially more than offset by other positive developments. The Management Board provides a detailed description of developments in its report on the Group's performance.

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 Negative variances from budget

This had already been one of the main issues for the financial year 2007. With no convincing concept forthcoming from the Management Board in 2007 to counter weak growth and reverse the unsatisfactory earnings trend, the Supervisory Board highlighted PULSION's business in Europe as an important issue right from the beginning of the year and kept a close eye on progress thereafter.

In 2007, the reasons given for the poor earnings performance had been the transition from PiCCOplus to PiCCO$_2$ and necessary restructuring in the area of sales and marketing. However, contrary to budgeted figures, earnings did not get any better even after these changes had been made. The Supervisory Board therefore took a close look at the activities and situation at the various national companies, based on one-to-one discussions and analyses.

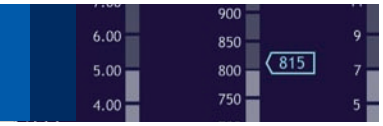
The conclusion reached was that the European subsidiaries were not being managed tightly enough. To make things worse, there was little transparency in the way each company handled its local activities and how business was developing in each country. It also became evident in this context that the Chairman of the Management Board (CEO) and the Supervisory Board held different views as to how the Group's sales strategy should be implemented. As no agreement could be reached on this critical point and the earnings performance continued to deteriorate, the Supervisory Board felt that it had no alternative but to part company with the CEO.

1.2 Market entry into the USA (phase 2)

The Group's market entry into the USA had already been a major issue for the deliberations of the Supervisory Board in 2007. Variances against budget became bigger and bigger over the course of the first half of 2008. The productivity of the US sales organization was less than 1/5th of the comparable value for the so-called DACH region (Germany, Austria, Switzerland).

Here too, different views were held by the CEO and the Supervisory Board as to the best way to go forward. Above all, the Supervisory Board urged management to pursue its US strategy on a cluster basis whilst also taking account of the very specific factors relevant for achieving success in the USA.

The Supervisory Board reacted to these two unfavourable developments by requesting the CEO to stand down on October 13, 2008. With effect from October 14, 2008, the former Chairman of the Supervisory Board, Dr. Burkhard Wittek, took over the position of caretaker CEO until such time that a new Chairman is appointed to the Management Board. Amongst the tasks taken on by



Dr. Wittek is to develop the business further, in particular on the sales side and to re-evaluate the key requirements for achieving future growth, both conceptionally and in strategic terms.

The Supervisory Board chose this line of action in order to ensure that sufficient time is available to find a suitable successor for the CEO post and to lay the foundation for future decisions by allowing Dr. Wittek to take thorough stock of the current situation.

2. Due process

During the financial year 2008, 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 authorized 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 2008, all of the recommendations contained in the most recent version of the Code (June 06, 2008) are being complied with the exception for the creation of committees which is not practical in a three-person Supervisory Board.

I firmly believe that taking an active interest in the well-being of the Company is just as important as complying with the formal aspects of corporate governance.
I think that PULSION's Supervisory Board has proved its commitment over many years with the high number of meetings held. Against this background, we were able to prepare ourselves for a change in management from about the second quarter 2008 onwards when the first signs of worsening problems began to emerge.

On February 16, 2009, a group of shareholders close to Dr. Wittek issued a takeover offer to shareholders. Since Dr. Wittek is also the Chairman of the Company's Management Board, we have, jointly with the Company's legal counsel, taken all necessary steps to draw up an independent recommendation for the Management Board and the Supervisory Board to give to shareholders. A fairness opinion has been requested which will form the basis for the recommendation to be made.

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 13, 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 13, 2009, 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

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.

For the financial year 2008, PULSION can only report on negative developments in these two areas, which is reflected in the poor performance of PULSION stock during the period.

The Supervisory Board remains highly committed to getting the company back on track to performing well. PULSION's products and market position remain excellent. The poor sales revenue and earnings performance was attributable to self-inflicted problems on the sales side and cannot be excused by developments on the market. PULSION will therefore with great determination in 2009 implement the revised sales philosophy and strategies initiated in 2008, thus creating the basis for further growth and enabling the business to get back to improving profitability.

6. Risk management

The Supervisory Board addressed the issue of PULSION's risk management system at two meetings during 2008 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.

7. Changes in the Management Board

Frank Posnanski entered the Management Board on June 1, 2008 as member with responsibility for finance and administration. One of his main tasks will be to increase the transparency of the business at an international level, thus enabling management to provide active, hands-on leadership.

Bradley P. Gould left the Management Board with effect from October 13, 2008. Dr. Burkhard Wittek was appointed to the the Management Board with effect from October 14, 2008.

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 2008.

Munich, March 13, 2009
On behalf of the Supervisory Board

Michael Bourjau
Chairman

Group Management Report

A Review of the Financial Year

Summary

- Group revenues stagnate at EUR 28 million
- EBIT drops to EUR 0.6 million, resulting in the Group reporting a net loss for the first time in years
- Critical Care revenues up slightly, but gross margin down by 6 percentage points to 67 %
- ICG revenues in the USA fail to materialise
- Numerous exceptional and one-time adverse expenses push down result further
- PiCCO licensing agreement with GE Healthcare signed
- Relocation to new office and production premises

Group revenues stagnated in 2008 at EUR 28.0 million (2007: EUR 28.3 million).

Profit before interest and taxes (EBIT) fell from EUR 4.1 million in 2007 to EUR 0.6 million in 2008 (-86 %). The EBIT margin dropped from 14.6 % to 2.1%. Group net profit after minority interests deteriorated from a profit of EUR 2.5 million in 2007 to a loss of EUR 0.7 million in 2008 (-129 %). Earnings per share turned round from a positive 26 cents to a negative 8 cents per share. For the first time in years, PULSION reports a net loss for the year.

Revenues of the Critical Care segment increased by 4% in 2008. Excluding the impact of exchange rates, the increase would have been 6 %. Even here though, a definite negative trend became evident over the course of the year. No revenues were recorded from sales of ICG-PULSION in the USA in 2008 due to the fact that the distributor had taken on a high level of inventories in 2007, and did not need to replenish these in 2008. Price reductions, lower revenues from sales of high-margin disposables, and a higher volume of sales via distributors meant that the gross margin slipped from 73 % in 2007 to 67 % in 2008.

In addition to business with lower margins, numerous other exceptional factors had an adverse impact on earnings. The change in sales management and the necessary strategic realignment from October 14, 2008 onwards resulted in one-time expenses, in particular for severance pay. Legal advisory services in conjunction with the patent dispute with the original founder of the company, Dr. med. U. Pfeiffer, which was definitively settled in January 2009, gave rise to one-time expenses. The relocation of the administration function to Munich-Riem, and of production to Feldkirchen near Munich resulted in a high level of capital expenditure, as well as various costs (i.e. for the physical relocation, the organisation of the move and communication) which were required to be recognized as expenses. The temporary discontinuation of sales of CiMON as a stand-alone monitor also triggered the recognition of an impairment loss on intangible assets.

On December 22, 2008, a licensing agreement for PiCCO was signed with GE Healthcare, a leading manufacturer of patient monitoring systems. The PiCCO module for use in GE systems is expected to be available for sale from the financial year 2010 onwards.

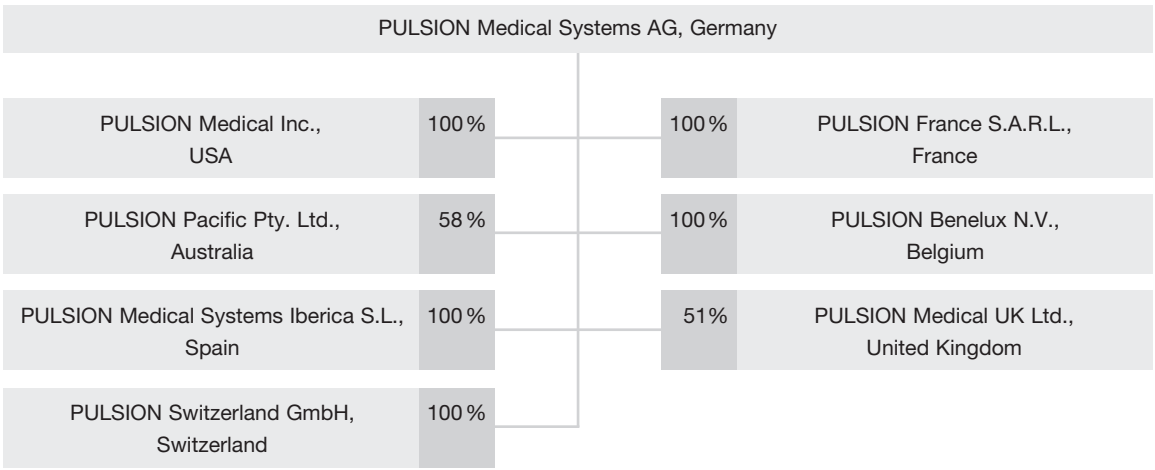
Since April 1, 2008, PULSION's administrative activities have been based in new premises in Munich-Riem which better suit the business' requirements. The new production facilities in Feldkirchen were commissioned at the end of the first quarter of 2008. The new facilities help to increase PULSION's share of the added value generated by disposable products, and to reduce production costs. The benefits will be reflected in the financial statements from 2009 onwards.

Group structure

Stability as foundation for future growth

PULSION Switzerland GmbH was founded in accordance with an agreement certified by public notary on December 9, 2008. This was entered in the Swiss Commercial Register on January 6, 2009. In all other respects, the group reporting entity was unchanged in 2008.

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:



In accordance with an agreement dated December 23, 2008 (certified by public notary) PULSION AG acquired all of the shares of Esoma Beteiligungsverwaltung GmbH which has its seat in Vienna. Subject to conditions precedent, the shares were transferred on January 1, 2009. On December 23, 2008, it was resolved to change the name of the newly acquired company to PULSION Austria GmbH. Since the acquisition of the shares did not take effect for legal purposes until January 1, 2009, the acquired company was not consolidated at December 31, 2008.

PULSION Medical Systems AG, Munich also holds a minority interest of 25 % in KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu, Hungary. Liquidation proceedings, commenced in 2005, have not yet been completed as a result of local regulations.

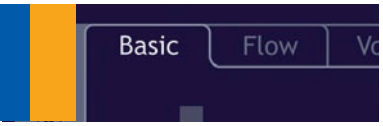
Financial report

General and sector business environment

The year 2008 was dominated by the expanding impact of the worldwide financial crisis which had begun in mid-2007 in the wake of a slump in the US property market, and the related collapse of the market for mortgage-secured structured securities. The resulting loss in trust in the markets proceeded to trigger a global recession. According to figures issued by the US Office of Trading and adjusted for seasonal fluctuations, the gross domestic product (GDP) of the USA fell by 6.2 % in the final quarter of 2008. The picture was similar in many industrial countries.

According to the German Federal Statistical Agency, GDP in Germany grew in the first quarter of 2008 by 1.5 % before contracting sharply from the second quarter onward, and actually falling by 2.1% in the fourth quarter of 2008. Overall, a positive growth rate of 1.0 % was registered for 2008, less than half of the rate achieved in the previous year.

So far, these developments have had little impact on the healthcare sector. In its Sector Report 2009, the Swiss bank UBS concludes that the healthcare market is performing to a large degree independently of the current economic cycle. Moreover, medical advances and demographic developments mean that the need for medical-care services will continue to rise. Having said that, there is a risk that the financial and economic crisis could result in cuts in public-sector budgets over the coming years and that this could have an adverse impact on PULSION's business, in particular in countries where healthcare provision is highly dependent on state subsidies.



Organisation

Bradley P. Gould and PULSION AG parted company in mutual agreement on October 13, 2008. The previous Chairman of the Supervisory Board, Dr. Burkhard Wittek, was appointed as caretaker Chairman of the Management Board. Within the selling function, two middle-management levels were cut out in order to ensure direct communication between executive management and sales force. Two new PULSION companies came into being in Switzerland and Austria, the latter only with effect from January 1, 2009. The Austrian company is therefore not included in the investment structure shown in this report.

PULSION has set up a training initiative, comprising three full-day training sessions each year, for all field sales force staff recruited without medical training since mid-2006. In-house physicians also pass on their specialised know-how to sales force staff, enabling them to provide well-substantiated information to existing and potential customers.

The future sales philosophy will focus on well-trained and healthcare professionals who are convinced of the medical and commercial benefits of PULSION's products, and who can communicate those benefits in the best way to the customer. In parallel, the frequency and intensity of PULSION's training events for doctors and nursing staff will be increased.

Customer relationship management has been intensified to improve marketing-related decision-making processes and to gain a better insight into the market potential. Regular meetings held by marketing and local sales staff are aimed at optimising the consistency of PULSION's marketing approach and its selling activities.

A new system of written targets for managers and staff will help to ensure that each person's tasks within the PULSION organisation are clearly defined. The award of bonuses is also integrated into the new system.

In order to avoid a repeat of the sales strategies pursued in 2007 and 2008, based purely on the objective of achieving sales volume growth, the focus in the future will be on profit rather than on sales revenue. Transparency will be improved through continuous monitoring of productivity and costs, which in turn, should be reflected in the quarterly reporting.

While the sales force is being strengthened by the targeted recruitment of medically trained staff, a temporary hire freeze has been imposed for the remainder of the business that will apply at least up to the end of 2009.

Revenue trends

At EUR 28.0 million, sales stagnated in 2008 at roughly the previous year's level (2007: EUR 28.3 million). 62 % of sales revenue related to disposable products in the Critical Care segment, 25 % to the sale of new monitors and 13 % to the sale of ICG-PULSION in the Pharma segment.

Lines of business

Revenues generated by the sale of monitors (PiCCO, CeVOX, LiMON) in the Critical Care segment rose by 9 % from EUR 6.5 million to EUR 7.1 million. A high number of PiCCO customers were equipped with new PiCCO$_2$ monitors during the first half of 2008. Adjusted for replacement monitors, the installed base for Critical Care business increased by a good 9 % to 5,743 monitors. Furthermore, the number of PiCCO modules placed on the market via PULSION's strategic sales partners (Philips Medical Systems and Dräger Medical), increased by 2,021 units from 11,452 units at the end of 2007 to 13,473 modules at the end of 2008 (+18 %).

Sales of Critical Care segment disposable products, primarily catheter kits and probes, went up by 2 % from EUR 17.0 million in 2007 to EUR 17.4 million in 2008. At the same time, however, the number of PiCCO catheters sold – an important source of revenues for PULSION – stagnated at a sales volume of approximately 108,000 units. It will only be possible to increase sales volume in the future by gaining new users on a long-term basis. This means that, in addition to selling new monitors, it is also necessary to convince more doctors of the medical and commercial benefits of PULSION's products, particularly in clinics in which PULSION technologies are already being used.

Sales by product:

in EUR million		2008	2007	Deviation
Monitors	Critical Care	7.1	6.5	9 %
	Pharma	0.0	0.0	n. a.
Disposables	Critical Care	17.4	17.0	2 %
	Pharma	3.5	4.8	–26 %
Subtotal	Critical Care	24.4	23.5	4 %
Subtotal	Pharma	3.5	4.8	–26 %
Total		**28.0**	**28.3**	**–1%**

Note: In order to achieve more accurate control over performance, PULSION has made minor changes to the definitions of monitors and disposables for internal reporting purposes. The figures reported above for 2007 have been adjusted to the new definitions and therefore do not correspond the figures reported in 2007; aggregate amounts are unchanged.

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).

Revenue from sales of ICG-PULSION fell by 26 % to EUR 3.5 million. This was due to the high one-off level of sales to the new US distributor recorded in the financial year 2007. In 2008, no further sales of this product were made to the US market. Excluding this exceptional factor, sales of ICG-PULSION increased by 1%. In order to increase sales volumes, it will be necessary in the coming financial year, and thereafter, to establish the new areas of application for ICG-PULSION.

Regions

The core region of PULSION's sales activities continued to be Europe where 91% of total sales (EUR 25.5 million) were generated. The growth rate in this region in 2008 was 4 %. The unclear situation in Belgium regarding the reimbursement of disposable products resulted in a 47 % drop in sales revenue on this market compared with 2007.

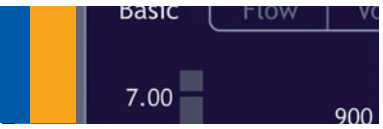
The main sales markets for PULSION in Europe were Germany, Austria and Switzerland (the so-called "DACH" countries) with an aggregated sales revenue of EUR 13.6 million (also up 4 % compared with 2007) providing a good indicator of PULSION's overall potential.

Sales by region:

in EUR million	2008	2007	Deviation
DACH*	13.6	13.1	4 %
Europe (ex DACH)	11.9	11.4	4 %
USA	0.6	1.7	–67 %
Australia-Pacific	0.9	0.9	7%
Other	1.0	1.1	–11%
Total	**28.0**	**28.3**	**–1%**

* Germany, Austria, Switzerland

Sales generated in the USA fell by 67 % compared with the previous year. As explained above, this development was attributable to the high level of ICG deliveries in 2007 for the initial stocking-up of the distributor, whereas in 2008 no revenues were recorded for ICG-PULSION sales to the USA. Excluding this item, sales generated in the USA were up by 44%.



Sales in the rest of the world ("Other") fell by EUR 0.1 million or 11% as a result of the lower volume of business in Japan in 2008.

Sales made via distributors rose by 13 % during the year under report. The revenues generated by these sales are recorded at the level of the Pulsion AG, whereas revenues from direct sales are mostly recorded by the various national companies. As a result, sales revenue of the AG rose by 6.4% while that of the subsidiaries fell by 15 %. In product group terms, Critical Care grew by 4 % while ICG (due to the USA) contracted by 64 %.

Earnings performance

The gross profit in the financial year 2008 fell from EUR 20.5 million to EUR 18.6 million while the gross profit percentage slipped from 73 % to 67 %.

Compared with 2007, the operating result deteriorated by EUR 1.9 million. This was attributable primarily to the lack of ICG-PULSION sales in the USA (due to the stocking-up of the US distributor in 2007) and a lower gross margin for the key product, PiCCO. The latter was caused by price campaigns in the area of disposables and due to the initial placing of the new PiCCO$_2$ and a 9 % increase in monitor business (given that the main source of gross margin in PULSION's razor/razorblade business model is generated with disposables).

Exceptional and one-time expenses reduced the pre-tax profit by a further EUR 0.7 million. The various changes and measures adopted at various sales management levels resulted in one-time expenses of approximately EUR 0.2 million. The relocation to two sites, as well as legal advisory and settlement agreement costs in connection with the patent dispute with Dr. Pfeiffer, required the recognition of a further EUR 0.5 million in one-time expenses. An impairment loss of EUR 0.2 million was recognised on intangible assets due to the fact that CiMON is not currently being sold as a stand-alone monitor.

Spending on research and development in 2008 totalled EUR 2.2 million and was therefore slightly higher than in the previous year's figure of EUR 2.0 million. Further details are provided in the section on R&D activities.

Key performance indicators:

Indicator	Basis of computation	2008	2007
Return on sales	Group net loss (profit)/group sales	–2.6 %	8.9 %
Return on equity	Group net loss (profit/average equity	–4.5 %	16.2 %
Return on total capital	Group net loss (profit)/average total capital*	–2.9 %	10.1 %

* Total capital employed = balance sheet total

Profit before interest and taxes (EBIT) deteriorated by 86 % from EUR 4.1 million in 2007 to EUR 0.6 million in 2008. The net loss for the Group (attributable to equity holders of PULSION Medical Systems AG) was EUR 0.7 million, also caused by a higher tax expense (after full recognition of tax assets relating to tax losses available for carryforward in Germany). Earnings per share after minority interests (diluted) decreased therefore to a negative 8 cents per share.

Assets, liabilities and financial position

Financial performance indicators

Despite the deterioration in operating performance in 2008, PULSION's solid balance sheet structure was further strengthened in 2008. The consolidated balance sheet total (total assets/total capital employed) amounted to EUR 23.8 million at December 31, 2008, down by 11% compared to one year earlier (EUR 26.8 million).

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

Indicator	Basis of computation	Unit	2008	2007	Change
Days of Sales Outstanding	Trade accounts receivable x 360 days / Group sale	days	71	74	–4 %
Inventory turnover	Cost of sales / Average level of inventories		2.1	2.0	6 %
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.	–0.8	–3.7	–77 %
Equity ratio	Equity / Balance sheet total	%	68	64	6 %
Fixed assets coverage	Shareholders' equity / Fixed assets		1.6	2.0	–16 %
Liquid funds*	Cash on hand and at bank and available-for-sale financial assets	EUR m.	3.2	7.0	–55 %
Net Working Capital	Current assets less liquid funds and less current liabilities	EUR m.	5.6	3.6	56 %

* including pledged cash of EUR 0.2 million (2008: EUR 0.3 million)

On the assets side of the balance sheet, non-current assets increased during the financial year 2008 from EUR 9.4 million to EUR 10.0 million (+6 %). Property, plant and equipment increased from EUR 4.9 million to EUR 6.2 million, partly as a result of the new production facilities in Feldkirchen near Munich. Non-current trade accounts receivable were down by EUR 0.2 million while all other non-current asset line items remained largely unchanged. Deferred tax assets are netted against deferred tax liabilities at the balance sheet date.

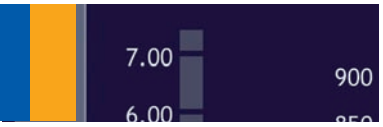
Current assets decreased by 21 % from EUR 17.4 million to EUR 13.8 million, mainly as a result of the sale of available-for-sale financial assets (money market funds) in 2008 (down by EUR 1.6 million). Liquid funds (including available-for-sale financial assets) therefore decreased from EUR 7.0 million at December 31, 2007, to EUR 3.2 million at the end of the period under report. At December 31, 2008, EUR 0.2 million (December 31, 2007: EUR 0.3 million) of cash and cash equivalents held in bank accounts were pledged. The pledge relates to guarantees for the Spanish subsidiary.

Current trade account receivables decreased by EUR 0.1 million to EUR 5.4 million. At the same time, the length of time between billing and payment (DSO) was reduced from 74 days at December 31, 2007, to 71 days at December 31, 2008. Inventories increased marginally from EUR 4.2 million to EUR 4.5 million (+8 %).

On the equity and liabilities side of the balance sheet, liabilities decreased by 22 % from EUR 9.8 million at the end of 2007 to EUR 7.6 million at December 31, 2008. This reduction included scheduled repayments of liabilities to banks and leasing liabilities totalling EUR 0.8 million. Trade accounts payable also decreased by EUR 0.7 million. Overall, net financial debt decreased from EUR 3.7 million at December 31, 2007, to EUR 0.8 million at the end of 2008.

After netting deferred tax assets and liabilities, PULSION reports a net deferred tax liability of EUR 0.4 million. Deferred tax liabilities exceed deferred tax assets for the first time, resulting in the disclosure of net deferred tax liabilities on the equity and liabilities side of the balance sheet.

Equity decreased from EUR 17.1 million at the end of 2007 to EUR 16.2 million at December 31, 2008, whereby the decrease of EUR 0.8 million corresponds to the unappropriated deficit for the year. The equity ratio nevertheless improved from 64 % to 68 % due to the lower balance sheet total.



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, decreased sharply from EUR 4.5 million in the previous year to EUR 1.0 million in 2008.

The cash outflow for investing activities in 2008 totalled EUR 2.1 million and decreased therefore by EUR 1.1 million (-36%) compared to the previous year. Capital expenditure on property, plant and equipment totalled EUR 5.0 million (new production building, monitors and production equipment) compared with gains on the sale of available-for-sale financial assets (money market funds) totalling EUR 1.5 million.

As a result of repayments of bank loans, financial liabilities and leasing liabilities amounting in aggregate to EUR 0.9 million, the cash outflow from financing activities totalled EUR 1.1 million in 2008. In the previous year, a cash inflow of EUR 0.4 million from financing activities was reported, mainly as a result of the proceeds from a new non-current bank loan.

Adjusted for the cash-relevant change in cash and cash equivalents, PULSION's liquidity pursuant to IAS 7 – including available-for-sale financial assets – decreased from EUR 7.0 million at the end of 2007 to EUR 3.2 million at December 31, 2008 (-55%).

Non-financial performance indicators

Alongside some of its financial performance indicators, PULSION also succeeded in building on and strengthening its non-financial performance indicators in 2008. This includes training activities, supporting the career progression of its employees and compliance with the German Corporate Governance Code (for further details see the later sections "Personnel development" and "Corporate governance"). During 2008, for example, guidelines for cooperation and communication within the company were designed and introduced in a joint effort with employees.

Capital expenditure

Total capital expenditure in 2008 amounted to EUR 5.0 million, therefore reaching a new high level (2007: EUR 3.9 million).

Capital expenditure related to the following:

- EUR 2.6 million was invested in monitors.
- EUR 0.5 million was invested in intangible assets including
  - EUR 0.3 million on product development
  - EUR 0.2 million for patents, approval coverage of ICG-PULSION and software.
- EUR 1.9 million on technical equipment and operational facilities, in particular in conjunction with the new production site.

The capital expenditure ratio (i.e. the ratio of capital expenditure to group sales) was 18% (2007: 14%). The relatively high capital expenditure ratio reflects the shift to the PiCCO$_2$ monitor and the investment in the new production location, both of which will benefit the business in the long-term.

Internationalisation – USA

The US market accounts for some 40% of the global market for haemodynamic monitoring (the monitoring of cardiac and circulatory functions, see Glossary). The USA is therefore a key region for future growth and therefore of key strategic significance in the most important goal set by PULSION – namely to achieve leadership in the advanced haemodynamic monitoring market.

The cluster strategy developed for the US market was set aside to some extent in 2008. This strategy had focused previously on targeting PULSION's limited resources to core regions with the highest levels of medical provision in order to generate the maximum feasible penetration. PULSION has therefore now returned to the cluster strategy with a view to attaining its budgeted results.

Purchasing, Production, Logistics

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

As part of its strategic plan, PULSION has therefore moved to a new production location. Deliveries to customers from the new production site began during the financial year 2008. Capital expenditure of approximately EUR 2 million invested in the new site in Munich will help to 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.

Thanks to the production changes described above, PULSION will continue to reduce costs for logistics and purchasing. An efficient network of suppliers and partners working to PULSION's high quality requirements is in place. Continual efforts are being made to locate additional partners to supply key components and parts, and therefore keep dependence on individual suppliers to a minimum. It nevertheless remains the stated goal to reduce the number of suppliers overall in order to generate cost efficiencies.

Personnel development

As in previous years, PULSION was only able to master all the complicated issues facing it in 2008 with the help of its highly committed employees. Individually tailored further training measures in 2008 ensured, once again, that staff maintained their up-to-date level of knowledge. The move to two new locations demanded the highest level of organisational skills from employees. It is only thanks to their great commitment that all deadlines were met.

A major project was carried out from spring 2008 onwards with the designation "Opinion Initiative 2008". An external firm was engaged to assist in a wide-ranging survey of employees based on a questionnaire devised jointly by management and staff. The survey was carried out anonymously, with more than 95% of the workforce completing the questionnaire. The results of the survey were discussed in workshops in which all employees were invited to participate and were subsequently incorporated into company-wide guidelines. These guidelines have become an integral component of daily work.

The Company employed a worldwide workforce (including those employed on a low wage-earning basis) of 147 people at the end of the year (2007: 138), 7% more than one year earlier. As a result of the higher number of employees, personnel expense went up from EUR 9.6 million in 2007 to EUR 10.3 million in 2008 (+ 7 %).

Environmental care and quality management

PULSION's quality management system was again certified by Dekra ITS Certification Services GmbH in 2008 to EN ISO 13485/2003 standard. In accordance with the European Union Directive on medical devices (MDD 93/42/EEC), PULSION is entitled to use the CE label for products brought into use within the European Union.

The PULSION quality management system also complies with the requirements of the US American authorities (FDA) and with the Canadian approval directives CM DC AS.

PULSION complies with all relevant environmental care regulations and 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 balance 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.

Supervisory Board remuneration system

In accordance with the Company's Articles of Incorporation, the Supervisory Board comprises three members. The remuneration of the Supervisory Board comprises a fixed and a performance-based component. In addition, expenses incurred are reimbursed. The fixed remuneration amounts to EUR 20,000.00 for a member, EUR 30,000.00 for the Deputy Chairman and EUR 40,000.00 for the Chairman. The performance-based remuneration for 2008 is calculated as follows: if the Company's EBIT divided by the average number of issued shares is at least 15 % p.a. higher than the comparable figure for 2005, the additional variable remuneration is EUR 5,000.00; if the Company's EBIT divided by the average number of issued shares is at least 25 % p.a. higher than the comparable figure for 2005, the additional variable remuneration is EUR 10,000.00. Full details of the remuneration of the Supervisory Board, analysed by individual, are provided in the notes to the consolidated financial statements.

In 2008, PULSION again based its approach to corporate governance of the principles set out in the German Corporate Governance Code, as updated on June 6, 2008. PULSION complied with all of the recommendations of this code in 2008 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 12, 2008, and has been posted to the Company's website at www.PULSION.com.

Research and development report

Research and development activities

The Company's Science, Research and Development (R&D) and Intellectual Property (IP) departments are the mainstays of PULSION's business strategy and together represent a prerequisite for PULSION's target of attaining leadership – in selected target markets – in advanced haemodynamic monitoring in the near future.

The key product, PiCCO$_2$, which is being sold successfully worldwide, was enhanced with new functions in 2008 and further optimised in ergonomic terms. Further improvements were made and handling simplified in response to customer suggestions. The PiCCO$_2$ measurement parameter ScvO$_2$ (central venous oxygen saturation) received a new optical module to incorporate the fiber-optical measurement probe (CeVOX Disposable). At the same time, Philips agreed to incorporate this module (in its own name) into the Philips monitoring system with the result that PULSION is now also an OEM product supplier for Philips Medizin Systeme Böblingen GmbH.

PULSION's key product, PiCCO$_2$ provides a general overview, as well as detailed insights into the different aspects of the cardiovascular system through a combination of different technologies, allowing the attending physician and nursing staff to make prompt and accurate diagnoses and better therapeutic decisions. Further PiCCO$_2$ add-on modules are planned for 2009.

Patents and approvals

At the end of 2008, PULSION had 159 national patents (December 31, 2007: 156) at its disposal in various countries. This comprised 124 patents held by PULSION and 35 patent rights licensed to PULSION. In addition, PULSION is currently in the process of applying for a further 291 patents (2007: 323) in various countries. The patents and patent applications relate to 47 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 (2007: 28) 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 2008. This includes obtaining approvals for the PiCCO$_2$ platform in Canada, Russia and Indonesia. Approval for Brazil is pending. The new production facilities in Feldkirchen received the necessary certificates for Japan and the USA.

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 the prior year, forecast and estimated figures at various levels within the Group, thus providing 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 the attractiveness and needs of this market segment, it can be assumed that competition will continue to intensify in the future. There is therefore a risk that PULSION, by comparison with its competitors, may not react quickly enough to market trends by developing new 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 and improving patent protection on the one hand, and by permanently observing the market via intermediary organisations and networks on the other. It is also engaged in a continuous process of optimising manufacturing cost.

Financial markets risk

The current problems of the world's financial markets do not, at present, pose any specific risk for PULSION. The healthcare market has so far remained largely unaffected by the financial market crisis and continues to perform relatively autonomously. Since PULSION generally endeavours to finance its operations from its own resources, the fact that raising funds has become more difficult only affects PULSION marginally. PULSION closely observes developments on the financial markets in order to identify potential risks in advance. Sound equity coverage ensures the company a good rating, so that capital could be raised if required. The Group's level of debt was reduced further in 2008. PULSION is not, at present, subject to any covenants.

If the financial market crisis were to reach the healthcare sector, this could adversely affect the situation of customers and the demand for PULSION products, with a resulting negative impact of sales and earnings. No such impact has been identified to date.

Risks relating to government healthcare policies

Governmental policies to hold down costs within the healthcare sector represent a structural risk for growth. PULSION is affected both directly and indirectly by such developments:
In countries, in which product costs are reimbursed to hospitals – for example in Brazil, China and, in Western Europe, Belgium – there is a risk that the level of reimbursements will be reduced. This results, at best, in lower sales revenue and lower revenue per unit sold. At worst, however, the reimbursement level could be reduced so sharply that PULSION would no longer be able to work profitably in the market.
In countries with fixed-sum treatment amounts (Diagnosis Related Group systems or DRGs) such as Germany, France or the USA, PULSION is constantly required to document the use of PiCCO creates measurable medical and commercial benefits. If the fixed-sum treatment amounts are frozen or lowered, there is a risk that clinics may restrict the use of PULSION products to particularly critical cases or even discontinue their use entirely.

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 cannot be ruled out, however, that PULSION will have to face such claims in the future and that the amounts involved could exceed insured amounts.

Growth and financing

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

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 countermeasures 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 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

PULSION moved into its new production premises in Feldkirchen near Munich in Spring 2008. At present the Company buys a relatively high level of pre-manufactured components and parts. This situation will be improved once the new production facilities are working to full capacity.

Due to the current size of the business, it is not possible 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-house production, and the resulting higher level of value added, will allow these inventories to be reduced in the future.

Financial risks

PULSION has an equity ratio of 68% at December 31, 2008. Unpledged cash and cash equivalents of EUR 3.0 million and current receivables of EUR 5.4 million also provide financial flexibility. The cash flow from operating activities in 2008 amounted to EUR 1.0 million. From a current perspective, the financing and liquidity situation of the Group 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 generally 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 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 examination 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 analyses 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 growing enterprise with worldwide operations, it is essential that existing sales and management capacities are optimised.

PULSION currently has a hire freeze for new employees outside the sales function. Positions that become free when employees give notice are, however, being filled. The temporary hire freeze is therefore not likely to entail any risks for the business.

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 work-time arrangements.

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 regular flow of information, meetings are held at a management level on a regular basis and whenever necessary.

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.

All court proceedings with the Company's former Chairman of the Management Board, Dr. Ulrich Pfeiffer, were terminated following a settlement agreement on January 28, 2009. The settlement agreement made it clear that PULSION owns all of the patents which resulted from inventions made by Dr. Pfeiffer while working for the Company.

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 United Kingdom, Switzerland (since December 6, 2008), Austria (since January 1, 2009) the USA and Australia, as well as an extensive network of dealers.
- Strong licensing partners in the form of Philips Medical Systems, Dräger Medical, Zeiss, Schiller and Dixtal. An agreement was signed with GE Healthcare in December 2008 regarding a license for PiCCO technology.
- Innovative strength driven by extensive expertise and application knowledge in all of the fields in which PULSION operates.
- Opportunities to enter into joint ventures in the BRIC countries (Brazil, Russia, India and China).
- Further progress with in-house production in order to minimise dependence on specialist suppliers.

Disclosures pursuant to § 315 (4) HGB

The following disclosures are made in compliance with § 315 (4) HGB.

Composition of share capital

The share capital at December 31, 2008 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.

There are no restrictions relating to voting rights or the transfer of shares pursuant to § 315 (4) HGB. No shareholders have special rights.

Shareholders with more than 10 % of voting rights

The following direct and indirect investments in the share capital of PULSION Medical Systems AG, which exceed 10 % of the voting rights, have been notified to PULSION Medical Systems AG:

FORUM European Smallcaps GmbH, Munich, holds 1,749,741 shares, corresponding to 18.27 % of the share capital and voting rights of PULSION Medical Systems AG. The majority shareholder of FORUM European Smallcaps GmbH, Munich, is Dr. Burkhard Wittek, who does not hold any shares directly in PULSION Medical Systems AG.

FORUM Private Equity GmbH, Munich, holds 1,103,860 shares, corresponding to 11.53 % of the share capital and voting rights of PULSION Medical Systems AG.

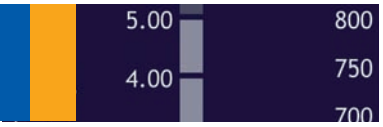
Appointment and removal of members of the Management Board, Changes to Articles of Incorporation

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.

Authorisation of Management Board to issue shares

A conditional capital of KEUR 2,481 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 481 can be used to issue stock options.

Furthermore, in accordance with the shareholders' resolution dated June 9, 2004, the Management Board is entitled, prior to June 8, 2009 and subject to approval by the Supervisory Board, to increase the share capital by up to



EUR 4,721,401 by the issue, in one or several steps, of up to 4,721,401 new bearer shares 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.

Authorisation of Management Board to buy back shares

In accordance with the shareholders' resolution taken at the Annual General Meeting on May 8, 2008, the Company is authorised in accordance with § 71 (1) no. 8 AktG to acquire, prior to November 7, 2009, up to 10% of its own present share capital. The authorisation may not be used by the Company to trade in its own shares. The authorisation to acquire own shares resolved at the Annual General Meeting on May 24, 2007, expired when the new authorisation became valid.

Provisions in place in the event of a change in ownership

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, § 315 (4) nos. 5, 8 and 9 HGB are not applicable.

Outlook

Business strategy

The PULSION Group is currently working on the following projects:

- Further improvements to the product portfolio.
  Integration of existing and new technologies in the PiCCO$_2$ product platform.
- Optimisation of sales and marketing.
  High-quality training of employees to improve communication of medical benefits to the market.
- Market development in the USA.
  Greater focus on the specific nature of the US market.
- Greater production depth for products which must be available for delivery at all times, and for products for which potential production process improvements have been identified.
- Increased marketing of ICG, particularly in new fields of application such as neurosurgery.
- The creation of new joint ventures and subsidiaries in order to expand the potential for PiCCO$_2$ and related disposables.

Outlook

The following information is based on the assumption that there will be no major deterioration in the business conditions relevant for PULSION as a result of the impact of the financial markets crisis.

The following measures should result in improved sales and earnings for PULSION:

- Implementation of the business strategy measures highlighted above.
- Achieving better margins through benefit-generating sales and through efficiency improvements in the sales area.
- Reviewing the cost structure and implementing projects aimed at reducing sales and marketing costs.
- Developing new products for the future and opening up new fields of application for existing products.
- Increasing sales revenue in the USA and keeping a rigorous control over costs.

Alongside the various measures already initiated, some major areas of uncertainty have been identified – over and above the global financial crisis – which could have a negative impact on earnings in 2009:

- Prices for materials (in particular plastic) could increase as a result of the dependence on oil.
- As in 2008, it is possible that currency risks - in particular relating to the British pound, the Australian dollar and the US dollar – may be of relevance.
- The risk of deflation, which could have an impact on sales and margins, must be closely observed.
- The speed at which the various measures described above actually manage to put the business back onto growth course and bring about better earnings.

Taking all factors into account, 2009 should see a small growth in sales and an improvement in earnings. Sales and earnings in the next two years should be higher than those achieved in 2008.

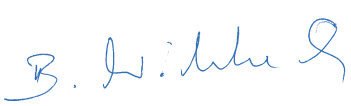
Subsequent Events Report

A definitive settlement was reached with Dr. Ulrich Pfeiffer on January 28, 2009, bringing to an end by mutual consent all patent disputes and all disputes relating to corresponding national patent registrations and patent rights.

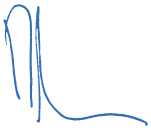
On February 16, 2009, the Company received notice that FORUM European Smallcaps GmbH, Munich, had gained control over the Company pursuant to § 35 (1) in conjunction with § 10 (3) Securities Acquisition and Transfer Act (WpÜG). The Management Board will respond in the due course of time.

Apart from that, there have been no significant events after the balance sheet date.

Munich, March 12, 2009
PULSION Medical Systems AG



Dr. Burkhard Wittek
Chairman of the Management Board



Matthias Bohn
Member of the Management Board

Frank Posnanski
Member of the Management Board

Consolidated Balance Sheet

PULSION Medical Systems AG at December 31, 2008

ASSETS

	Note	Dec. 31, 2008 KEUR	Dec. 31, 2007 KEUR
Non-current assets			
Intangible assets	12	3,492	3,513
Property, plant, equipment	13	6,151	4,919
Investment property	15	215	231
Financial assets	16	40	0
Trade accounts receivable	18	122	315
Deferred taxes	10	0	442
Total non-current assets		**10,020**	**9,420**
Current assets			
Inventories	17	4,527	4,209
Trade accounts receivable	18	5,410	5,515
Other current assets	19	596	705
Tax receivables		134	0
Available-for-sale financial assets	20	0	1,555
Cash and cash equivalents *	21	3,163	5,429
Total current assets		**13,830**	**17,413**
Total assets		**23,849**	**26,833**

* including fixed term deposits of EUR 0.2 Mio. (Dec. 31, 2007: EUR 0.3 Mio.) pledged as security

EQUITY AND LIABILITIES

	Note	Dec. 31, 2008 KEUR	Dec. 31, 2007 KEUR
Equity	22, 23		
Share capital		9,577	9,577
Additional paid-in capital		20,596	20,407
Other reserves		(651)	(299)
Accumulated deficit		(13,671)	(12,943)
Minority interests	11	389	312
Total equity		**16,240**	**17,054**
Non-current liabilities			
Provisions	24	181	86
Liabilities to banks	25, 26	1,627	2,017
Lease liabilities	14, 25	69	287
Other liabilities	25, 29	239	530
Deferred taxes	10	392	0
Total Non-current liabilities		**2,508**	**2,920**
Current liabilities			
Provisions	24	91	197
Liabilities to banks	25, 26	390	359
Financial liabilities	25, 27	26	238
Trade accounts payables	28	1,061	1,735
Lease liabilities	14, 25	217	410
Taxes payables	10	144	614
Other liabilities	25, 29	3,172	3,306
Total equity and liabilities		**5,101**	**6,859**
Total equity and liabilities		**23,849**	**26,833**

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, 2008

	Note	2008 KEUR	2007 KEUR
Sales	5	27,962	28,257
Cost of sales	6	(9,358)	(7,724)
Gross profit		**18,603**	**20,532**
Selling and marketing expenses	9	(12,972)	(12,091)
Research and development expenses	9	(2,172)	(1,961)
General and administrative expenses	9	(3,525)	(3,257)
Other operating expenses	7, 8	(41)	(49)
Other operating income	7, 8	737	1,014
Operating profit		**630**	**4,188**
Exchange losses		(185)	(124)
Exchange gains		133	68
Profit before interests and taxes (EBIT)		**578**	**4,132**
Interest expenses	7	(193)	(191)
Interest income	7	88	108
Profit before taxes (EBT)		**474**	**4,049**
Income taxes	10	(1,124)	(1,488)
Group net loss / profit (before minority interests)		**(650)**	**2,562**
of which attributable to shareholders of the group parent company		(727)	2,515
of which attributable to minority interests	11	77	46
Earnings per share:	33		
Undiluted - ordinary operations after taxes (in €)		(0.08)	0.26
Diluted - ordinary operations after taxes (in €)		(0.08)	0.26
Average number of shares in circulation (undiluted)		9,577,302	9,577,302
Average number of shares in circulation (diluted)		9,577,302	9,581,655

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, 2008

		Note	2008 KEUR	2007 KEUR
CASH FLOW FROM OPERATING ACTIVITIES	Group net loss / profit after minority interests		(727)	2,515
	Minority interests	11	77	46
	Dividends		0	(50)
	Amortisation and depreciation of intangible assets and property, plant and equipment		2,051	1,884
	Changes in receivables	18	327	(1,336)
	Changes in inventories	17	79	(732)
	Interests received		82	91
	Interests paid		(190)	(106)
	Income taxes received		0	23
	Income taxes paid		(863)	(177)
	Changes in other assets and liabilities		281	2,385
	Other non-cash income and expenses		(131)	(12)
	Cashflow from operating activities		**986**	**4,531**
CASH FLOW FROM INVESTING ACTIVITIES	Purchase of intangible assets and property, plant and equipment		(4,974)	(3,898)
	Purchase of available-for-sale financial assets (money market fond)		0	6
	Purchase of financial assets		(40)	0
	Proceeds from sale of available-for-sale financial assets (money market fond)		1,548	
	Proceeds from disposal of intangible assets and property, plant and equipment		1,404	690
	Cashflow from investing activities		**(2,062)**	**(3,202)**
CASH FLOW FROM FINANCING ACTIVITIES	Payments into equity capital		0	201
	Purchase of minority interests		(99)	(130)
	Proceeds from raising current and non-current loans		0	1,400
	Repayments of bank borrowings		(359)	(412)
	Repayments of financial liabilities		(189)	(191)
	Proceeds from finance lease		0	0
	Repayments of finance lease	14	(411)	(473)
	Cashflow from financing activities		**(1,058)**	**395**
CASH FUNDS AT THE END OF THE PERIOD	Decrease/increase in cash funds		(2,134)	1,725
	Cash funds at the beginning of the period		5,129	3,404
	Cash funds at the end of the period	**21**	**2,995**	**5,129**

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, 2008

	Shares	Subscribed capital KEUR	Additional paid-in capital KEUR
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**	**0**
Dividends		0	0
Purchase of minority interests		0	0
Employee share options 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**
Balances at January 1, 2008	**9,577,302**	**9,577**	**20,407**
Exchange differences		0	0
Group net profit		0	0
Purchase of shares / capital decrease		0	0
Total result for the period	**0**	**0**	**0**
Dividends		0	0
Purchase of minority interests		0	0
Employee share options programmes	0	0	178
Valuation of financial assets held-for-sale		0	11
Total items directly recognised in equity		**0**	**189**
Total		**0**	**189**
Balances at December 31, 2008	**9,577,302**	**9,577**	**20,596**

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

Accumulated deficit KEUR	Other reserves KEUR	Minority interests KEUR	Total KEUR
–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**
–12,943	**–299**	**312**	**17,054**
0	–352	0	–352
–727	0	77	–650
0	0	0	0
–727	**–352**	**77**	**–1,002**
0	0	0	0
0	0	0	0
0	0	0	178
0	0	0	11
0	**0**	**0**	**189**
–727	**–352**	**77**	**–813**
–13,671	**–651**	**389**	**16,240**

Analysis Of Changes In Fixed Assets

PULSION Medical Systems AG at December 31, 2008

ANALYSIS OF CHANGES IN FIXED ASSETS IN 2008

	Historical cost					
	Jan. 1, 2008 KEUR	Translation differences KEUR	Additions KEUR	Reclassifi-cations KEUR	Disposals KEUR	Dec. 31, 2008 KEUR
Intangible assets						
Purchased intangible assets	501	0	104	0	8	597
Internally generated intangible assets	3,809	0	440	0	0	4,249
	4,310	**0**	**544**	**0**	**8**	**4,846**
Property, plant and equipment						
Technical equipment, plant and machinery	763	0	464	0	28	1,199
Other equipment, furniture and fittings	7,933	–8	3,966	0	3,216	8,675
Finance leases	1,831	0	0	0	916	915
	10,527	**–8**	**4,430**	**0**	**4,160**	**10,789**
Investment property	379	0	0	0	0	379
	15,216	**–8**	**4,974**	**0**	**4,168**	**16,014**

ANALYSIS OF CHANGES IN FIXED ASSETS IN 2007

	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**

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

	Accumulated depreciation and impairment					Carrying amounts	
Jan. 1, 2008 KEUR	Translation differences KEUR	Additions KEUR	Reclassifications KEUR	Disposals KEUR	Dec. 31, 2008 KEUR	Dec. 31, 2008 KEUR	Dec. 31, 2007 KEUR
376	0	72	0	8	440	157	125
421	0	493	0	0	914	3,335	3,388
797	**0**	**565**	**0**	**8**	**1,354**	**3,492**	**3,513**
420	0	102	0	21	501	698	343
4,399	–6	1,124	0	1,805	3,712	4,963	3,534
789	0	244	0	608	425	490	1,042
5,608	**–6**	**1,470**	**0**	**2,434**	**4,638**	**6,151**	**4,919**
148	0	16	0	0	164	215	231
6,553	**–6**	**2,051**	**0**	**2,442**	**6,156**	**9,858**	**8,663**

Jan. 1, 2007 KEUR	Translation differences KEUR	Additions KEUR	Reclassifications 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**

Notes to the Consolidated Financial Statements

1. Business and nature of operations

PULSION Medical Systems AG, with its main seat in 81829 Munich, Joseph-Wild-Strasse 20, 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 147 (2007: 138) people worldwide as of December 31, 2008, of whom 112 (2007: 107) worked at PULSION AG's headquarters in Munich and production location in Feldkirchen.

These consolidated financial statements were released by the Management Board on March 12, 2009 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 2008, 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, 2009 or later:

- IAS 1 (revised): Presentation of Financial Statements
- IFRS 1 (revised): First-time Adoption of International Financial Reporting Standards
- IFRS 3 (revised): Business Combinations
- IAS 27 (revised): Consolidated and Separate Financial Statements
- IFRS 2 (amendment): Share-based Payment
- IAS 39 (revised): Financial instruments: Recognition and Measurement (including rules relating to the use of the fair value option)
- IFRIC 17: Distributions of Non-cash Assets to Owners
- IFRIC 15: Agreements for the Construction of Real Estate

Other Standards:

- IFRS 8: Operating Segments
  Application of this Standard is mandatory from January 1, 2009 onwards. PULSION has elected to apply the Standard early (at December 31, 2007). First-time application resulted in changes in disclosures in the notes to the consolidated financial statements.

- IAS 23: Borrowing Costs
  Application of this Standard is mandatory from January 1, 2009 onwards. PULSION has elected to apply the Standard early (at December 31, 2007).

The first-time application of Standards, Amendments to Standards and Interpretations in 2008 did not result in any material changes compared to previous years. The following Standards and Interpretations were adopted for the first time in 2008:

- IFRIC 11: IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12: Service Concession Agreements
- IFRIC 13: Customer Loyalty Programmes
- IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation

On May 22, 2008, the IASB published the first annual collection of amendments to IFRS ("Improvements to IFRS"). Most of the amendments are mandatory for reporting periods beginning on or after January 1, 2009. Early application is permitted. From today's perspective, the amendments will not have any impact on the net asset, financial position or results of operations or are not relevant for PULSION. Similarly, editorial changes made to existing Standards will have no or only a minimal impact on financial reporting.

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.

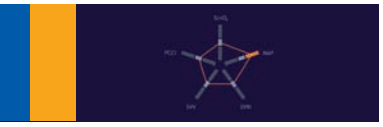
The balance sheet is classified in accordance with IAS 1 on the basis of the current/non-current distinction; the income statement is presented using the cost of sales method.

3. Group reporting entity and consolidation methods

Name	Country	Date founded*	Investment
PULSION France S. A. R. L., La Montagne	France	October 1, 1999	100 %
PULSION Benelux N. V., Gent	Belgium	January 22, 1999	100 %
PULSION Medical Inc., Irving, Texas	USA	October 1, 1999	100 %
PULSION Medical UK Limited, 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 %
PULSION Switzerland GmbH, Baar	Switzerland	December 9, 2008	100 %**

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

** PULSION Switzerland GmbH was founded in accordance with an agreement certified by public notary on December 9, 2008. This was entered in the Swiss Commercial Register on January 6, 2009.



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 %

Liquidation proceedings commenced in 2005 have not yet been completed as a result of local regulations.

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.

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 lines "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, 2008	Closing rate at Dec. 31, 2007	Average rate 2008	Average rate 2007
USD	0.70950	0.67940	0.68341	0.73082
GBP	1.02720	1.35710	1.25968	1.46206
AUD	0.490	0.59570	0.57743	0.61212
CHF	0.6720	n/a	0.63064	n/a

PULSION Switzerland GmbH was founded on December 9, 2008, and was therefore included in the group reporting entity for the first time in 2008.

4. Accounting principles

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

Critical estimates used for accounting and measurement: The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that can have an impact on the amounts reported in the financial statements and accompanying notes. The estimates and assumptions relate principally to the Group-wide determination of economic useful lives of tangible and intangible assets and the subsequent usage of those 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 at bank and in hand. In the previous year, cash at bank also included short-term deposits with an original term of up to three months. Cash and cash equivalents 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.

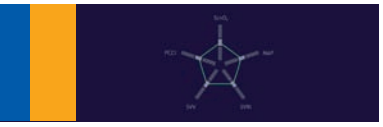
Available-for-sale financial assets: Available-for-sale financial assets are non-derivative financial assets which are designated as available for sale and are not classified as receivables, or one of the other categories described below. Marketable securities are classified to this category.

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 amortised 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. 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/construction 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. An additional valuation was not carried out by a valuation expert. 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 amortisation 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
Externally generated 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 life for the business in this case is 5 years, and capitalised items are amortised on a straight-line basis.
b) Expenditure on approvals in Europe and the USA. These costs are depreciated on a straight-line basis over periods of between 5 and 10 years (2007: up to 15 years), commencing on the date of market introduction.
c) Expenditure to obtain patents. Once a patent has been issued, it is amortised 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.

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 amortised 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 amortised 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. The Company also rents out residential accommodation and offices to earn rentals on property that is not being used by the Group for operational purposes.

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.

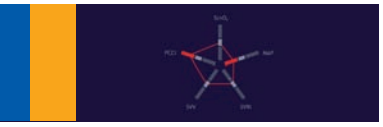
Equity: Debt and equity capital instruments are classified as financial liabilities or equity on the basis of the underlying substance of the contractual arrangements.

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 an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at their expected settlement amount. Provisions for warranties on products sold are 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 amortised cost. Finance lease liabilities are measured initially at the present value of future lease payments and reduced in subsequent periods by the repayment portion of lease payments. Current liabilities are measured at their repayment or settlement amount.

Borrowing costs: In accordance with IAS 23.20, borrowing costs are 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 Group uses promotional measures to control selling prices. Advertising expenses and sales promotion, as well as sales-related expenses, are expensed when incurred.

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).

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 recognized on the one hand on timing differences between the accounting and tax bases of assets and liabilities. In addition deferred tax assets are also 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.

Employee share participation programme / share options: Two stock option programmes are in place as incentives to tie employees and executive management into the Company. Stock options issued after November 7, 2002 (Stock Option Plan 2003 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:

	2008 KEUR	2007* KEUR
Equipment	7,093	5,924
Disposables	17,000	17,205
Indication/diagnosis	3,869	5,128
	27,962	**28,257**

* Previous year's figures restated retrospectively to bring them in line with current management reporting.

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 6,138; 2007: KEUR 5,221) and of bought-in goods and services (KEUR 303; 2007: KEUR 454). It also includes a depreciation, amortisation, and impairment expense of KEUR 589 (2007: KEUR 311), comprising scheduled amortisation of intangible assets amounting to KEUR 343 (2007: KEUR 167), scheduled depreciation of monitors amounting to KEUR 250 (2007: KEUR 269) and impairment losses of KEUR 177 (2007: KEUR 53), of which KEUR 150 (2007: KEUR 0) relates to intangible assets.

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

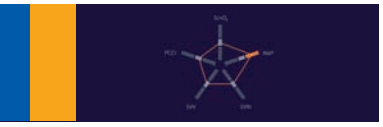
	2008 KEUR	2007 KEUR
Wages and salaries	8,689	8,140
Statutory social security	1,413	1,327
Expense for stock options	178	160
	10,280	**9,627**

Wages and salaries include personnel recruitment costs of KEUR 139 in 2008 (2007: KEUR 188). Personnel expenses include statutory social security contributions totalling KEUR 441 (2007: KEUR 396) and a pension expense of KEUR 47 (2007: KEUR 26).

The Group had 147 and 141 employees on average in 2008 and 2007, respectively. The average employee figure for 2008 included 6 people employed on a low wage-earning basis (2007: 7).

7. Income and expenses from financial assets

Sale-and-lease-back contracts gave rise to gains of KEUR 291 (2007: KEUR 341). Interest income totalling KEUR 5 (2007: KEUR 61) was recognised on available-for-sale financial assets. In addition, a fair value gain of KEUR 11 (2007: fair value loss KEUR 5) was recognised directly in equity on available-for-sale financial assets. Interest expense includes KEUR 120 (2007: KEUR 72) relating to liabilities to banks, KEUR 6 (2007: KEUR 13) for financial debt and KEUR 40 (2007: KEUR 79) for lease liabilities. Interest income on lease receivables amounted to KEUR 11 (2007: KEUR 16) and interest earned on bank balances totalled KEUR 71 (2007: KEUR 31).



8. Other operating income and expenses

Other operating income includes income from the derecognition of other liabilities amounting to KEUR 172 (2007: KEUR 228), income from the private use of company vehicles amounting to KEUR 130 (2007: KEUR 110) and rental income of KEUR 27 (2007 KEUR 25). In 2007, other operating income also included income arising on the exercise of stock options (KEUR 106). Other operating expenses include KEUR 19 (2007: KEUR 0) for losses on cash deposits and KEUR 7 (2007 KEUR 33) for expenditure incurred in conjunction with various contractual obligations.

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 expense and business travel costs. Operational expenses also include non-capitalisable research and development costs.

10. Income taxes

	2008 KEUR	2007 KEUR
Income taxes	292	346
(of which relating to prior periods)	(–7)	(–36)
Deferred tax expense	894	1,733
Deferred tax income	–62	–591
Total tax expense	**1,124**	**1,488**

The amount reported as current tax expense relates to German corporation tax, solidarity surcharge, German trade municipal tax, deductible foreign withholding taxes and foreign income taxes of the non-German group entities as computed under relevant national tax rules. Tax liabilities at December 31, 2008, amounted to KEUR 144 (2007: KEUR 614).

Deferred taxes at December 31, 2008, were computed for the German company on the basis of a corporation tax rate of 15.0 % (2007: 15 %). In addition, a solidarity surcharge of 5.5 % on corporation tax and an effective municipal trade tax rate of approximately 16.5 % (2007: 16.5 %) were taken into account. Including the solidarity surcharge and municipal trade tax, an overall tax rate of 33 % (2007: 33 %) therefore applies to the computation of deferred taxes for the Group's German company.

A deferred tax asset has been recognised in full on tax losses available for carryforward at the level of parent company since it is sufficiently probable that taxable profit will be available in the future to offset tax losses. The Group has not recognised deferred tax assets of KEUR 5,008 on unused tax losses of KEUR 15,177 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 33 % (2007: 33 %) for corporation tax, solidarity surcharge and municipal trade tax – and the actual tax expense:

	2008 KEUR	2007 KEUR
Group profit before taxes	474	4,049
Expected tax expense	156	1,620
Variances from expected tax expense:		
Tax-exempt income	0	–25
Foreign withholding taxes	14	8
Changes in tax rates	0	–294
Non-deductible expenses, adjustments for tax rules	1,002	661
Changed allocation relating to usability of tax losses available for carryforward and other consolidation procedures	0	1,828
Utilisation of tax losses for which deferred tax assets were not previously recognised	0	–922
Recognition of deferred tax asset on unused tax losses	–43	–1,383
Other	–5	–5
	1,124	**1,488**

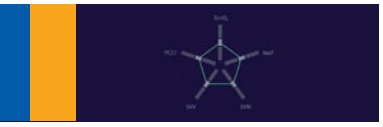
Deferred tax assets and liabilities relate to the following items:

	Dec. 31, 2008		Dec. 31, 2007	
	KEUR Deferred tax asset	KEUR Deferred tax liability	KEUR Deferred tax asset	KEUR Deferred tax liability
Intangible assets	116	1,101	140	1,123
Property, plant and equipment	243	161	264	320
Inventories	157	0	158	0
Receivables and other current assets	0	53	0	105
Liabilities	197	0	420	0
Consolidation procedures	897	2,089	897	1,917
Accumulated deficit	1,402	0	2,028	0
	3,012	3,404	3,907	3,465
Offset of deferred tax assets and liabilities	–3,012	–3,012	–3,465	–3,465
Total	**0**	**392**	**442**	**0**

It is forecast that, of the KEUR 392 (2007: KEUR 442) reported as deferred tax assets at December 31, 2008, deferred tax assets amounting to KEUR 1,393 (2007: KEUR 1,549), and deferred tax liabilities amounting to KEUR 240 (2007: KEUR 264) will be utilised within one year.

11. Minority interests

Minority interests relate to the minority shareholders' interests in the results of PULSION Medical UK Ltd. In the previous year, minority interests also included the minority shareholders' interests in the results of PULSION Medical Systems Iberica S.L. up to the date of acquisition. 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, 2008 comprised:

	Historical cost KEUR	Accumulated amortisation and impairment losses KEUR	Carrying amount KEUR
Approvals	2,244	415	1,829
Patents	746	58	688
Distribution rights	178	178	0
Product development	1,261	441	820
Software	417	262	155
Total	**4,846**	**1,354**	**3,492**

Intangible assets at December 31, 2007 comprised:

	Historical cost KEUR	Accumulated amortisation 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**

	Remaining amortisation period from	 up to
Approvals	2 months	10 years
Patents	7.5 years	20 years
Product development	4 months	5 years
Software	1 month	3 years

Borrowing costs totalling KEUR 21 (2007: KEUR 28) were capitalised in intangible assets in 2008 on the basis of an interest rate of 7.3% (2007: 7.12%). The total amount of borrowing costs recognised as an asset at the end of the reporting period was KEUR 61 (2007: KEUR 40). Amortisation and impairment loss expense for the financial year 2008 amounted to KEUR 415 (2007: KEUR 226). Following the performance of an impairment test, an impairment loss of KEUR 150 in total was recognised in 2008 for hardware and software relating to the CiMON product (reported as intangible assets), since it is not likely that there will be a significant increase in sales of this product in the light of reduced selling activities in 2008 and in the near future. The impairment loss was recognised with income statement effect. In 2009, however, measures will be put in place to enable the active marketing of CiMON technology to be intensified. No impairment losses were recognised in 2007. The amortisation period for ICG approval costs was reduced to five years since scope of application within the field of ophthalmology will be limited as a result of technological developments in this area, and since the new field of application, such as neurosurgical and other surgical areas, is not sufficiently definite at present. The reduction in the amortisation period increased the amortisation expense in 2008 by KEUR 7.

13. Property, plant and equipment

No impairment losses were recognised in 2008 on property, plant and equipment to reduce their carrying amount to fair value. In 2007 impairment losses of KEUR 63 had been recognised on other factory and office equipment. The depreciation expense for the financial year 2008 amounted to KEUR 1,470 (2007: KEUR 1,578).

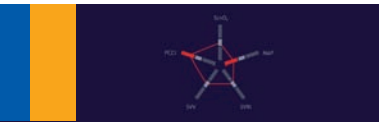
The amount reported for property, plant and equipment in the balance sheet includes KEUR 49 (2007: KEUR 452) of advance payments to suppliers and assets under construction.

Changes in property, plant and equipment are shown in the analysis of changes in fixed assets. Details of assets pledged as collateral are disclosed in Note 26 Liabilities to banks.

14. Lease liabilities / asset carrying amounts

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

Dec. 31, 2008 KEUR	Total	< 1 year	1–5 years	> 5 years
Minimum lease payments December 31, 2008	301	231	70	0
Interest expense for lease liabilities as at the balance sheet date	15	13	2	0
Present value of minimum lease payments at Dec. 31, 2008	**286**	**217**	**69**	**0**



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**

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

	Dec. 31, 2008 KEUR	Dec. 31, 2007 KEUR
Medical and other equipment	915	1,831
Accumulated depreciation	425	789
Finance leases	**490**	**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 27 in 2008 (2007: KEUR 25). Costs directly related to investment property amounted to KEUR 7 (2007: KEUR 8). The fair value of real estate presented as investment property corresponds roughly to the carrying amount. At the balance sheet date, mortgages on property totalled KEUR 417 (2007: KEUR 417).

16. Financial assets

In accordance with an agreement certified by public notary on December 23, 2008, PULSION AG acquired all of the shares of Esoma Beteiligungsverwaltung GmbH, which has its registered office in Vienna, for a purchase price of EUR 39,500. The share capital of the acquired entity is EUR 35,000. The shares were transferred on January 1, 2009, subject to conditions precedent. On December 23, 2008, it was resolved to change the name of the newly acquired company to PULSION Austria GmbH. Since the acquisition of the shares did not take effect for legal purposes until January 1, 2009, the acquired company was not consolidated at December 31, 2008, in accordance with IAS 27.

17. Inventories

Inventories comprise:

	Dec. 31, 2008 KEUR	Dec. 31, 2007 KEUR
Raw materials and supplies	2,187	2,349
Work in progress	315	335
Finished goods and goods for resale	2,025	1,525
	4,527	**4,209**

Write-downs on inventories were as follows:

	Dec. 31, 2008			Dec. 31, 2007		
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Raw materials and supplies	2,187			2,585		
Gross amount of which subject to write-down	0			236		
Write-downs		0	2,187		–236	2,349
Work in progress	315	0	315	335	0	335
Finished goods and goods for resale	2,071			1,731		
Gross amount of which subject to write-down	46			208		
Write-downs		–46	2,025		–206	1,525
			4,527			**4,209**

The net impact of write-downs in 2008 was recognised as an expense within cost of sales and amounted to KEUR 100 (2007: KEUR 81).

18. Trade accounts receivable

	Dec. 31, 2008 KEUR	Dec. 31, 2007 KEUR
Trade accounts receivable	5,545	5,862
(of which non-current)	(122)	(315)
less: allowances	13	32
Trade accounts receivable	**5,532**	**5,830**

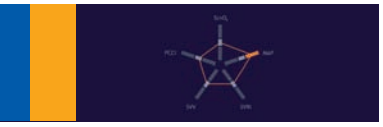
The non-current trade accounts receivable include the portion of receivables relating to finance lease sales contracts and license receivables which are due later than one year.

Impairment allowances developed as follows:

	Dec. 31, 2008 KEUR	Dec. 31, 2007 KEUR
Allowances at January 1	32	10
Allocated	0	22
Utilised	–18	0
Reversed	–1	0
Allowances at December 31	**13**	**32**

Impairment allowances on trade accounts receivable include specific allowances of KEUR 1 (2007: KEUR 18) and flatrate specific allowances of KEUR 12 (2007: KEUR 13). All receivables subject to a specific allowance for impairment are more than 90 days overdue. 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.

During the reporting period, trade accounts receivable amounting to KEUR 16 (2007: KEUR 1) were derecognised since the receivables cannot be recovered. In addition, customer accounts with statute-barred credit balances totalling KEUR 1 (2007: KEUR 17) were recognised as income in 2008.



The Group's payment periods range from 14 to 150 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 thus no concentration of receivables for individual customers.

Specific impairment allowances were not recognised on trade accounts receivable amounting to KEUR 1,979 (2007: TEUR 1,842) 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.

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

Dec. 31, 2008 KEUR	Total	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				of which subject to impairment loss and overdue at the year-end
			1 to 30 days	30 to 60 days	60 to 90 days	more than 90 days	
Trade accounts receivable	5,545	3,565	1,091	242	200	446	1

Dec. 31, 2007 KEUR	Total	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				of which subject to impairment loss and overdue at the year-end
			1 to 30 days	30 to 60 days	60 to 90 days	more than 90 days	
Trade accounts receivable	5,862	4,001	873	306	249	414	19

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 allowances require to be recognised.

Receivables due under finance lease sales contracts comprise the following:

December 31, 2008 KEUR	Total	< 1 year	1–5 years	> 5 years
Minimum lease payments at Dec. 31, 2008	169	146	23	0
Interest income contained in lease receivables at balance sheet date	5	4	1	0
Present value of minimum lease payments at Dec. 31, 2008	**164**	**142**	**22**	**0**

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**

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.

19. Other current assets

This item comprises the following:

	Dec. 31, 2008 KEUR	Dec. 31, 2007 KEUR
Deferred expenses	199	308
Advance payments to suppliers	152	112
Receivable from Tax Office – valued added tax	87	33
	438	453
Other	158	252
Total	**596**	**705**

20. Available-for-sale financial assets

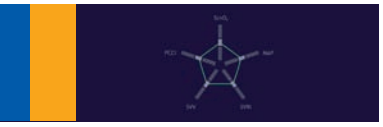
Available-for-sale assets in the previous comprised an investment in a money market fund. This investment was sold during the year under report. The asset was measured at the closing rate.

During the financial year 2008, a fair value gain of KEUR 11 (2007: fair value loss of KEUR 5) was recognised directly in equity in connection with available-for-sale assets. The sale of these assets in 2008 resulted in a loss of KEUR 18 which was recognised as expense in the income statement.

21. Cash and cash equivalents / Cash funds

Cash funds reported in the cash flow statement comprise:

	Dec. 31, 2008 KEUR	Dec. 31, 2007 KEUR
Cash and cash equivalents	3,163	5,429
Subtotal	3,163	5,429
Cash pledged as collateral	–168	–300
	2,995	**5,129**



22. 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 4,721,401.00 by the issue, in one or several steps, of up to 4,721,401 new bearer shares in return for cash contributions or contributions in kind. The Management Board is entitled, subject to approval by the Supervisory Board, to exclude the subscription rights of existing shareholders:

- if the increase in the share capital of the Company by means of 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 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 relevant amount of Authorised Capital utilised, and, if the Authorised Capital is not or is 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 8, 2008, the Company is authorised in accordance with § 71 (1) no. 8 AktG to acquire, prior to November 7, 2009, 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. The authorisation to acquire own shares resolved at the Annual General Meeting on May 24, 2007, expired when the new authorisation became valid.

The Company's Conditional Capital I was cancelled in accordance with the resolution taken at the Annual General Meeting on 8 May 2008.

At December 31, 2008, Conditional Capitals II and III of EUR 350,000 and EUR 130,500 respectively are in place for the issue of shares in conjunction with the 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.

The Company share capital is unchanged at 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 EUR 1.

Other reserves relate primarily to exchange differences.

Additional disclosures relating to capital management: Equity capital decreased during the financial year 2008 by 5%, primarily as a result of the increased accumulated deficit and the higher balance of other reserves. The equity ratio at December 31, 2008, improved to 68% (December 31, 2007: 64%), whereas the return on equity fell to a negative return of 4.5% (December 31, 2007: positive return of 16.2%) and the return on total capital decreased to a negative return of 2.9% (December 31, 2007: positive return of 10.1%). This was primarily attributable to the lower margin and higher operating costs compared with the previous year. The objective of capital management is to ensure the Group's solvency and improve the capital structure.

Performance indicator	Basis of computation	Dec. 31, 2008	Dec. 31, 2007
Equity ratio	Equity / balance sheet total	68%	64%
Return on equity	Group loss (profit) / average equity	–4.5%	16.2%
Return on total capital	Group loss (profit) / average total capital	–2.9%	10.1%

Additional paid-in capital developed during the year as follows:

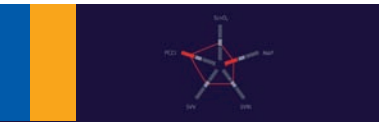
	KEUR
Balance at January 1, 2008	20,407
Fair value gain on available-for-sale financial assets	11
Premium on the fair value measurement of stock options	178
Balance at December 31, 2008	**20,596**

23. Incentive compensation plans

The Group has two stock option plans (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 eight years (Stock Option Plan 2003 and Stock Option Plan 2006). Options can be exercised under the stock option plans within predefined exercise windows. In the case of both plans, one half of the options can be exercised at the earliest two years after the grant date, and the other half at the earliest three years after the grant date. Fair values are determined using the Monte Carlo method. The average Xetra closing market price for PULSION stock in 2008 was EUR 3.90.



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

	December 31, 2008		December 31, 2007	
	Options	Weighted average exercise price (EUR)	Options	Weighted average exercise price (EUR)
Outstanding at the beginning of the year	283,000	6.76	224,653	5.51
Granted during the year	35,000	5.03	117,000	7.67
Exercised during the year	0	0.00	51,000	3.94
Expired during the year / forfeited*	143,000	6.94	7,653	3.07
Outstanding at the end of the year	175,000	6.27	283,000	6.76
Thereof Management Board	45,000	4.83	130,000	6.55
Exercisable at the end of the year	46,000	4.46	41,000	4.31
Thereof Management Board	10,000	4.13	10,000	4.13

* Of which 143,000 are available for re-issue.

The following table summarises information about options outstanding at December 31, 2008:

	Options outstanding			Options exercisable	
Exercise price EUR	Number outstanding Units	Weighted average remaining contractual period Years	Weighted average exercise price EUR	Number exercisable Units	Weighted average exercise price EUR
7–8	94,000	6.52	7.61	0	0
5–7	45,000	6.86	5.16	10,000	5.63
4–5	36,000	3.65	4.13	36,000	4.13
	175,000	**6.02**	**6.27**	**46,000**	**4.46**

At December 31, 2008, and December 31, 2007, conditional capital was available to meet subscription rights exercised in conjunction with incentive compensation plans. At December 31, 2008, 26 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:

	2008	2007	
		first issue	second issue
Risk-free interest rate	4.34 %	4.25 %	4.56 %
Dividend income	0 %	0 %	0 %
Volatility	54.93 %	52.94 %	52.94 %
Exercise price (EUR)	5.030	7.990	7.540
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 November 14, 2008, for options granted in 2008. The Group has elected to apply the earliest exercise date as its exercise strategy. The weighted-average fair value of options granted during 2008 was EUR 1.35. In 2007, it was EUR 2.01 for the first issue and EUR 1.99 for the second issue.

At December 31, 2008 and 2007, PULSION AG Management Board members held the following shares (units) and stock options (number):

	December 31, 2008		December 31, 2007	
Management Board member	Shares (Units)	Options (Number)	Shares (Units)	Options (Number)
Dr. Burkhard Wittek (Chairman since October 13, 2008)*	1,749,741	0	-	-
Bradley P. Gould (Chairman until October 13, 2008)	0	0	28,000	120,000
Matthias Bohn	42,313	10,000	42,313	10,000
Frank Posnanski	0	35,000	-	-
Stefan Land (until August 31, 2007)	-	-	0	0
Total	**1,792,054**	**45,000**	**70,313**	**130,000**

* Attributable via FORUM European Smallcaps GmbH.

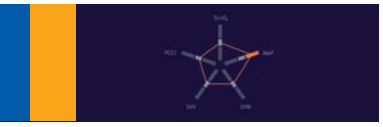
24. Provisions

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

	Jan. 1, 2008 KEUR	Utilised KEUR	Reversed KEUR	Additioned KEUR	Dec. 31, 2008 KEUR
Warranties	53	27	0	104	131
Other contractual obligations	213	144	0	46	115
Other	17	0	0	9	26
	283	**171**	**0**	**159**	**272**

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 131) and for other contractual obligations (KEUR 115). With the exception of a partial amount of KEUR 91, provisions all have an expected maturity of more than one year. The non-current portion will be utilised in instalments through to January 31, 2022.

An interest expense of KEUR 5 (2007: KEUR 2) was recognised in the income statements in 2008 in connection with the unwinding of discounting on provisions.



25. Financial liabilities

	Current		Non-current	
	Dec. 31, 2008 KEUR	Dec. 31, 2007 KEUR	Dec. 31, 2008 KEUR	Dec. 31, 2007 KEUR
Unsecured financial liabilities at amortised cost				
Current account balances	0	0	0	0
Bank loans	0	0	0	0
Financial debt	26	215	0	0
Lease liabilities	217	410	69	287
Other	3,172	3,306	239	530
Secured financial liabilities at amortised cost				
Current account balances	0	0	0	0
Bank loans	390	359	1,627	2,017
Financial debt	0	23	0	0
Lease liabilities	0	0	0	0
Other	0	0	0	0
	3,805	**4,313**	**1,935**	**2,834**

26. Liabilities to banks

The liabilities disclosed at December 31, 2008 were subject to the following terms and conditions:

Bank	Type	Maturity	Interest rate %	Dec. 31, 2008 KEUR	Current KEUR	Non-current KEUR
WestLB AG, Düsseldorf	Loan	09/2013	5.4	184	40	144
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	250	850
Münchner Bank e.G./ Raiffeisenbank München e.G., Munich	Loan	04/2010	5.5	133	100	33
Total				**2,017**	**390**	**1,627**

The following collateral has been given to secure liabilities to banks totalling KEUR 2,017: At the balance sheet date, mortgages on property totalled KEUR 417 (2007: KEUR 417). In addition, cash at bank totalling KEUR 168 (2007: KEUR 300) was pledged as collateral. Assignment as collateral has also been agreed for purchased equipment totalling a maximum of KEUR 720 (including value added tax) (2007: KEUR 720). At December 31, 2008, actual asset collateral pledges totalled KEUR 417 (2007: KEUR 0). There were no other collateral pledges of goods for resale or operational equipment at the end of the reporting period (2007: KEUR 524).

At December 31, 2008, the Group had unused credit lines of KEUR 391 (2007: KEUR 597).

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**

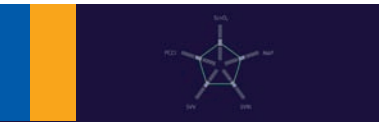
The maturities of loans are as follows:

	KEUR
2009	390
2010	923
2011	290
2012	390
after 2013	24
	2,017

Interest expenses in 2008 include KEUR 120 (2007: KEUR 72) for liabilities to banks.

27. Financial liabilities

Current financial liabilities	Dec. 31, 2008 KEUR	Dec. 31, 2007 KEUR
Bayerische Beteiligungsgesellschaft mbH (BayBG)	26	51
Philips loan	0	23
Sterimed loan	0	164
Total financial liabilities	**26**	**238**



STERIMED loan:
On December 11, 1997, the Company entered into a loan agreement for an amount of KEUR 531. The final instalment of the loan was repaid in line with schedule in January 2008.

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 was 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 would be terminated early on December 31, 2008 (originally planned for November 30, 2009). The agreed final instalment of KEUR 26 was repaid in January 2009.

28. Trade accounts payable

Trade accounts payable at the balance sheet date amounted to KEUR 1,061 (2007: KEUR 1,735).

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.

29. Other liabilities

Other liabilities comprise:

Current other liabilities	Dec. 31, 2008 KEUR	Dec. 31, 2007 KEUR
Year-end and audit costs	81	51
Advanced payments from suppliers	13	18
License fees	129	321
Deferred income	276	458
(of wich finance lease from SALB)	(137)	(275)
Personnel-related obligations	1,164	918
Outstanding invoices	625	836
Court settlement agreement	250	0
Other	634	704
	3,172	**3,306**

Non-current other liabilites	Dec. 31, 2008 KEUR	Dec. 31, 2007 KEUR
Purchase minority shares Spain	0	102
Deferred income	206	428
(of wich finance lease from SALB)	(25)	(162)
Other	33	0
	239	**530**

Total other liabilities	**3,411**	**3,836**

Personnel-related obligations comprise mainly holiday and bonus entitlements. Sundry other non-current liabilities will be used through to January 31, 2012.

30. 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 have original terms of between 2 and 6 years.

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

	2008 KEUR	2007 KEUR
Up to 1 year	884	864
Later than 1 year up to five years	1,350	1,583
Later than 5 years	0	0
	2,234	**2,447**

A lease expense of KEUR 1,216 (2007: KEUR 996) was recognised in the income statement.

The obligations relate primarily 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 rental period.

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, 2008:

	Total	2009 KEUR	2010 KEUR	2011 KEUR	2012 KEUR	after 2013 KEUR
Purchase commitments	6,351	1,094	2,228	2,228	267	534
Other	173	173	0	0	0	0
Total	**6,524**	**1,267**	**2,228**	**2,228**	**267**	**534**

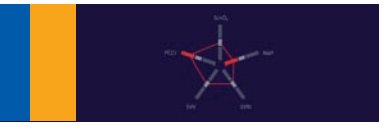
At the balance sheet date, the Group also had open purchase commitments for raw materials and supplies and other items amounting to EUR 3.3 million.

At December 31, 2008, contingent liabilities for rental guarantees to landlords amounted to KEUR 149 (2007: KEUR 132) and for a performance guarantee amounted to KUSD 2 (2007: KUSD 0).

31. Disclosures with respect to IFRS 7

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, 2008 were as follows:

KEUR	Carrying amount	Amount relevant for IFRS 7 purposes	Amortised cost	Fair value Recognised directly in equity	Fair value Recognised through income statement	Carrying amount at fair value
Cash and cash equivalents	3,163	3,163	3,163	-	-	3,163
Financial assets	40	40	40	-	-	40
Available-for-sale financial assets	0	0	-	0	-	0
Trade accounts receivable	5,532	5,532	5,532	-	-	5,532
Other assets	596	-	-	-	-	-
Trade accounts payable	1,061	1,061	1,061	-	-	1,061
Liabilities to banks	2,017	2,017	2,017	-	-	2,017
Financial debt	26	26	26	-	-	26
Lease liabilities	286	286	286	-	-	286
Other liabilities	3,411	937	937	-	-	937

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

KEUR	Carrying amount	Amount relevant for IFRS 7 purposes	Amortised 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
Financial assets	-	-	-	-	-	-
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

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.

32. Legal disputes and claims for damages

All court proceedings with the Company's former Chairman of the Management Board, Dr. Ulrich Pfeiffer, were terminated following a settlement agreement reached on January 28, 2009. The settlement agreement confirmed that PULSION owns all of the patents which resulted from inventions made by Dr. Pfeiffer while working for the Company. Under the terms of the settlement, both parties agreed to waive all claims against each other and not to pursue the matter through the courts. The settlement agreement payment was recognised as an expense in 2008. The corresponding liability is included in other liabilities at December 31, 2008.

33. Earnings per share

PULSION's basic earnings per share are calculated based on the group loss (profit) 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.

		2008	2007
Weighted average number of shares (undiluted)	Number	**9,577.302**	**9,577,302**
Dilutive effect of options	Number	0	4,353
Weighted average number of shares (diluted)	Number	**9,577.302**	**9,581,655**
Group loss / profit (after minority interests)	KEUR	–727	2,515
Earnings per share (undiluted)	EUR	**–0.08**	**0.26**
Earnings per share (diluted)	EUR	**–0.08**	**0.26**

The computation of diluted earnings per share does not take account of 175,000 options (2007: 242,000 options) which have an anti-diluting effect. There was no diluting effect for 2008 due to the fact that the average market price in 2008 was lower than the exercise price of exercisable options.

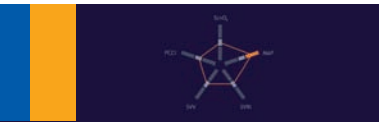
34. Financial instruments / risk management

Significant accounting policies: 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, 2008 KEUR	Dec. 31, 2007 KEUR
Financial assets		
Measured at fair value through profit or loss	0	0
Loans and receivables (including cash and cash equivalents)	8,695	11,259
Financial assets	40	0
Available-for-sale financial assets	0	1,555
Financial liabilities		
Measured at fair value through profit or loss	0	0
Other financial liabilities measured at amortised cost	4,327	6,520

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. 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 of the parent company attributable to shareholders. The latter comprises 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 recognized assets and liabilities, are denominated in a currency other than the functional currency. The Group operates internationally and is therefore exposed to a foreign currency risk. This risk is mitigated by the fact that most transactions are denominated in the functional currency and that only a small volume of foreign currency transactions (USD, GBP, AUD, CHF) were transacted. The carrying amounts of the Group's foreign currency monetary assets and liabilities at the balance sheet date were as follows:

	Assets		Liabilities	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
	KEUR	KEUR	KEUR	KEUR
USD	385	1.555	118	113
AUD	570	426	83	95
GBP	443	508	184	281
CHF	170	321	4	0

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, 2008	Change +10% Dec. 31, 2008	Difference Dec. 31, 2008	Carrying amount Dec. 31, 2007	Change +10% Dec. 31, 2007	Difference Dec. 31, 2007
USD	385	423	38	1,555	1,711	156
AUD	570	627	57	426	468	43
GBP	443	487	44	508	559	51
CHF	170	187	17	321	353	32
	1,568	**1,724**	**157**	**2,810**	**3,091**	**281**

Liabilities KEUR	Carrying amount Dec. 31, 2008	Change +10 % Dec. 31, 2008	Difference Dec. 31, 2008	Carrying amount Dec. 31, 2007	Change +10 % Dec. 31, 2007	Difference Dec. 31, 2007
USD	118	130	12	113	125	11
AUD	83	91	8	95	105	10
GBP	184	203	18	281	309	28
CHF	4	4	0	0	-	-
	389	**428**	**39**	**490**	**539**	**49**

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.

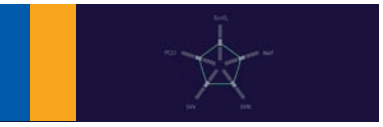
Credit risk: Credit risk is defined as the risk that the Group could incur a loss as a result of one of its counterparties not fulfilling its contractual obligations. Internal rules are in place to ensure that business transactions are only entered into with creditworthy counterparties and, that where 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 is very small since the counterparties are banks. There have been no incidences of default in the past.

Credit and liquidity risk: The Group manages liquidity risk by ensuring it has adequate reserves and credit lines with banks, by continually monitoring forecast and actual cash flows and by matching, wherever possible, the maturity profiles of financial assets and liabilities.

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, 2008 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	10	29	632	0
Liabilities to banks subject to fixed interest rates	0	57	410	1,134	0
Financial debt	28	0	0	0	0
	28	**66**	**439**	**1,766**	**0**

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**



35. Segment reporting

In accordance with IFRS 8, 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, 2008 is analysed as follows:

KEUR	Germany	Rest of Europe	USA	Australia	Reconcili-ations	Group
Sales - 3rd parties	19,391	7,186	458	927	0	27,962
thereof equipment	5,164	1,465	229	235	0	7,093
thereof disposables	11,185	4,971	229	615	0	17,000
thereof indication / diagnosis	3,042	750	0	77	0	3,869
Sales - intercompany	5,221	15	0	0	–5,235	0
Depreciation and amortisation	–1,603	–563	–97	–64	276	–2,051
Impairments	–280	–31	–2	–10	0	–322
Non-cash income and expenses	237	–14	0	–2	–352	–131
Operating segment result before interest and taxes	**2,514**	**–479**	**–1,279**	**–71**	**–108**	**578**
Interest expenses	–186	–336	–254	-142	723	–193
Interest income	792	7	1	13	–725	88
Income taxes	–198	–66	–1	0	–859	–1,124
Minority interests					–77	–77
Group net loss (after minority interests)						**–727**
Segment assets	38,859	4,751	875	754	–21,389	23,849
Segment liabilities	7,512	7,358	5,282	2,343	–14,886	7,609
Segment capital expenditure	4,260	1,141	404	107	–937	4,974

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	4,398	1,211	139	176	0	5,924
thereof disposables	11,035	5,366	180	624	0	17,205
thereof indication / diagnosis	2,789	976	1,297	66	0	5,128
Sales - intercompany	5,717	0	0	0	–5,717	0
Depreciation and amortisation	–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	–268	–144	–84	475	–191
Interest income	579	8	0	1	–480	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 for the financial year 2007 has been adjusted to bring it into line with current management reporting.

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.

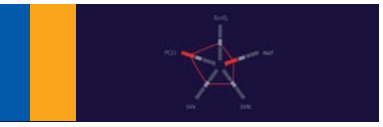
The Group's customer portfolio does not give rise to any risks in terms of dependence on individual customers.

36. Representative bodies of PULSION

During the financial year 2008, the Management Board comprised the following:

Dr. Burkhard Wittek, Chairman of the Management Board since October 14, 2008, responsible for Marketing and Sales
Other mandates:
Member of the Board of Directors of PULSION Medical Inc., USA (since October 23, 2008)

Matthias Bohn, member of the Management Board, responsible for Research and Development, Production and Logistics, International Registrations and Purchases, and until May 2008 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 Medical UK Ltd., United Kingdom (since December 22, 2008)
Chairman of the Board of Directors of PULSION Benelux N.V., Belgium
Member of the Board of Directors of PULSION Pacific Pty. Ltd., Australia
Member of the Board of Directors of PULSION Medical Systems Iberica S.L., Spain (since October 13, 2008)
Director of PULSION France S.A.R.L., France (since October 13, 2008)



Frank Posnanski, responsible for Finance, Investor Relations, Administration (since June 1, 2008) and Human Resources since November 2008
Other mandates:
Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom (since December 17, 2008)
Member of the Board of Directors of PULSION Benelux N.V., Belgium (since October 13, 2008)
Director of PULSION France S.A.R.L., France (since October 13, 2008)
Member of the Board of Directors of PULSION Medical Systems Iberica S.L., Spain (since October 13, 2008)
Member of the Board of Directors of PULSION Pacific Pty. Ltd., Australia (since October 14, 2008)
Member of the Board of Directors of PULSION Switzerland GmbH (since December 9, 2008)

Bradley P. Gould, Chairman of the Management Board until October 13, 2008, responsible for Marketing and Sales and Human Resources (until October 13, 2008), Investor Relations (until May 2008)
Other mandates:
Chairman of the Board of Directors of PULSION Medical Inc., USA (until October 13, 2008)
Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom (until October 13, 2008)
Member of the Board of Directors of PULSION Medical Systems Iberica S.L., Spain (until October 13, 2008)
Member of the Board of Directors of PULSION Benelux N.V., Belgium (until October 13, 2008)
Member of the Board of Directors of PULSION Pacific Pty. Ltd., Australia (until October 13, 2008)

Management Board Remuneration	2008				2007		
	Fixed* KEUR	Variable** KEUR	Variable*** KEUR	Other**** KEUR	Fixed* KEUR	Variable KEUR	Other**** KEUR
Dr. Burkhard Wittek (Chairman of the Management Board since October 14, 2008)	18	0	0	0	0	0	0
Bradley P. Gould (Chairman of the Management Board until October 13, 2008)	228	85	0	119	278	71	0
Matthias Bohn	202	46	16	0	194	50	24
Frank Posnanski (Member of the Management Board since June 1, 2008)	89	0	26	0	0	0	0
Stefan Land (Member of the Management Board until August 31, 2007)	0	0	0	0	112	97	43

* including private use of car, reimbursement of social security contributions and insurance benefits
** remuneration for work performed in 2007
*** estimated entitlement for 2008
**** remuneration earned on the exercise of stock options

35,000 stock options were granted to members of the Management Board during the financial year 2008. The expense for stock option recognised in 2008 on a time-apportioned basis was KEUR 75 for Mr. Gould (2007: KEUR 86), KEUR 0 for Mr. Bohn (2007: KEUR 6), KEUR 9 (2007: KEUR 0) for Mr. Posnanski and KEUR 0 for Dr. Wittek (2007: KEUR 0). The total remuneration of the Management Board for 2008 amounted to KEUR 787 (2007: KEUR 869).

During the financial year 2008, the Supervisory Board comprised the following:

Dr. Burkhard Wittek, MBA, businessman, Chairman until October 13, 2008 (inactive mandate from October 14, 2008 to November 30, 2008), stood down from Supervisory Board on November 30, 2008
Further mandates:
iOnGen AG, Göttingen (member of the Advisory Board)

Michael Bourjau, Business Management Graduate, Adviser, Deputy Chairman until October 13, 2008, Chairman from October 14, 2008
Further mandates:
Schmidbauer GmbH & Co. KG, Gräfelfing (member of the Advisory Board)
Hansa Metallwerke AG, Stuttgart (Chairman)
BIOGAS NORD AG, Bielefeld (Chairman)

Claus F. Vogt, Business Management Graduate, Qualified Auditor, Qualified Tax Adviser, Certified Valuation Analyst (CVA), Fachberater für Sanierung und Insolvenz (DStV e.V.), member until October 13, 2008, Deputy Chairman since October 14, 2008
Further mandates:
ABR German Real Estate AG, Hamburg (Chairman)
Intertainment AG, Munich (replacement member)
Human Electrics GmbH, Rednitzhembach (member of the Advisory Board)

Dr. Karsten W. Zimmermann, Diplom-Physiker, MPA Harvard, Dr. rer. pol., member since December 1, 2008 by court appointment
no further mandates

Remuneration of the Supervisory Board	2008		2007	
	Fixed KEUR	Variable KEUR	Fixed KEUR	Variable KEUR
Dr. Burkhard Wittek (until November 30, 2008)	31	0	40	10
Michael Bourjau	32	0	30	10
Claus F. Vogt	22	0	20	10
Dr. Karsten W. Zimmermann (from December 1, 2008)	2	0	0	0

The total remuneration of the Supervisory Board for 2008 amounted to KEUR 87 (2007: KEUR 120). Liabilities to the members of the Supervisory Board at December 31, 2008, totalled KEUR 56 (2007: KEUR 83). Supervisory Board members did not give notice to the Company of any reportable shareholdings in the Company at December 31, 2008.

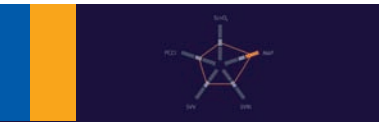
37. Related parties

Transactions between the parent company PULSION AG and its subsidiaries that are also related parties were eliminated on consolidation. These transactions are not commented on in this note on related parties.

Transactions with related parties were charged on the basis of arm's length principles.
Guarantees amounting to KEUR 168 (2007: KEUR 168) were issued on behalf of the Spanish subsidiary. During the year under report, the Spanish subsidiary repaid KEUR 108 of credit facilities which were guaranteed by PULSION AG. The guarantee had not been returned by the balance sheet date.

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 2010.

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. The bank loan was repaid in full during the financial year 2008 and the guarantee provided by PULSION AG returned with effect from January 20, 2009.



38. Auditor's fees

In 2008, an expense of KEUR 81 was recognised for the audit of the Company and Group financial statements (2007: KEUR 70).

39. 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.

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

In a letter dated February 6, 2008, Deutsche Bank AG gave notice to the Company in the name of, and on behalf of, FPM Funds SICAV, L-1115 Luxembourg, pursuant to § 21 (1) of the Securities Trading Act (WpHG) that the aforementioned investment company has on February 5, 2008, reduced its voting rights in PULSION Medical Systems AG, Munich, Germany, to below the mandatory reportable threshold of 3% and that it now holds 2.98% of the voting rights (corresponding to 284,991 votes).

In a letter dated April 18, 2008, the following was notified retrospectively to the Company in the name of, and on behalf of Fidelity International Limited (in the meantime: FIL Limited), Hamilton HMCX, Bermuda, pursuant to § 21 (1) WpHG:

Fidelity International Limited exceeded the mandatory reportable threshold of 5% of the voting rights of PULSION Medical Systems AG, Munich, Germany, on January 30, 2002. At that stage, Fidelity International Limited held 9.29% of the voting rights of PULSION Medical Systems AG (corresponding to 730,643 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity International Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG. The attribution of voting rights to Fidelity International Limited included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG.

In addition, and as a correction to the notice given on May 18, 2006, the Company was given notice that Fidelity International Limited had exceeded the mandatory reportable threshold of 10% of the voting rights of PULSION Medical Systems AG, Munich, Germany, on May 17, 2006. At that stage, Fidelity International Limited held 11.25% of the voting rights of PULSION Medical Systems AG (corresponding to 1,067,964 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity International Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG. The attribution of voting rights to Fidelity International Limited included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG. (Correction of notice given on May 23, 2008 / Börsenzeitung)

In addition, in a correction of the notice given on November 19, 2007, the Company was given notice that Fidelity International Limited had gone below the mandatory reportable threshold of 10% of the voting rights of PULSION Medical Systems AG, Munich, Germany, on November 14, 2007. At that stage, Fidelity International Limited held 9.93% of the voting rights of PULSION Medical Systems AG (corresponding to 949,885 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity International Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG. The attribution of voting rights to Fidelity International Limited included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG. (Correction of notice given on November 21, 2007).

The following was also notified retrospectively to the Company pursuant to § 21 (1) WpHG in the name of, and on behalf of Fidelity Investment Management Limited, Hildenborough, Kent, England:

Fidelity Investment Management Limited exceeded the mandatory reportable threshold of 5% of the voting rights of PULSION Medical Systems AG, Munich, Germany, on January 30, 2002. At that stage, Fidelity Investment Management Limited held 9.29% of the voting rights of PULSION Medical Systems AG (corresponding to 730,643 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity Investment Management Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG (in conjunction with sentence 2). The attribution of voting rights to Fidelity Investment Management Limited included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG.

Fidelity Investment Management Limited exceeded the mandatory reportable threshold of 10% of the voting rights of PULSION Medical Systems AG, Munich, Germany, on May 17, 2006. At that stage, Fidelity Investment Management Limited held 11.25% of the voting rights of PULSION Medical Systems AG (corresponding to 1,067,964 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity Investment Management Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG (in conjunction with sentence 2). The attribution of voting rights to Fidelity Investment Management Limited included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG.

Fidelity Investment Management Limited went under the mandatory reportable threshold of 10% of the voting rights of PULSION Medical Systems AG, Munich, Germany, on November 14, 2007. At that stage, Fidelity International Limited held 9.93% of the voting rights of PULSION Medical Systems AG (corresponding to 949,885 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity Investment Management Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG (in conjunction with sentence 2). The attribution of voting rights to Fidelity Investment Management Limited included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG.

The following was also notified retrospectively to the Company pursuant to § 21 (1) WpHG in the name of, and on behalf of Fidelity Investments International, Hildenborough, Kent, England:

Fidelity Investments International exceeded the mandatory reportable threshold of 5% of the voting rights of PULSION Medical Systems AG, Munich, Germany, on January 30, 2002. At that stage, Fidelity Investments International held 9.29% of the voting rights of PULSION Medical Systems AG (corresponding to 730,643 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity Investments International pursuant to § 22 (1) sentence 1 no. 6 WpHG. The attribution of voting rights to Fidelity Investments International included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG.

Fidelity Investments International exceeded the mandatory reportable threshold of 10% of the voting rights of PULSION Medical Systems AG, Munich, Germany, on May 17, 2006. At that stage, Fidelity Investments International held 10.72% of the voting rights of PULSION Medical Systems AG (corresponding to 1,018,285 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity Investments International pursuant to § 22 (1) sentence 1 no. 6 WpHG. The attribution of voting rights to Fidelity Investments International included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG.

Fidelity Investments International went under the mandatory reportable threshold of 10% of the voting rights of PULSION Medical Systems AG, Munich, Germany, on November 14, 2007. At that stage, Fidelity International Limited held 9.93% of the voting rights of PULSION Medical Systems AG (corresponding to 949,885 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity Investments International pursuant to § 22 (1) sentence 1 no. 6 WpHG. The attribution of voting rights to Fidelity Investments International included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG.

41. Events after the end of the reporting period

A definitive settlement agreement was reached with Dr. Ulrich Pfeiffer on January 28, 2009, bringing to an end by mutual consent all patent disputes and all disputes relating to corresponding national patent registrations and patent rights.

On February 16, 2009, the Company received notice that FORUM European Smallcaps GmbH, Munich, had gained control over the Company pursuant to § 35 (1) in conjunction with §10 (3) of the Securities Acquisition and Transfer Act (WpÜG). The Management Board will respond in the due course of time.

Apart from that, there have been no significant events after the end of the reporting period.

Munich, March 12, 2009
PULSION Medical Systems AG

Dr. Burkhard Wittek
Chairman of the Management Board

Matthias Bohn
Member of the Management Board

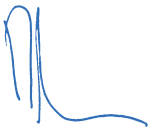
Frank Posnanski
Member of the Management Board

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit 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 12, 2009
PULSION Medical Systems AG

Dr. Burkhard Wittek
Chairman of the Management Board



Matthias Bohn
Member of the Management Board

Frank Posnanski
Member of the Management Board

Auditor's Report

We have audited the consolidated financial statements prepared by the PULSION Medical Systems AG, Munich, 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, 2008 to December 31, 2008. 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) is 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 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 13, 2009
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Stefano Mulas)
Wirtschaftsprüfer

(ppa. Sven Jacob)
Wirtschaftsprüfer

Financial Calendar

The annual Report can be downloaded under www.PULSION.com, Investor Relations section, and is also available in German. 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 2009:

Press conference	March 20, 2009
Report on 1st Quarter	May 12, 2009
Annual General Meeting	May 18, 2009
Report on 1st Half-year	August 11, 2009
Report on 1st 9 Months	November 11, 2009

Glossary

Acute Respiratory Distress Syndrome (ARDS)
Sudden respiratory failure which may be precipitated by one of several causes such as shock, respiratory disease or the aspiration or inhalation of water or toxic gases. In ARDS the lungs become almost incapable of gaseous exchange and the body is acutely at risk of being deprived of its oxygen supply. Between 30 % and 50 % of cases of ARDS are fatal.

Haemodynamics
Haemodynamics is a term used to describe the flow of blood through the heart, blood vessels and organs. An adequate blood flow is essential for supplying cells and organs with oxygen and nutrients. Disruption of haemodynamics leads swiftly to organ damage and life-threatening situations.

Haemodynamic monitoring
In recent years "haemodynamic monitoring" has become the accepted term for the use of equipment-based monitoring of the cardiovascular system.
In simple haemodynamic monitoring, the pulse rate and heart rhythm are continuously monitored using sensors attached to the body. In addition, intermittent readings are made of the blood pressure, using an inflatable cuff, and of the arterial oxygen level, using a sensor attached to the finger. Advanced haemodynamic monitoring – a field in which PULSION aims to lead the worldwide market – is concerned with the needs of critically ill patients. It requires both an arterial line and a central venous line to be in situ. The worldwide standard includes the continuous measurement of arterial and venous blood pressure and intermittent measurement of central venous oxygen saturation. A range of important cardiovascular parameters can be measured continuously* using $PiCCO_2$, which does not require any additional access line, thus avoiding further risk to the patient. These parameters make it possible to recognise life-threatening cardiovascular situations and to make accurate therapeutic decisions earlier.

Cardiac output
The amount of blood pumped around the body by the heart per minute. Low cardiac output endangers a patient's circulatory system and chances of survival. Cardiac output depends on several factors, such as the pumping strength and capacity of the heart, the quantity of blood available and the diameter of the blood vessels.

Cardiogenic shock
A reduction in the heart's pumping capacity which leads to diminished oxygen supply to the rest of the body. This may result in organ hypofunction or organ failure. The insufficient pumping action of the heart causes blood congestion in the lungs, leading to pulmonary oedema and breathlessness. Cardiogenic shock is associated with a high mortality.

Intensive (or critical) care medicine
The area of medicine dealing with the diagnosis and treatment of life threatening conditions and diseases. It is usually carried out on the intensive care unit which is a specially equipped hospital ward. Intensive care units have specially trained staff and extensive technical equipment. The nurse-patient ratio is 1:3 since patients are highly dependent (the ratio on ordinary wards is approximately 1:20).

Monitoring
In intensive care medicine, this term refers to the use of equipment to carry out continuous observations of parameters of oxygen function of intensive care patients. These parameters include, amongst others, heart rate, respiration, ECG, oxygen saturation and blood pressure.

Monitoring systems (multiparameter systems)
Equipment used to carry out comprehensive monitoring of patients in hospital, above all on intensive care units. 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-Healthcare, GE Medical, Dräger Medical, Datascope, Nihon Kohden, Mindray, Schiller and Spacelabs. They integrate an increasing number of parameters into so-called multiparameter systems. PULSION 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 possible to connect PULSION equipment to monitoring systems made by a number of other manufacturers.

Shock
Shock is the body's reaction to a critical situation in order to restore stable blood pressure. The blood vessels become constricted and the ensuing reduction in the oxygen supply to the body may become life threatening if it continues. Shock can be caused by infection, hypersensitivity, heart failure or fluid loss; it is therefore referred to as septic shock, anaphylactic shock, cardiogenic shock, hypovolaemic shock etc. Shock is the most frequent and most serious problem arising in intensive care medicine.

Sepsis
Sepsis is commonly known as "blood poisoning". It occurs when an infection becomes widespread throughout the entire body within a few hours. It is always caused by a local infection which the body is unable to contain. Shock occurring as a reaction to sepsis is known as septic shock and is fatal in approximately 35 % to 40 % of cases.

Disposables
PULSION's CriticalCare business segment consists of medical equipment (monitors and modules) and disposables (catheters and probes). Whereas the equipment can be used continually, the disposables are designed as sterile products for single use and must be purchased new for each application.

* Parameters measured using $PiCCO_2$ include: Cardiac output (HI, PCHI), stroke volume (SVI), stroke volume variation (SVVI), preload (GEDI), systemic vascular resistance (SVR), global ejection fraction (GEF), maximum arterial pressure increase (dpmx), extravascular pulmonary fluid (LVLW), pulmonary vascular permeability (PVPI), "cardiac power" (CPI), central venous oxygen saturation ($ScvO_2$), oxygen absorption in the blood (VO_2), oxygen supply to organs (DO_2)

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

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Financial Statements as of December 31, 2008
and Management Report 2008
of

PULSION Medical Systems AG
Munich

PULSION Medical Systems AG
Munich

Balance Sheet as at December 31, 2008

ASSETS

	Dec. 31, 2008 EUR	Dec. 31, 2007 EUR
A. FIXED ASSETS		
I. Intangible assets		
1. Concessions, licences and similiar rights	116,721.78	113,404.68
	116,721.78	113,404.68
II. Property, plant and equipment		
1. Land, land rights, buildings, including leasehold improvements	1,399,400.20	236,829.81
2. Technical equipment, plant and machinery	748,339.57	397,655.48
3. Other equipment, furniture and fittings	2,496,027.19	2,041,315.71
4. Payments in advance and assets under construction	49,239.51	382,258.44
	4,693,006.47	3,058,059.44
III. Investments		
1. Investments in affiliated companies	806,618.25	793,622.45
2. Loans to affiliated companies	51,612.10	51,612.10
3. Payments in advance	39,500.00	0.00
	897,730.35	845,234.55
	5,707,458.60	4,016,698.67
B. CURRENT ASSETS		
I. Inventories		
1. Raw materials and supplies	2,186,968.38	2,349,146.22
2. Work in progress	314,599.12	334,510.88
3. Finished goods and goods for resale	1,702,538.97	1,152,215.18
4. Advanced payments to suppliers	112,500.00	112,500.00
	4,316,606.47	3,948,372.28
II. Assets and other receivables		
1. Trade accounts receivables	2,955,596.26	3,030,750.55
2. Receivables from affiliated companies	2,078,113.40	2,863,382.83
3. Other assets	335,467.30	181,002.32
	5,369,176.96	6,075,135.70
III. Marketable securities		
1. Other marketable securities	0.00	1,555,451.37
	0.00	1,555,451.37
IV. Cash on hand and at banks	2,128,984.62	3,529,679.50
	11,814,768.05	15,108,638.85
C. DEFERRED EXPENSES	116,248.54	218,038.03
	17,638,475.19	19,343,375.55

EQUITY AND LIABILITIES

	Dec. 31, 2008 EUR	Dec. 31, 2007 EUR
A. EQUITY		
I. Subscribed capital	9,577,302.00	9,577,302.00
(Conditional capital 2,480,500 EUR; 2007 KEUR 2,794)		
II. Additional paid in capital	22,626,788.36	22,449,131.40
III. Accumulated deficit	-20,352,057.49	-20,103,548.69
	11,852,032.87	11,922,884.71
B. PROVISIONS		
1. Tax provision	90,904.00	554,739.80
2. Other provisions	1,941,390.23	1,985,851.38
	2,032,294.23	2,540,591.18
C. LIABILITIES		
1. Liabilities to banks	2,017,293.27	2,157,293.23
2. Advanced payments from customers	13,200.00	17,556.00
3. Trade accounts payables	968,189.94	1,585,190.36
4. Payables to affiliated companies	50,639.82	23,071.86
5. Other liabilities	446,800.42	775,600.56
- of which for taxes: 8.895.21EUR (2007: KEUR 0)	3,496,123.45	4,558,712.01
- of which for social security: 794,57 EUR (2007: KEUR 3)		
D. DEFERRED INCOME	258,024.64	321,187.65
	17,638,475.19	19,343,375.55

PULSION Medical Systems AG
Munich

Income Statement
For The Financial Year Ended
December 31, 2008

		2008 EUR	2007 EUR
1.	Sales	24,726,551.12	23,818,768.82
2.	Cost of Sales	9,010,712.66	7,954,529.85
3.	Gross profit	15,715,838.46	15,864,238.97
4.	Selling and marketing expenses	7,512,764.89	6,954,905.67
5.	General and administrative expenses	3,517,785.77	3,287,113.75
6.	Research and development expenses	2,611,578.82	2,641,439.88
7.	Other operating income	893,880.43	593,837.72
8.	Other operating expenses	2,928,115.93	1,790,227.72
9.	Investment income of which from affiliated companies EUR 0.00 (2007: KEUR 50)	0.00	49,576.45
10.	Income from loans reported as investments of which from affiliated companies EUR 254.209.15 (2007: KEUR 160)	254,209.15	159,820.24
11.	Other interests and similar income of which from affiliated companies EUR 526,532.70 (2007: KEUR 404)	526,532.70	403,813.83
12.	Impaiment losses on investments	676,798.37	742,251.73
13.	Interests and similar expenses	155,911.20	97,537.37
14.	**Loss/Profit from ordiniary activities**	-12,494.24	1,557,811.09
15.	Income taxes	224,894.72	281,113.08
16.	Other taxes	11,119.84	45,373.95
17.	**Net loss/profit for the year**	-248,508.80	1,231,324.06
18.	Accumulated deficit brought forward	-20,103,548.69	-21,334,872.75
19.	**Accumulated deficit**	-20,352,057.49	-20,103,548.69

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 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 amortised over its estimated useful life so as to allocate the depletion in value to the periods in which the Company consumes the economic benefits of the asset.

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

Property, plant and equipment are depreciated systematically over their estimated useful lives (3 – 25 years, straight-line method). Low value assets (individually below EUR 500) 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. 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% (2007: 0.5%) is recognised on all trade accounts receivable not subject to a specific allowance.

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

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

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

Equity is accounted for in accordance with § 272 HGB and stated at its par value.

Two **stock option programs** 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 their fair value in accordance with the rule contained in IFRS 2. The amount calculated is recognized as expense over the period up to the expected date on which the options will be exercised.

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 Company 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 fixed assets during 2008 and their composition at December 31, 2008 are shown, together with the depreciation/amortization expense for the year, in the analysis of changes in fixed assets (appendix to the Notes)

Investments

The composition of investments is shown below in the section "Investment disclosures". The figures disclosed relate to December 31, 2008 and the financial year 2008 and are based on financial statements drawn up in accordance with the accounting rules applicable to the subsidiaries in each relevant country.

Investment disclosures

	Investment %	Equity (100%) KEUR	Profit/loss KEUR
PULSION France S.A.R.L., La Montagne, France	100.0	- 1,845	- 734
PULSION Benelux N.V., Gent, Belgium	99.96	- 1,417	- 283
PULSION Medical Inc., Irving, Texas, USA	100.0	- 4,408	- 1,532
PULSION Medical UK Limited, Uxbridge, United Kingdom	51.0	584	158
PULSION Pacific Pty. Limited, Sydney, NSW, Australia	58.0	- 1,588	- 211
PULSION Medical Systems Iberica S.L. Madrid, Spain	100.0	65	- 33
PULSION Switzerland GmbH Baar, Switzerland	100.0	13	-
KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu, Hungary	25.0	-	-

PULSION Switzerland GmbH was founded in accordance with an agreement certified by public notary on December 9, 2008. This was entered in the Swiss Commercial Register on January 6, 2009.

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. Liquidation proceedings could not be completed during the year under report as a result of local regulations.

In accordance with an agreement certified by public notary on December 23, 2008, PULSION AG acquired all of the shares of Esoma Beteiligungsverwaltung GmbH, which has its registered office in Vienna, for a purchase price of EUR 39,500.00. Subject to condition precedent, the shares will be transferred on January 1, 2009. On December 23, 2008, it was resolved to change the name of the newly acquired company to PULSION Austria GmbH.

Receivables and other assets

All receivables and other assets, except for an amount of KEUR 100, are due within one year.

The receivables from affiliated companies relate to trade accounts receivables (KEUR 1,895) and other assets (TEUR 183). Interest in charged on these balances at normal market conditions.

Other assets comprise mainly taxes receivable relating to foreign value added tax (KEUR 73), German income tax recoverable (TEUR 134), advance payments to suppliers (TEUR 39) and suppliers' accounts with debit balances (KEUR 59).

Marketable securities

The amount reported in the previous year related to an investment in a money market fund. This investment was sold in the financial year 2008.

Cash on hand and at banks

Cash and cash equivalents comprise cash (KEUR 1) and bank (KEUR 2,128) balances. These items are measured at their nominal value.

Equity

Subscribed capital

The share capital at December 31, 2008 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.

The Company's share capital did not change during the financial year 2008.

At the balance sheet date, a total of 175,000 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 Plans 2003 and 2006, one half of the options can be exercised at the earliest two years after the grant date, and the other half at the earliest three years after the grant date. The options for these stock option plans expire eight years after grant date.

Conditional capital

The Company's Conditional Capital I was cancelled in accordance with the resolution taken at the Annual General Meeting on May 8, 2008.

At December 31, 2008, Conditional Capitals II and III of EUR 350,000 and EUR 130,500 respectively are in place for the issue of shares in conjunction with the 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.

Authorised capital

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

- if the increase in the share capital of the Company by means of 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 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 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 8, 2008, the Company is authorised in accordance with § 71 (1) no. 8 AktG to acquire, prior to November 7, 2009, 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. The authorisation to acquire own shares resolved at the Annual General Meeting on May 24, 2007 expired when the new authorisation became valid.

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, 2008	22,449
Premium on the fair value measurement of stock options	178
Balance at December 31, 2008	22,627

Provisions

Tax provisions and other provisions amounted to KEUR 91 and KEUR 1,941 respectively.
Other provisions comprise mainly accruals for employee bonuses (KEUR 474), year-end accounting and audit costs (KEUR 60), licence fees (KEUR 128), warranties (KEUR 131), legal dispute settlement costs (KEUR 250), outstanding supplier invoices (KEUR 249) and holiday entitlements (KEUR 77).

Liabilities

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

Analysis of liabilities (in KEUR)

Nature of liability	Dec. 31, 2008 Maturity up to 1 year	Maturity later than 5 years	Total	Dec. 31, 2007 Maturity up to 1 year	Maturity later than 5 years	Total
1. Liabilities to banks	390	0	2,017*	140	24	2,157*
2. Advance payments received on orders	13	0	13	18	0	18
3. Trade accounts payables	968	0	968	1,585	0	1,585
4. Payables to affiliated companies	51	0	51	23	0	23
5. Other liabilities	447	0	447	618	0	776
	1,869	0	3,496	2,384	24	4,559

*) The following collateral has been given to secure liabilities to banks totalling KEUR 2,017: At the balance sheet date, mortgages on property totalled KEUR 417 (2007: KEUR 417). In addition, cash at bank totalling KEUR 168 (2007: KEUR 300) was pledged as collateral. Assignment as collateral has also been agreed for purchased equipment totalling a maximum of KEUR 720 (including value added tax) (2007: KEUR 720). At December 31, 2008, actual asset collateral pledges totalled KEUR 417 (2007: KEUR 0). There were no other collateral pledges of goods for resale or operational equipment at the end of the reporting period (2007: KEUR 524).

The payables to affiliated companies relate other liabilities (KEUR 51).

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

	Dec. 31, 2008 KEUR
Bayerische Beteiligungsgesellschaft mbH	26
Interest payable	2
	28

The silent participation of Bayerische Kapitalbeteiligungsgesellschaft mbH was terminated early in a letter dated December 20, 2007 with effect from December 31, 2008 and the final payment made in January 2009.

Contingent liabilities

	Dec. 31, 2008
Rental guarantees	KEUR 149
Guarantees for PULSION Iberica S.L.	KEUR 168
Guarantees for PULSION Medical UK Ltd.	Up to KGBP 200
Performance guarantee	KUSD 2

During the year under report, the Spanish subsidiary repaid KEUR 108 of credit facilities which were guaranteed by PULSION AG. The guarantees had not been returned by the balance sheet date.

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. The bank loan was repaid in full during the financial year 2008 and the guarantee provided by PULSION AG returned with effect from January 20, 2009.

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 2010.

Contingent liability

There were further 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, hardware and software. At the balance sheet date, future payment commitments under non-cancellable leases and other supply agreements were as follows:

	KEUR
2009	2,171
2010	2,898
2011	2,770
2012	332
Thereafter	558
	8,729

In addition, at December 31, 2008, the Company had purchase commitments for the purchase of raw materials, supplies and other items in the year 2009 amounting to EUR 3.3 million.

Notes to the income statement

Revenues

	2008 KEUR	2007* KEUR
Sales by product group		
Equipment	7,201	5,875
Disposables	13,963	13,922
Indication/diagnosis	3,563	4,022
	24,727	23,819

*Previous year's figures adjusted retrospectively to bring them in line with current management reporting.

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).

	2008 KEUR	2007 KEUR
Sales by geographical region		
Germany	11,637	11,149
Europe excluding Germany	11,008	9,985
Other	2,082	2,685
	24,727	23,819

Sales by business lines: Sales of the Critical Care and Pharma business lines in 2008 amounted to KEUR 21,485 (2007: KEUR 20,106) and KEUR 3,242 (2007: KEUR 3,713) respectively.

Other operating income

Other operating income comprises mainly income from the private use of company vehicles (KEUR 129, 2007: KEUR 110), prior year income from the reversal of provisions (KEUR 159, 2007: KEUR 97) and income from the reversal of allowances on trade accounts receivable from PULSION Pacific (KEUR 202, 2007: KEUR 0), PULSION Belgium (KEUR 221, 2007: KEUR 0) and PULSION USA (KEUR 2, 2007: KEUR 0). In 2007, other operating income included income arising on the exercise of stock options (KEUR 106) and income from the reversal of an impairment loss on non-current loans to PULSION Pacific (KEUR 36).

Cost of materials

	2008 KEUR	2007 KEUR
Cost of raw materials, supplies and purchased goods	6,138	5,221
Cost of purchased services	303	454
	6,441	5,675

Personnel expense

	2008 KEUR	2007 KEUR
Wages and salaries	6,070	5,720
Social security, pension and pension expense of which pension expense KEUR 488 (2007: KEUR 422)	958	893
	7,028	6,613

In addition to the personnel expense reported above for 2008, personnel recruitment costs of KEUR 70 (2007: KEUR 139) were also incurred.

Impairment losses

As a result of the losses of certain subsidiaries, impairment losses of KEUR 677 were recorded on long-term loans during the financial year 2008 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, 2008	Additions Disposals	Impairment losses / reversals of impairment losses	Carrying amount Dec. 31, 2008
	KEUR	KEUR	KEUR	KEUR
PULSION USA	0	+677	-677	0
PULSION Iberica	52	0	0	52
	52	+677	-677	52

In addition, impairment losses of KEUR 2,848 were recognized on trade receivables from affiliated companies pursuant to § 253 (3) sentence 2 HGB in 2008 due to the on-going loss situation at the subsidiaries involved (expense presented in other operating expenses).

Write-downs on current assets

At December 31, 2008, write-downs of KEUR 73 (2007: TEUR 81) were recognized to reduce the carrying amounts of current assets to their lower fair value. The write-down on inventories is included in cost of sales.

Expenses relating to prior periods

In 2008, expenses relating to prior periods amounted to KEUR 70 (2007: TEUR 94). This relates primarily to expenses (amongst others consulting fees, freight costs, ancillary rental costs) for which no provisions were recognized at the end of the previous year.

Income taxes

Taxes on income comprise German corporation tax and trade municipal tax for the financial year 2008 and foreign withholding taxes. Prior year tax income of KEUR 14 and prior year tax expense of KEUR 7 are also included.
Taxes on income all relate to ordinary activities.

Other disclosures

Supervisory Board

Dr. Burkhard Wittek, MBA, Kaufmann, Chairman until October 13, 2008 (inactive mandate from October 14, 2008 to November 30, 2008), stood down from Supervisory Board on November 30, 2008

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

Michael Bourjau, Dipl.-Kaufmann (FH), Adviser, Deputy Chairman until October 13, 2008, Chairman from October 14, 2008

Further mandates:
Schmidbauer GmbH & Co. KG, Gräfelfing (Member of the Advisory Board)
Hansa Metallwerke AG, Stuttgart (Chairman)
BIOGAS NORD AG, Bielefeld (Chairman)

Claus F. Vogt, Dipl.-Kaufmann (Univ.), Qualified Auditor, Qualified Tax Adviser, Certified Valuation Analyst (CVA), Fachberater für Sanierung und Insolvenz (DStV e.V.), member until October 13, 2008, Deputy Chairman since October 14, 2008

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

Dr. Karsten W. Zimmermann, Diplom-Physiker, MPA Harvard, Dr. rer. pol., member since December 1, 2008 by court appointment

no further mandates

The total remuneration of the Supervisory Board for 2008 amounted to KEUR 87 (2007: KEUR 120).

Management Board

The following persons served as members of the Management Board of PULSION Medical Systems AG in 2008 (as recorded in the Commercial Register):

Dr. Burkhard Wittek, Chairman of the Management Board since October 14, 2008, responsible for Marketing and Sales

Other mandates:
Member of the Board of Directors of PULSION Medical Inc., USA (since October 23, 2008)

Matthias Bohn, member of the Management Board, responsible for Research and Development, Production and Logistics, International Registrations and Purchases, and until May 2008 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 Medical UK Ltd., United Kingdom (since December 22, 2008)
Chairman of the Board of Directors of PULSION Benelux N.V., Belgium
Member of the Board of Directors of PULSION Pacific Pty. Ltd., Australia
Member of the Board of Directors of PULSION Medical Systems Iberica S.L., Spain (since October 13, 2008)
Director of PULSION France S.A.R.L., France (since October 13, 2008)

Frank Posnanski, responsible for Finance, Investor Relations, Administration (since June 1, 2008) and Human Resources since November 2008
Other mandates:
Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom (since December 17, 2008)
Member of the Board of Directors of PULSION Benelux N.V., Belgium (since October 13, 2008)
Director of PULSION France S.A.R.L., France (since October 13, 2008)
Member of the Board of Directors of PULSION Medical Systems Iberica S.L., Spain (since October 13, 2008)
Member of the Board of Directors of PULSION Pacific Pty. Ltd., Australia (since October 14, 2008)
Member of the Board of Directors of PULSION Switzerland GmbH (since December 9, 2008)

Bradley P. Gould, Chairman of the Management Board until October 13, 2008, responsible for Marketing and Sales and Human Resources (until October 13, 2008), Investor Relations (until May 2008)
Other mandates:
Chairman of the Board of Directors of PULSION Medical Inc., USA (until October 13, 2008)
Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom (until October 13, 2008)
Member of the Board of Directors of PULSION Medical Systems Iberica S.L., Spain (until October 13, 2008)
Member of the Board of Directors of PULSION Benelux N.V., Belgium (until October 13, 2008)

Member of the Board of Directors of PULSION Pacific Pty. Ltd., Australia (until October 13, 2008)

Management Bord Remuneration in KEUR

	2008			
	Fix * KEUR	**Variable**** KEUR	**Variable***** KEUR	**Other****** KEUR
Dr. Burkhard Wittek (Chairman of the Management Board since October 14, 2008)	18	0	0	0
Bradley P. Gould (Chairman of the Management Board until October 13, 2008)	228	85	0	119
Matthias Bohn	202	46	16	0
Frank Posnanski (Member of the Management Board since June 1, 2008)	89	0	26	0

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

** remuneration for work performed in 2007

*** estimated entitlement for 2008

**** remuneration earned on the exercise of stock options

35,000 stock options were granted to members of the Management Board during the financial year 2008. The expense for stock option recognized in 2008 on a time-apportioned basis was KEUR 75 for Mr. Gould (2007: KEUR 86), KEUR 0 for Mr. Bohn (2007: KEUR 6) and KEUR 9 (2007: KEUR 0) for Mr. Posnanski. The total remuneration of the Management Board for 2008 amounted to KEUR 787 (2007: KEUR 869).

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 2008, an expense of KEUR 81 was recognized in conjunction with the audit of the Company and Group financial statements.

Employees

Average number of employees during the year:

	2008	2007
Salaried employees	112	107

The average figure stated above includes 5 senior members of management (2007: 5) and 6 people employed on a low wage-earning basis (2007: 7). 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 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)

In a letter dated February 6, 2008, Deutsche Bank AG gave notice to the Company in the name of, and on behalf of, FPM Funds SICAV, L-1115 Luxembourg, pursuant to § 21 (1) WpHG that the aforementioned investment company has on February 5, 2008 reduced its voting rights in PULSION Medical Systems AG, Munich, Germany, to below the mandatory reportable threshold of 3% and that it now holds 2.98% of the voting rights (corresponding to 284,991 votes).

In a letter dated April 18, 2008, the following was notified retrospectively to the Company in the name of, and on behalf of Fidelity International Limited (in the meantime: FIL Limited), Hamilton HMCX, Bermuda, pursuant to § 21 (1) WpHG:
Fidelity International Limited exceeded the mandatory reportable threshold of 5% of the voting rights of PULSION Medical Systems AG, Munich, Germany on January 30, 2002. At that stage, Fidelity International Limited held 9.29% of the voting rights of PULSION Medical Systems AG (corresponding to 730,643 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity International Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG. The attribution of voting rights to Fidelity International Limited included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG.
In addition and as a correction to the notice given on May 18, 2006, the Company was given notice that Fidelity International Limited had exceeded the mandatory reportable threshold of 10% of the voting rights of PULSION Medical Systems AG, Munich, Germany, on May 17, 2006. At that stage, Fidelity International Limited held 11.25% of the voting rights of PULSION Medical Systems AG (corresponding to

1,067,964 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity International Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG. The attribution of voting rights to Fidelity International Limited included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG. (Correction of notice given on May 23, 2008 / Börsenzeitung)

In addition, in a correction of the notice given on November 19, 2007, the Company was given notice that Fidelity International Limited had gone below the mandatory reportable threshold of 10% of the voting rights of PULSION Medical Systems AG, Munich, Germany, on November 14, 2007. At that stage, Fidelity International Limited held 9.93% of the voting rights of PULSION Medical Systems AG (corresponding to 949,885 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity International Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG. The attribution of voting rights to Fidelity International Limited included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG. (Correction of notice given on November 21, 2007)

The following was also notified retrospectively to the Company pursuant to § 21 (1) WpHG in the name of, and on behalf of Fidelity Investment Management Limited, Hildenborough, Kent, England:

Fidelity Investment Management Limited exceeded the mandatory reportable threshold of 5% of the voting rights of PULSION Medical Systems AG, Munich, Germany on January 30, 2002. At that stage, Fidelity Investment Management Limited held 9.29% of the voting rights of PULSION Medical Systems AG (corresponding to 730,643 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity Investment Management Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG (in conjunction with sentence 2). The attribution of voting rights to Fidelity Investment Management Limited included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG.

Fidelity Investment Management Limited exceeded the mandatory reportable threshold of 10% of the voting rights of PULSION Medical Systems AG, Munich, Germany on May 17, 2006. At that stage, Fidelity Investment Management Limited held 11.25% of the voting rights of PULSION Medical Systems AG (corresponding to 1,067,964 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity Investment Management Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG (in conjunction with sentence 2). The attribution of voting rights to Fidelity Investment Management Limited included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG.

Fidelity Investment Management Limited went under the mandatory reportable threshold of 10% of the voting rights of PULSION Medical Systems AG, Munich, Germany on November 14, 2007. At that stage, Fidelity International Limited held 9.93% of the voting rights of PULSION Medical Systems AG (corresponding to

949,885 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity Investment Management Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG (in conjunction with sentence 2). The attribution of voting rights to Fidelity Investment Management Limited included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG.
The following was also notified retrospectively to the Company pursuant to § 21 (1) WpHG in the name of, and on behalf of Fidelity Investments International, Hildenborough, Kent, England:
Fidelity Investments International exceeded the mandatory reportable threshold of 5% of the voting rights of PULSION Medical Systems AG, Munich, Germany on January 30, 2002. At that stage, Fidelity Investments International held 9.29% of the voting rights of PULSION Medical Systems AG (corresponding to 730,643 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity Investments International pursuant to § 22 (1) sentence 1 no. 6 WpHG. The attribution of voting rights to Fidelity Investments International included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG.
Fidelity Investments International exceeded the mandatory reportable threshold of 10% of the voting rights of PULSION Medical Systems AG, Munich, Germany on May 17, 2006. At that stage, Fidelity Investments International held 10.72% of the voting rights of PULSION Medical Systems AG (corresponding to 1,018,285 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity Investments International pursuant to § 22 (1) sentence 1 no. 6 WpHG. The attribution of voting rights to Fidelity Investments International included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG.
Fidelity Investments International went under the mandatory reportable threshold of 10% of the voting rights of PULSION Medical Systems AG, Munich, Germany on November 14, 2007. At that stage, Fidelity International Limited held 9.93% of the voting rights of PULSION Medical Systems AG (corresponding to 949,885 votes). All of the voting rights in PULSION Medical Systems AG were attributable to Fidelity Investments International pursuant to § 22 (1) sentence 1 no. 6 WpHG. The attribution of voting rights to Fidelity Investments International included an attribution via Fidelity Funds SICAV, which, as shareholder, holds 3% or more of the voting rights of PULSION Medical Systems AG.

Events after the end of the reporting period

A definitive settlement agreement was reached with Dr. Ulrich Pfeiffer on January 28, 2009, bringing to an end by mutual consent all patent disputes and all disputes relating to corresponding national patent registrations and patent rights.

On February 16, 2009 the Company received notice that FORUM European Smallcaps GmbH, Munich, had gained control over the Company pursuant to § 35 (1) in conjunction with § 10 (3) of the Securities Acquisition and Transfer Act (WpÜG). The Management Board will respond in the due course of time.

Apart from that, there have been no significant events after the end of the reporting period.

Profit distribution proposal

The Management Board proposes that the accumulated loss be carried forward.

Munich, March 12, 2009

PULSION Medical Systems AG

Dr. Burkhard Wittek	Matthias Bohn	Frank Posnanski
Chairman of the Management Board	Member of the Management Board	Member of the Management Board

PULSION Medical Systems AG
Munich

Analysis Of Changes In Fixed Assets in 2008

	Historical cost					Accumulated depreciation					Carrying amounts	
	Jan. 1, 2008 EUR	Additions EUR	Reclassifications EUR	Disposals EUR	Dec. 31, 2008 EUR	Jan. 1 , 2008 EUR	Additions EUR	Reclassifications EUR	Disposals EUR	Dec. 31, 2008 EUR	Dec. 31, 2008 EUR	Dec. 31, 2007 EUR
Intangible Assets												
Concessions, licences and similiar rights	1,568,892.38	70,204.84	0.00	7,415.06	1,631,682.16	1,455,487.70	66,887.74	0.00	7,415.06	1,514,960.38	116,721.78	113,404.68
Goodwill	61,169.94	0.00	0.00	0.00	61,169.94	61,169.94	0.00	0.00	0.00	61,169.94	0.00	0.00
	1,630,062.32	70,204.84	0.00	7,415.06	1,692,852.10	1,516,657.64	66,887.74	0.00	7,415.06	1,576,130.32	116,721.78	113,404.68
Property, plant and equipment												
Land, land rights, buildings, including leasehold improvements	384,861.46	941,532.34	314,508.44	98.11	1,640,804.13	148,031.65	93,372.28	0.00	0.00	241,403.93	1,399,400.20	236,829.81
Technical equipment, plant and machinery	818,179.57	409,120.97	56,875.00	28,022.74	1,256,152.80	420,524.09	107,792.61	0.00	20,503.47	507,813.23	748,339.57	397,655.48
Other equipment, furniture and fittings	5,386,071.39	2,251,279.89	10,875.00	2,585,785.96	5,062,440.32	3,344,755.68	747,083.51	0.00	1,525,426.06	2,566,413.13	2,496,027.19	2,041,315.71
Payments in advance and assets under construction	382,258.44	49,239.51	-382,258.44	0.00	49,239.51	0.00	0.00	0.00	0.00	0.00	49,239.51	382,258.44
	6,971,370.86	3,651,172.71	0.00	2,613,906.81	8,008,636.76	3,913,311.42	948,248.40	0.00	1,545,929.53	3,315,630.29	4,693,006.47	3,058,059.44
Investments												
Investments in affiliated companies	5,806,526.40	12,995.80	0.00	0.00	5,819,522.20	5,012,903.95	0.00	0.00	0.00	5,012,903.95	806,618.25	793,622.45
Loans to affiliated companies	4,371,499.70	676,798.37	0.00	0.00	5,048,298.07	4,319,887.60	676,798.37	0.00	0.00	4,996,685.97	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	62,559.14	0.00	0.00
Payments in advance	0.00	39,500.00	0.00	0.00	39,500.00	0.00	0.00	0.00	0.00	0.00	39,500.00	0.00
	10,240,585.24	729,294.17	0.00	0.00	10,969,879.41	9,395,350.69	676,798.37	0.00	0.00	10,072,149.06	897,730.35	845,234.55
	18,842,018.42	4,450,671.72	0.00	2,621,321.87	20,671,368.27	14,825,319.75	1,691,934.51	0.00	1,553,344.59	14,963,909.67	5,707,458.60	4,016,698.67

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 12, 2009

PULSION Medical Systems AG

Dr. Burkhard Wittek	Matthias Bohn	Frank Posnanski
Chairman of the Management Board	Member of the Management Board	Member of the Management Board

Management Report

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A Review of the Financial Year

Summary

- **Sales up by 4%**
- **Loss from ordinary activities of EUR 0.01 million**
- **Sales of Critical Care products up by 7%**
- **ICG revenues in the USA fail to materialise**
- **Numerous exceptional and one-time adverse expenses push down result further**
- **PiCCO licensing agreement with GE Healthcare signed**
- **Relocation to new office and production premises**

PULSION Medical Systems AG (PULSION) was again able to increase revenues during the past financial year, this time by 4%.

The gross margin fell by 3 percentage points from 67% to 64%. The result from ordinary activities deteriorated from a profit of EUR 1.6 million in 2007 to a loss of EUR 0.01 million in 2008. The operating margin in 2008 was therefore a negative 0.1% (2007: positive margin of 7%).

The net result turned round from a net profit of EUR 1.2 million in 2007 to a net loss of EUR 0.2 million in 2008.

In addition to business with lower margins, numerous other exceptional factors had an adverse impact on earnings. The change in sales management and the necessary strategic realignment from October 14, 2008 onwards resulted in one-time expenses, in particular for severance pay. Legal advisory services in conjunction with the patent dispute with the original founder of the company, Dr. med. U. Pfeiffer, which was definitively settled in January 2009, gave rise to one-time expenses. The relocation of the administration function to Munich-Riem, and of production to Feldkirchen near Munich resulted in a high level of capital expenditure, as well as various costs (i.e. for the physical relocation, the organisation of the move and communication) which were required to be recognized as expenses.

On December 22, 2008, a licensing agreement for PiCCO was signed with GE Healthcare, a leading manufacturer of patient monitoring systems. The PiCCO module for use in GE systems is expected to be available for sale from the financial year 2010 onwards.

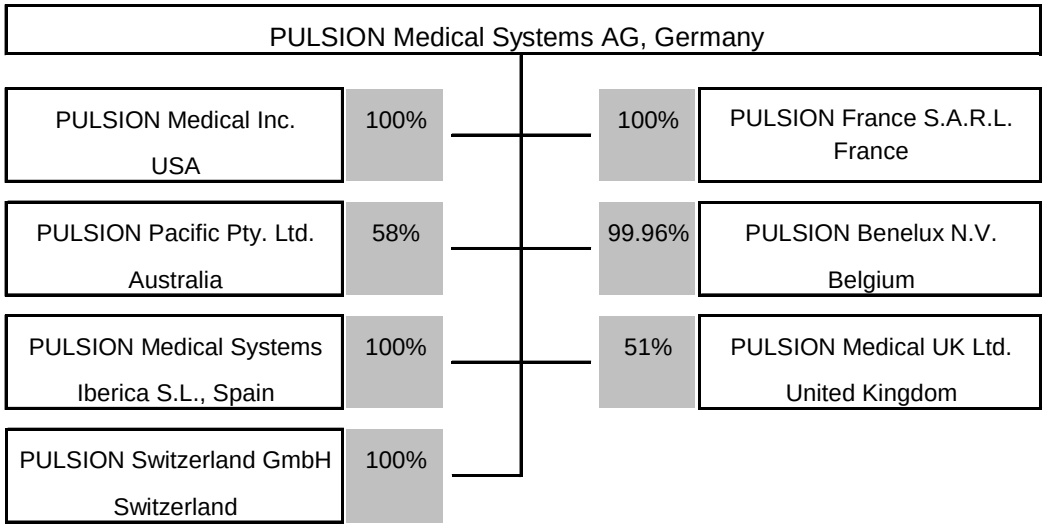
Since April 1, 2008, PULSION's administrative activities have been based in new premises in Munich-Riem which better suit the business' requirements. The new production facilities in Feldkirchen were commissioned at the end of the first quarter of 2008. The new facilities help to increase PULSION's share of the added value generated by disposable products, and to reduce production costs. The benefits will be reflected in the financial statements from 2009 onwards.

Group structure

Stability as foundation for future growth

PULSION Switzerland GmbH was founded in accordance with an agreement certified by public notary on December 9, 2008. This was entered in the Swiss Commercial Register on January 6, 2009. In all other respects, the group reporting entity was unchanged in 2008.

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:



In accordance with an agreement dated December 23, 2008 (certified by public notary) PULSION AG acquired all of the shares of Esoma Beteiligungsverwaltung GmbH which has its seat in Vienna. Subject to conditions precedent, the shares were transferred on January 1, 2009. On December 23, 2008, it was resolved to change the name of the newly acquired company to PULSION Austria GmbH.

PULSION Medical Systems AG, Munich also holds a minority interest of 25% in KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu, Hungary. Liquidation proceedings, commenced in 2005, have not yet been completed as a result of local regulations.

Financial report

General and sector business environment

The year 2008 was dominated by the expanding impact of the worldwide financial crisis which had begun in mid-2007 in the wake of a slump in the US property market, and the related collapse of the market for mortgage-secured structured securities. The resulting loss in trust in the markets proceeded to trigger a global recession. According to figures issued by the US Office of Trading and adjusted for seasonal fluctuations, the gross domestic product (GDP) of the USA fell by 6.2% in the final quarter of 2008. The picture was similar in many industrial countries.

GDP in Germany grew in the first quarter of 2008 by 1.5% according to the German Federal Statistical Agency, before contracting sharply from the second quarter onward, and actually falling by 2.1% in the fourth quarter 2008 Overall, a positive growth rate of 1.0% was registered for 2008, less than half of the rate achieved in the previous year.
So far, these developments have had little impact on the healthcare sector. In its Sector Report 2009, the Swiss bank UBS concludes that the healthcare market is performing to a large degree

independently of the current economic cycle. Moreover, medical advances and demographic developments mean that the need for medical-care services will continue to rise. Having said that, there is a risk that the financial and economic crisis could result in cuts in public-sector budgets over the coming years and that this could have an adverse impact on PULSION's business, in particular in countries where healthcare provision is highly dependent on state subsidies.

Organization

Bradley P. Gould and PULSION AG parted company in mutual agreement on October 13, 2008. The previous Chairman of the Supervisory Board, Dr. Burkhard Wittek, was appointed as caretaker Chairman of the Management Board. Within the selling function, two middle-management levels were cut out in order to ensure direct communication between executive management and sales force. Two new PULSION companies came into being in Switzerland and Austria, the latter only with effect from January 1, 2009. The Austrian company is therefore not included in the investment structure shown in this report.

PULSION has set up a training initiative, comprising three full-day training sessions each year, for all field sales force staff recruited without medical training since mid-2006. In-house physicians also pass on their specialised know-how to sales force staff, enabling them to provide well-substantiated information to existing and potential customers.

The future sales philosophy will focus on well-trained and healthcare professionals who are convinced of the medical and commercial benefits of PULSION's products, and who can communicate those benefits in the best way to the customer. In parallel, the frequency and intensity of PULSION's training events for doctors and nursing staff will be increased.

Customer relationship management has been intensified to improve marketing-related decision-making processes and to gain a better insight into the market potential. Regular meetings held by marketing and local sales staff are aimed at optimising the consistency of PULSION's marketing approach and its selling activities.

A new system of written targets for managers and staff will help to ensure that each person's tasks within the PULSION organisation are clearly defined. The award of bonuses is also integrated into the new system.

In order to avoid a repeat of the sales strategies pursued in 2007 and 2008, based purely on the objective of achieving sales volume growth, the focus in the future will be on profit rather than on sales revenue. Transparency will be improved through continuous monitoring of productivity and costs, which in turn, should be reflected in the quarterly reporting.

While the sales force is being strengthened by the targeted recruitment of medically trained staff, a temporary hire freeze has been imposed for the remainder of the business that will apply at least up to the end of 2009.

Revenue trends

The Company's sales increased in 4% to EUR 24.7 million. 57% of sales revenue related to disposable products in the Critical Care segment, 29% to the sale of new monitors and 14% to the sale of ICG-PULSION in the Pharma segment.

Lines of business

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 of the Critical Care product segment increased by 7% to EUR 21.5 million.

A high number of PiCCO customers were equipped with new $PiCCO_2$ monitors during the first half of 2008. Revenues generated by the sale of monitors (PiCCO, CeVOX, LiMON) rose by 11% to EUR 7.2 million (2007: EUR 6.5 million). Adjusted for replacement monitors, the installed base for Critical Care business increased by a good 9% to 5,743 monitors.

Furthermore, the number of PiCCO modules placed on the market via PULSION's strategic sales partners (Philips Medical Systems and Dräger Medical), increased by 2,021 units from 11,452 units at the end of 2007 to 13,473 units at the end of 2008 (+18%).

Sales of Critical Care segment disposable products, primarily catheter kits, probes and ICG-PULSION in combination with LiMON, went up by 5% from EUR 13.6 million in 2007 to EUR 14.3 million in 2008.

It will only be possible to increase sales volume in the future by gaining new users on a long-term basis. This means that, in addition to selling new monitors, it is also necessary to convince more doctors of the medical and commercial benefits of PULSION's products, particularly in clinics in which PULSION technologies are already being used.

in EUR million		**2008**	**2007**	**Deviation in %**
Monitors	Critical Care	7.2	6.5	11%
	Pharma	0.0	0.0	n/a
Disposables	Critical Care	14.3	13.6	5%
	Pharma	3.2	3.7	-13%
Subtotal	Critical Care	21.5	20.1	7%
Subtotal	Pharma	3.2	3.7	-13%
Total		**24.7**	**23.8**	**4%**

Note: In order to achieve more accurate control over performance, PULSION has made minor changes to the definitions of monitors and disposables for internal reporting purposes. The figures reported above for 2007 have been adjusted to the new definitions and therefore do not correspond the figures reported in 2007; aggregate amounts are unchanged.

Revenue from sales of ICG-PULSION fell by 11% to EUR 3.6 million. This was due to the high one-off level of sales to the new US distributor recorded in the financial year 2007. In 2008, no further sales of this product were made to the US market. Excluding this exceptional factor, sales of ICG-PULSION increased by 7%. In order to increase sales volumes, it will be necessary in the coming financial year, and thereafter, to identify and establish new areas of application for ICG-PULSION.

Regions

The core region of PULSION's sales activities continued to be Europe where 92% of total sales (EUR 22.6 million) were generated. The growth rate in this region in 2008 was 7%.

in EUR million	**2008**	**2007**	**Deviation in %**
Germany	11.6	11.1	4%
Europe (excluding Germany)	11.0	10.0	10%
Others	2.1	2.7	-22%
Total	**24.7**	**23.8**	**4%**

Sales in the rest of the world (Other) fell by 22% to EUR 2.1 million.

Earnings performance

The gross profit fell marginally from EUR 15.9 million in 2007 to EUR 15.7 million in 2008 while the gross profit percentage slipped from 67% to 64%. The reduction was attributable primarily to a lower gross margin for the key product, PiCCO. This was caused by price campaigns in the area of disposables and due to the initial placing of the new $PiCCO_2$ and a 11% increase in monitor business (given that the main source of gross margin in PULSION's razor/razorblade business model is generated with disposables).

Fixed costs increased compared to the previous year, primarily due to exceptional and one-time items relating to structural changes within the selling function (EUR 0.2 million), the relocation to two sites, as well as legal advisory and settlement agreement costs in connection with the patent dispute with Dr. med. U. Pfeiffer (approximately EUR 0.5 million).

Spending on research and development in 2008, at EUR 2.6 million, was at a similar level to the previous year.

As a result of increased impairment losses on investments and receivables from affiliated companies, the result from ordinary activities deteriorated from a profit of EUR 1.6 million in 2007 to a loss of EUR 0.01 million in 2008. The Company reports a net loss of EUR 0.2 million for the financial year 2008 compared with a net profit of EUR 1.2 million in the previous year.

Key performance indicators:

Indicator	Describtion	2008	2007
Return on sales	Net loss (profit) / Sales	-1.0%	5.2%
Return on equity	Net loss (profit) / Average level of equity	-2.1%	11.1%
Total capital employed*	Net loss (profit) / average level of balance sheet total	-1.3%	7.2%

*Total capital employed = balance sheet total

As a result of the net loss reported for the year, the return on sales, the return on equity and the return on total capital were all down on the previous year.

Assets, liabilities and financial position

Financial performance indicators

Despite the deterioration in operating performance in 2008, PULSION's solid balance sheet structure was further strengthened in 2008. The balance sheet total (total assets/total capital employed) amounted to EUR 17.6 million at December 31, 2008, down by 9% compared to one year earlier (EUR 19.3 million).

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

Indicator	Describtion	Units	2008	2007	Deviation
Days of Sales Outstanding	Trade accounts receivable * 360 days / Sales	days	73	89	-18%
Inventory turnover	Cost of sales / Average level of inventories		2.2	2.2	-2%
Equity ratio	Equity / Balance sheet total	%	67%	62%	9%
Fixed asset coverage	Equity / Fixed assets		2.1	3.0	-30%
Liquid funds *	Cash on hand and at bank and other marketable securities	EUR m.	2.1	5.1	-58%

* including fixed term deposits of EUR 0.2 Mio. (Dec. 31, 2007: EUR 0.3 Mio.) pledged as security

On the assets side of the balance sheet, fixed assets increased during 2008 from EUR 4.0 million to EUR 5.7 million (+43%). Property, plant and equipment increased from EUR 3.1 million to EUR 4.7 million partly as a result of the new production facilities in Feldkirchen near Munich while intangible assets remained virtually unchanged. Investments went up from EUR 0.8 million to EUR 0.9 million.

Current assets decreased by EUR 3.3 million to EUR 11.8 million. While Inventories increased from EUR 3.9 million to EUR 4.3 million (+9%), receivables and other assets decreased by EUR 0.7 million to EUR 5.4 million at the end of 2008. The reduction in receivables was attributable mainly to the fact that receivables from affiliated companies were EUR 0.8 million lower (-27%) at EUR 2.1 million.
Liquid assets (including other marketable securities) decreased from EUR 5.1 million at the end of the previous year to EUR 2.1 million at December 31, 2008, mainly as a result of the sale of marketable securities in 2008. At December 31, 2008, EUR 0.2 million (December 31, 2007: EUR 0.3 million) of cash and cash equivalents held in bank accounts were pledged. The pledge relates to guarantees for the Spanish subsidiary.

On the equity and liabilities side of the balance sheet, liabilities decreased by EUR 1.1 million from EUR 4.6 million at the end of 2007 to EUR 3.5 million at December 31, 2008 (-23%). This reduction was mainly attributable to trade accounts payable (down by EUR 0.6 million) and other liabilities (down by EUR 0.3 million).
Whereas other provisions remained almost at EUR 1.9 million, tax provisions decreased from EUR 0.6 million at the end of 2007 to EUR 0.09 million at December 31, 2008.

Equity decreased marginally during 2008 from EUR 11.9 million to EUR 11.8 million. The increase in the accumulated deficit as a result of the net loss for the year (EUR 0.2 million) was partially offset by the increase in additional paid-in capital. The equity ratio nevertheless improved from 62% to 67% due to the lower balance sheet total.

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, decreased sharply from EUR 1.6 million in the previous year to EUR 0.6 million in 2008.

The cash outflow for investing activities in 2008 totalled EUR 1.8 million and decreased therefore by EUR 0.7 million (-28%) compared to the previous year. Capital expenditure on property, plant and equipment totalled EUR 3.7 million (new production building, monitors and production equipment) compared with gains on the sale of other marketable securities (money market funds) totalling EUR 1.5 million.

The cash outflow from financing activities in 2008 amounted to EUR 0.2 million. In the previous year, a cash inflow of EUR 1.4 million from financing activities was reported, mainly as a result of the proceeds from a new non-current bank loan.

Non-financial performance indicators

Alongside some of its financial performance indicators, PULSION also succeeded in building on and strengthening its non-financial performance indicators in 2008. This includes training activities, supporting the career progression of its employees and compliance with the German Corporate Governance Code (for further details see the later sections “Personnel development” and “Corporate governance”). During 2008, for example, guidelines for cooperation and communication within the company were designed and introduced in a joint effort with employees.

Capital expenditure

Total capital expenditure in 2008 amounted to EUR 4.5 million, therefore reaching a new high level (2007: EUR 3.2 million).

Capital expenditure related to the following:

- 16% to set up new subsidiaries in Austria and Switzerland and to strengthen existing subsidiaries, in particular with a view to pushing ahead with the Group’s strategy for the US.
- 84% was invested in technical equipment, plant and machinery, other factory and operational equipment (in particular monitors) as well as leasehold improvements in particular in conjunction with the construction of new production location.

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 US market accounts for some 40% of the global market for haemodynamic monitoring (the monitoring of cardiac and circulatory functions, see Glossary). The USA is therefore a key region for future growth and therefore of key strategic significance in the most important goal set by PULSION – namely to achieve leadership in the advanced haemodynamic monitoring market.

The cluster strategy developed for the US market was set aside to some extent in 2008. This strategy had focused previously on targeting PULSION’s limited resources to core regions with the highest levels of medical provision in order to generate the maximum feasible penetration. PULSION has therefore now returned to the cluster strategy with a view to attaining its budgeted results.

Purchasing, Production, Logistics

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

As part of its strategic plan, PULSION has therefore moved to a new production location. Deliveries to customers from the new production site began during the financial year 2008. Capital expenditure of approximately EUR 2 million invested in the new site in Munich will help to 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.

Thanks to the production changes described above, PULSION will continue to reduce costs for logistics and purchasing. An efficient network of suppliers and partners working to PULSION's high quality requirements is in place. Continual efforts are being made to locate additional partners to supply key components and parts, and therefore keep dependence on individual suppliers to a minimum. It nevertheless remains the stated goal to reduce the number of suppliers overall in order to generate cost efficiencies.

Personnel development

As in previous years, PULSION was only able to master all the complicated issues facing it in 2008 with the help of its highly committed employees. Individually tailored further training measures in 2008 ensured, once again, that staff maintained their up-to-date level of knowledge. The move to two new locations demanded the highest level of organisational skills from employees. It is only thanks to their great commitment that all deadlines were met.

A major project was carried out from spring 2008 onwards with the designation "Opinion Initiative 2008". An external firm was engaged to assist in a wide-ranging survey of employees based on a questionnaire devised jointly by management and staff. The survey was carried out anonymously, with more than 95% of the workforce completing the questionnaire. The results of the survey were discussed in workshops in which all employees were invited to participate and were subsequently incorporated into company-wide guidelines. These guidelines have become an integral component of daily work.

The Company employed a workforce (including those employed on a low wage-earning basis) of 111 people at the end of the year (2007: 107), 4% more than one year earlier. The average number of employees increased to 112 (2007: 107). As a result of the higher number of employees, personnel expense went up from EUR 6.6 million in 2007 to EUR 7.0 million in 2008 (+ 6%).

Environmental care and quality management

PULSION's quality management system was again certified by Dekra ITS Certification Services GmbH in 2008 to EN ISO 13485/2003 standard. In accordance with the European Union Directive on medical devices (MDD 93/42/EEC), PULSION is entitled to use the CE label for products brought into use within the European Union.
The PULSION quality management system also complies with the requirements of the US American authorities (FDA) and with the Canadian approval directives CM DC AS.

PULSION complies with all relevant environmental care regulations and 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 balance 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 financial statements.

Supervisory Board remuneration system

In accordance with the Company's Articles of Incorporation, the Supervisory Board comprises three members. The remuneration of the Supervisory Board comprises a fixed and a performance-related component. In addition, expenses incurred are reimbursed. The fixed remuneration amounts to EUR 20,000.00 for a member, EUR 30,000.00 for the Deputy Chairman and EUR 40,000.00 for the Chairman. The performance-based remuneration for 2008 is calculated as follows: if the Company's EBIT divided by the average number of issued shares is at least 15% p.a. higher than the comparable figure for 2005, the additional variable remuneration is EUR 5,000.00; if the Company's EBIT divided by the average number of issued shares is at least 25% p.a. higher than the comparable figure for 2005, the additional variable remuneration is EUR 10,000.00. Full details of the remuneration of Supervisory Board, analysed by individual, are provided in the notes to the financial statements.

In 2008, PULSION again based its approach to corporate governance of the principles set out in the German Corporate Governance Code, as updated on June 6, 2008. PULSION complied with all of the recommendations of this code in 2008 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 12, 2008, and has been posted to the Company's website at www.PULSION.com.

Research and development report

Research and development activities

The Company's Science, Research and Development (R&D) and Intellectual Property (IP) departments are the mainstays of PULSION's business strategy and together represent a prerequisite for PULSION's target of attaining leadership -- in selected target markets -- in advanced haemodynamic monitoring in the near future.

The key product, PiCCO$_{2,}$ which is being sold successfully worldwide, was enhanced with new functions in 2008 and further optimised in ergonomic terms. Further improvements were made and handling simplified in response to customer suggestions. The PiCCO$_2$ measurement parameter ScvO$_2$ (central venous oxygen saturation) received a new optical module to incorporate the fiber-optical measurement probe (CeVOX Disposable). At the same time, Philips agreed to incorporate this module (in its own name) into the Philips monitoring system with the result that PULSION is now also an OEM product supplier for Philips Medizin Systeme Böblingen GmbH.

PULSION's key product, PiCCO$_2$ provides a general overview, as well as detailed insights into the different aspects of the cardiovascular system through a combination of different technologies, allowing the attending physician and nursing staff to make prompt and accurate diagnoses and better therapeutic decisions. Further PiCCO$_2$ add-on modules are planned for 2009.

Patents and approvals

At the end of 2008, PULSION had 159 national patents (2007: 156) at its disposal in various countries. This comprised 124 patents held by PULSION and 35 patent rights licensed to PULSION. In addition, PULSION is currently in the process of applying for a further 291 patents (2007: 323) in various countries. The patents and patent applications relate to 47 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 (2007: 28) 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 2008. This includes obtaining approvals for the PiCCO$_2$ platform in Canada, Russia and Indonesia. Approval for Brazil is pending. The new production facilities in Feldkirchen received the necessary certificates for Japan and the USA.

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, thus providing 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 the attractiveness and needs of this market segment, it can be assumed that competition will continue to intensify in the future. There is therefore a risk that PULSION, by comparison with its competitors, may not react quickly enough to market trends by developing new 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 and improving patent protection on the one hand, and by permanently observing the market via intermediary organisations and networks on the other. It is also engaged in a continuous process of optimising manufacturing cost.

Financial markets risk

The current problems of the world's financial markets do not, at present, pose any specific risk for PULSION. The healthcare market has so far remained largely unaffected by the financial market crisis and continues to perform relatively autonomously. Since PULSION generally endeavours to finance its operations from its own resources, the fact that raising funds has become more difficult only affects PULSION marginally. PULSION closely observes developments on the financial markets in order to identify potential risks in advance. Sound equity coverage ensures the company a good rating, so that capital could be raised if required. The Company's level of debt was reduced further in 2008. PULSION is not, at present, subject to any covenants.

If the financial market crisis were to reach the healthcare sector, this could adversely affect the situation of customers and the demand for PULSION products, with a resulting negative impact of sales and earnings. No such impact has been identified to date.

Risks relating to government healthcare policies

Governmental policies to hold down costs within the healthcare sector represent a structural risk for growth. PULSION is affected both directly and indirectly by such developments:
In countries, in which product costs are reimbursed to hospitals – for example in Brazil, China and, in Western Europe Belgium – there is a risk that the level of reimbursements will be reduced. This results, at best, in lower sales revenue and lower revenue per unit sold. At worst, however, the reimbursement level could be reduced so sharply that PULSION would no longer be able to work profitably in the market.
In countries with fixed-sum treatment amounts (Diagnosis Related Group systems or DRGs) such as Germany, France or the USA, PULSION is constantly required to document the use of PiCCO creates measurable medical and commercial benefits. If the fixed-sum treatment amounts are frozen or lowered, there is a risk that clinics may restrict the use of PULSION products to particularly critical cases or even discontinue their use entirely.

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 cannot be ruled out, however, that PULSION will have to face such claims in the future and that the amounts involved could exceed insured amounts.

Growth and financing

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

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 countermeasures 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.

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

PULSION moved into its new production premises in Feldkirchen near Munich in Spring 2008. At present the Company buys a relatively high level of pre-manufactured components and parts. This situation will be improved once the new production facilities are working to full capacity.

Due to the current size of the business, it is not possible 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-house production, and the resulting higher level of value added, will allow these inventories to be reduced in the future.

Financial risks

PULSION has an equity ratio of 67% at December 31, 2008. Unpledged cash and cash equivalents of EUR 2.0 million and current receivables of EUR 2.9 million also provide financial flexibility. The cash flow from operating activities in 2008 amounted to EUR 0.6 million. 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 generally 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 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 examination proceedings could impair the net assets, financial position and results of operations of the Company.

In order to safeguard its technological lead, PULSION always submits innovations and improvements for patent protection as quickly as possible and analyses 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 growing enterprise with worldwide operations, it is essential that existing sales and management capacities are optimised.

PULSION currently has a hiring freeze for new employees outside the sales function. Positions that become free, when employees give notice are however, being filled. The temporary hire freeze is therefore not likely to entail any risks for the business.

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 work-time arrangements.

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 Company's subsidiaries. PULSION could be affected negatively by the statutory and contractual position of its subsidiaries. PULSION counters this risk by integrating subsidiaries into the Group reporting system. In addition to the regular flow of information, meetings are held at a management level on a regular basis and whenever necessary.

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.

All court proceedings with the Company's former Chairman of the Management Board, Dr. Ulrich Pfeiffer, were terminated following a settlement agreement on January 28, 2009. The settlement agreement made it clear that PULSION owns all of the patents which resulted from inventions made by Dr. Pfeiffer while working for the Company.

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 United Kingdom, Switzerland (since December 6, 2008), Austria (since January 1, 2009) the USA and Australia, as well as an extensive network of dealers.
- Strong licensing partners in the form of Philips Medical Systems, Dräger Medical, Zeiss, Schiller and Dixtal. An agreement was signed with GE Healthcare in December 2008 regarding a license for PiCCO technology.
- Innovative strength driven by extensive expertise and application knowledge in all of the fields in which PULSION operates.
- Opportunities to enter into joint ventures in the BRIC countries (Brazil, Russia, India and China).
- Further progress with in-house production in order to minimise dependence on specialist suppliers.

Disclosures pursuant to § 289 (4) HGB

The following disclosures are made in compliance with § 289 (4) HGB.

Composition of share capital

The share capital at December 31, 2008 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.

There are no restrictions relating to voting rights or the transfer of shares pursuant to § 289 (4) HGB. No shareholders have special rights.

Shareholders with more than 10% of voting rights

The following direct and indirect investments in the share capital of PULSION Medical Systems AG, which exceed 10% of the voting rights, have been notified to PULSION Medical Systems AG:
FORUM European Smallcaps GmbH, Munich, holds 1,749,741 shares, corresponding to 18.27% of the share capital and voting rights of PULSION Medical Systems AG. The majority shareholder of FORUM European Smallcaps GmbH, Munich, is Dr. Burkhard Wittek, who does not hold any shares directly in PULSION Medical Systems AG.
Forum Private Equity GmbH, Munich, holds 1,103,860 shares, corresponding to 11.53% of the share capital and voting rights of PULSION Medical Systems AG.

Appointment and removal of members of the Management Board, Changes to Articles of Incorporation

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.

Authorisation of Management Board to issue shares

A conditional capital of KEUR 2,481 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 481 can be used to issue stock options.

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

Authorisation of Management Board to buy back shares

In accordance with the shareholders' resolution taken at the Annual General Meeting on May 8, 2008, the Company is authorised in accordance with § 71 (1) no. 8 AktG to acquire, prior to November 7, 2009, up to 10% of its own present share capital. The authorisation may not be used by the Company to trade in its own shares. The authorization to acquire own shares resolved at the Annual General Meeting on May 24, 2007, expired when the new authorisation became valid.

Provisions in place in the event of a change in ownership

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, § 289 (4) nos. 5, 8 and 9 HGB are not applicable.

Outlook

Business strategy

PULSION is currently working on the following projects:

- Further improvements to the product portfolio.
  Integration of existing and new technologies in the PiCCO$_2$ product platform.
- Optimisation of sales and marketing.
  High-quality training of employees to improve communication of medical benefits to the market,
- Market development in the USA
  Greater focus on the specific nature of the US market.
- Greater production depth for products which must be available for delivery at all times, and for products for which potential production process improvements have been identified.
- Increased marketing of ICG, particularly in new fields of application such as neurosurgery.
- The creation of new joint ventures and subsidiaries in order to expand the potential for PiCCO$_2$ and related disposables.

Outlook

The following information is based on the assumption that there will be no major deterioration in the business conditions relevant for PULSION as a result of the impact of the financial markets crisis.

The following measures should result in improved sales and earnings for PULSION:

- Implementation of the business strategy measures highlighted above.
- Achieving better margins through benefit-generating sales and through efficiency improvements in the sales area.
- Reviewing the cost structure and implementing projects aimed at reducing sales and marketing costs.
- Developing new products for the future and opening up new fields of application for existing products.
- Increasing sales revenue in the USA and keeping a rigorous control over costs.

Alongside the various measures already initiated, some major areas of uncertainty have been identified – over and above the global financial crisis – which could have a negative impact on earnings in 2009:

- Prices for materials (in particular plastic) could increase as a result of the dependence on oil.
- As in 2008, it is possible that currency risks - in particular relating to the British pound, the Australian dollar and the US dollar - may be of relevance.

- The risk of deflation, which could have an impact on sales and margins, must be closely observed.
- The speed at which the various measures described above actually manage to put the business back onto growth course and bring about better earnings.

Taking all factors into account, 2009 should see a small growth in sales and an improvement in earnings. Sales and earnings in the next two years should be higher than those achieved in 2008.

Subsequent events report

A definitive settlement was reached with Dr. Ulrich Pfeiffer on January 28, 2009, bringing to an end by mutual consent all patent disputes and all disputes relating to corresponding national patent registrations and patent rights.

On February 16, 2009, the Company received notice that FORUM European Smallcaps GmbH, Munich, had gained control over the Company pursuant to § 35 (1) in conjunction with § 10 (3) Securities Acquisition and Transfer Act (WpÜG). The Management Board will respond in the due course of time.

Apart from that, there have been no significant events after the balance sheet date.

Munich, March 12, 2009
PULSION Medical Systems AG

Dr. Burkhard Wittek	Matthias Bohn	Frank Posnanski
Chairman of the Management Board	Member of the Management Board	Member of the Management Board

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the PULSION Medical Systems AG, München, for the business year from January 31, 2008 to December 31, 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") 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 annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and 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 books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

München, March 13, 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefano Mulas
Wirtschaftsprüfer

ppa. Sven Jacob
Wirtschaftsprüfer