Annual Report

09

Get the complete picture ...

PULSION
Medical Systems

PULSION 2009

Facts and Figures

PULSION (Group)		2009 IFRS	Change in %	2008 IFRS	2007 IFRS	2006 IFRS	2005 IFRS
Sales	EUR million	28.1	1%	28.0	28.3	24.5	20.2
Gross profit	EUR million	18.6	0%	18.6	20.5	18.4	14.5
EBITDA	EUR million	4.2	60%	2.6	6.0	5.2	3.8
EBIT	EUR million	2.4	314%	0.6	4.1	3.4	2.3
Group net profit / loss	EUR million	0.5	164%	-0.7	2.5	3.3	1.9
Cash flow from operating activities	EUR million	4.0	303%	1.0	4.5	3.2	3.3
Shareholders' equity *	EUR million	17.0	5%	16.2	17.1	14.6	11.3
Shareholders' equity percentage *	%	66%	–	68%	64%	64%	57%
Total assets *	EUR million	25.7	8%	23.8	26.8	22.7	19.8
R&D expense	EUR million	2.2	3%	2.2	2.0	2.2	1.3
Employees (average)	Amount	139	-5%	147	141	130	101
Revenue per employee	KEUR	202	6%	190	200	188	200
Installed base – PiCCO monitors *	Units	6,247	9%	5,743	5,256	4,630	4,018

* as of December 31

Content

09

Report of the Management Board

» *Dear Customers, Shareholders and Colleagues*

After the far-reaching changes made in the fourth quarter of 2008, the company had planned to return to its former strength in the financial year 2009.

In order to understand the developments in 2009, it is necessary to look back over the events of the second half of 2008 as it was during this phase that the foundations were laid for 2009.
As stated in the Annual Report 2008, there were clear signs in the second half of 2008 that revenue and earnings targets would be missed. This resulted in the company replacing the Chairman of the Management Board in October 2008.
In conjunction with this change, it was decided to make a return to PULSION's previously successful model under the motto

„Back to the Roots"

The principal aspects of this were as follows:

1. More emphasis on medical benefits by the sales team

Providing an accurate picture of the complex clinical condition of a patient constitutes the real added value of PULSION's products by enabling doctors and nursing staff to recognize specific situations quickly and earlier, and make the correct decisions regarding to possible treatment.

In order to sell this added value and distinguish PULSION's products from those of the competitors, it is essential that the appropriate arguments are put forward convincingly and with expertise. Selling products on the basis of price is not appropriate for this market and for a range of products that require a high degree of explanation.

It is therefore essential that the sales team is highly qualified. This key factor had been neglected in recent years, with sales activities focused mainly on price. The expertise of some of the sales team did not meet the now required level.

The process of returning to the tried and trusted approach of the past stretched well into the financial year 2009. Amongst other measures, this included intensive training for all relevant employees, both in Germany and at the level of the subsidiaries, with a requirement to prove the necessary skills level and the incorporation of these aspects in bonus agreements. Some staff members without medical training fell short of the new demands. These were replaced by suitably qualified staff, most of whom have received training and gained experience as nursing staff on intensive care units.

We are starting the financial year 2010 with a newly structured sales team, fully expectant of the impetus that this will give to revenues, whilst still maintaining good margins.

2. Stream-lined and potential-orientated sales management

A uniform customer relationship management (CRM) system was implemented in 2009 for PULSION's subsidiary companies, with the aim of ensuring the systematic management of the Group's selling activities. This system, which is based on the successful model already used in the so-called DACH region (Germany, Austria and Switzerland), provides an analysis of the potential for business with each customer, reflects decision-making structures in the relevant departments and documents the activities of the external sales force. A stream-lined sales management process was introduced on the basis of this information. It enables the activities of the sale force to be analyzed and tracked, thus contributing to improved productivity.

As part of the sales management process, the individual members of the sales team were given clear guidelines on the expected number of visits to customers and customer training sessions to be achieved, and on determining the scale of sales efforts on the basis of potential revenues.

3. Profit orientation, cost reduction programs

Business activities were focused more sharply in 2009 on productivity, margins and costs. In the interplay between revenues and earnings, the priority was steered very clearly towards earnings. Margins were highlighted as a key element of sales management and a part of the bonus system was linked to them.

A cost reduction program was put in place across the business. All levels of staff participated with great commitment at cutting costs in all departments and across all cost categories. As a result, operating costs (including other operating income/expenses) were reduced by more than EUR 1.7 million compared to the previous year.

The first two points – achieving efficiency improvements and a better return on sales activities – were implemented step-by-step over the course of 2009, with the first measurable results emerging in the second half of the year. Revenues were therefore only slightly higher than in the previous year, but would have been significantly lower if no action had been taken.

The third point – earnings – saw a direct and sustainable improvement. Despite some quite considerable one-time expenses, EBIT rose to approximately EUR 2.4 million, significantly better than the result in 2008.

The good progress made in business terms was overshadowed by a bitter dispute between the Supervisory Board, parts of the Management Board and a major shareholder, the FORUM Group. This began with the summary dismissal of the then Chairman of the Management Board, Dr. Burkhard Wittek, in May 2009, to be followed by various attempts to convene the Annual General Meeting until the latter was finally held on November 16th, 2009, following a court ruling. The meeting of the shareholders ended with the whole of the Supervisory Board being de-elected and refused clearance for their activities, and a new board being elected. Subsequently, two members of the Management Board were removed from office.

Report of the Management Board

These disputes caused great damage to the company, its employees and its shareholders. Only a few individuals gained anything from these activities.

The effects of these disputes and the inordinately high expenses incurred for legal and advisory fees are reflected in the net profit for the period. Earnings were also adversely affected by expenses related to the dismissal of the Chairman of the Management Board in May and the departure of two of the three members of the Management Board in November. The new contracts drawn up with members of the Management Board during this period of dispute included higher remuneration and longer contract terms, thus taking the additional one-time costs to inordinate levels.

During the months of conflict, it was not possible to imagine that business could develop favorably.

The company lost credibility on the capital market. It will take enormous efforts to recoup the loss of trust suffered. This will be the focus of our endeavors in 2010.

Outlook for 2010

As the year 2010 gets under way, there are reasons for a certain amount of cautious optimism. The new sales organizations have been set up and provided with training and they are now in a position to market PULSION's technologies as required. Provided that fluctuation can be kept at a low level, the staff involved will be much more productive thanks to the improved training. A streamlined system of sales management geared towards potential and margins has been established on the basis of the CRM system, and it is already working well and sustainably. The key to success is a streamlined process of directing, monitoring and managing sales activities.

A program to reduce operating costs has been successfully put into action. The main emphasis of cost reduction efforts in 2010 will be directed at the production cost of disposables.

The Management Board will focus in 2010 on mobilizing resources in the following areas:

1. Improving the results of loss-making subsidiaries

For a number of reasons, PULSION's subsidiaries in the USA and France have been problem areas. Both companies made losses again in 2009 albeit with some signs of improvement since the end of 2008. Various measures have been set out for the companies concerned with the aim of reaching break-even in the medium term. Based on forecasts, this could be as early as 2011 for France.
Additional regional selling partners (distributors) in the USA should also enable the break-even point to be reached in the near future.

2. Increasing field sales force productivity

In countries such as Germany, Austria and Switzerland, where PULSION has always had a strong presence, annual revenues per sales employee are almost EUR 1.0 million. By contrast, at the Group's other foreign subsidiaries, they amount only to approximately EUR 0.5 million. This difference must be eliminated by purposely transferring the successful sales measures used in the DACH region to the other daughter companies.

3. Export expansion

In many countries, mainly those where there is less potential, PULSION works in cooperation with distributors. In countries where the potential is greater, efforts are being undertaken to embark on joint ventures with local partners. Collaborations of this kind are a priority in Brazil, Russia, India and China (the BRIC markets). One, or, if possible, two new joint ventures are planned for 2010.

4. Developing new products

After launching the PiCCO$_2$ system in Germany in 2007 and internationally in 2008, the company has not introduced any significant new innovation with a major business impact since then. The main priority during the period from 2007 and 2009 was to bring the Group's existing range of products up to the required technical standards.
In parallel, however, PULSION has been developing the technical bases for new products. This has included carrying out research into particular physiological correlations and reproducing them in mathematical models. These preparatory projects and studies were necessary in order to develop new algorithms and parameters as a basis for new monitoring technologies for the future. The new products will really make the individual patient the focal point and offer the possibility of accurate, individualized monitoring and treatment management. Expanding the product range will open up new areas of application and substantially increase the sales volume potential.

5. Business unit Perfusion

The volume of business generated with the diagnostic dye, indocyanine green (ICG) fell in 2009, reflecting lower volumes ordered by a number of major customers. There was also a slight reduction in its use in ophthalmology – the area in which it has traditionally been employed. Imaging technologies which do not require contrast mediums or fluorescent diagnostic mediums are becoming more commonly used in this field.
One notably positive development is that more areas of application for imaging methods have arisen in the surgical field. In future, growth potential will be determined by the employment of ICG in the areas of neurosurgery, general surgery and plastic surgery for diagnostic purposes, quality control and documentation.
The Perfusion business unit will fix its sights more firmly on perfusion imaging in 2010.

PULSION has set itself a clear target of making significant steps towards improving profitability.

In the medium term this means aiming for the „100-70-20“ model, i. e.:
» a gross profit margin of 70 % (2009: 66 %)
» an EBIT margin of 20 % (2009: 9 %)

In 2010, the Management Board will speed up the process of improvement it has already initiated.

The Company

PULSION – An Overview

» Get the complete picture...

PULSION Medical Systems AG is one of the world's leading providers of med-tech solutions for advanced hemodynamic monitoring.

PULSION's products are mainly used in intensive care units to measure and evaluate a large number of parameters for visualizing the oxygen supply to the body and the condition of its vital systems. This allows monitoring the condition of critically ill patients far more comprehensively then using comparable standard monitoring systems. Medical and nursing staff can get a better picture and make correct and well-informed decisions more quickly – potentially a life-saving advantage. Furthermore, PULSION is currently developing a second promising business line in the field of perfusion imaging diagnostics.

PULSION was founded in 1990 as a spin-off from the Technical University in Munich and has grown over the past 20 years into a medium-sized entity with approximately 150 employees. It has now become one of the world's leading providers of cardiovascular monitoring systems for critically ill patients. Alongside its own sales activities, PULSION also works in partnership with selected global players from the MedTech sector. These partners are helping to spread the use of PULSION's monitoring technologies.

The overriding objective of PULSION's endeavors is to ensure the best possible medical use for the benefit of the patient. It is therefore seen as a strategic objective to concentrate knowledge and know-how within the company. This is underlined by the medical background of several members of the management, a sales force with the appropriate set of skills and a Medical Advisory Board comprising of internationally renowned members.

Business firmly based on two pillars

***Critical Care** and **Perfusion:** PULSION is well equipped to face the future with its two business units.*

In its **Critical Care** business unit, PULSION develops and manufactures medical products for diagnostics and monitoring critically ill patients. The products are primarily for use in intensive care units and operating theatres. Users are provided with extensive information pertaining to the condition of the cardiovascular system which supplies the organs with oxygen as well as information about the condition of other important organ systems in the body. At present, some of the parameters provided can only be measured by using PULSION products.

The data – some of which is real-time information – can be collated by doctors and health professionals to create an informative, complete picture which helps them to decide on the appropriate treatment. Users do not just recognize that something is wrong; they can also see the underlying problem. The time and information thus gained helps the physician to start the correct therapy at an early stage and, hence, to avoid complications.

PULSION's second business unit, **Perfusion**, deals with the visualization of blood perfusion in tissues and organs; for example, it enables the identification of pathological changes in blood vessels. During surgery and post-operative care, PULSION's own dye, ICG-PULSION (Indocyanine Green), is used to check whether there is adequate blood supply to the tissues. After injection into the bloodstream, the dye can be made fluorescent, thus making the vessels visible. It is a viable alternative to X-ray based techniques because it enables medics to see the perfusion of superficial tissue layers without any exposure to radiation.

Thanks to its outstanding properties, ICG-PULSION can be used for diagnostic purposes as well as for quality assurance and documentation purposes in numerous fields. This technology has applications in the areas of ophthalmology, neurosurgery, the surgical treatment of breast cancer, general and plastic surgery and rheumatology diagnostics. PULSION currently holds a monopoly on nine European markets for the sale of this product. PULSION has obtained FDA approval to market Indocyanine Green as a generic in the USA.

An upward trend

Following a problematic year in 2008, PULSION has been able to regain ground in 2009.

All the measures decided upon in 2008 geared at facilitating change and improvements, including a multiple step cost savings program, were rigorously implemented in 2009. PULSION's operating figures for the third and fourth quarters of 2009 are a good indication of how effectively these measures are working. Earnings for the year were, however, negatively affected by one-time expenses for redundancy payments and respective legal disputes. PULSION has continued to put a considerable amount of effort into the aims formulated in 2008, to achieve further success with new products from 2010 onwards.

The Business Model

Recurring revenues

» *A strong business model, a robust position*

To generate revenues with each application: this is the basis of PULSION's business model. As with the manufacturers of ink jet printers, the company´s focus does not lie exclusively with one-off sales of equipment. Recurring business generated from disposable products that are required for use with the various technologies account for a much bigger share of PULSION's commercial and financial success.

Whether monitoring catheters, measurement probes or the diagnostic agent ICG-PULSION: these disposable items which need to be regularly replenished by customers and which can only be purchased via PULSION, represent the central source of income for the company. In fact, all of PULSION's products and services are designed to generate recurring revenues. This distinguishes PULSION from the majority of med-tech manufacturers whose business models are usually limited to initial installations of equipment in hospitals and medical practices, supplemented at best with equipment replacement investments and technical services.

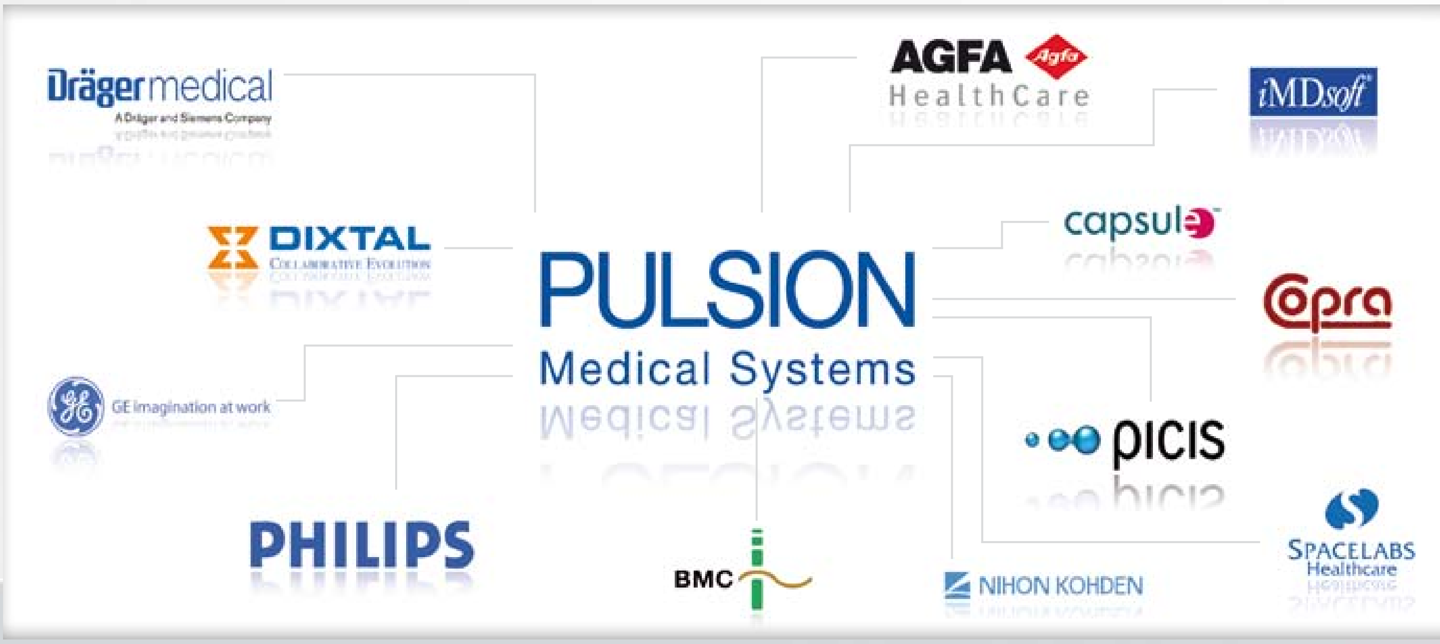
The same principle applies to PULSION's extensive and successful cooperation with major med-tech providers in the area of monitoring hardware. Even though the equipment in this case is supplied by third parties, the related disposables business is PULSION's responsibility.

PULSION's position in the market

The med-tech industry is extremely polarized. Numerous start-up companies are lined up against a small number of international "global players". PULSION has placed itself right in the middle – a position deliberately chosen because it has many advantages.

As a specialist company selling med-tech products that require a high degree of explanation, PULSION has the opportunity to enter into cooperation arrangements with some of the big names of the critical care sector. PULSION brings new technologies onto the market, concentrating on the so-called "early markets". PULSION's products often provide users with considerably more information than the products from the big companies. If the markets accept PULSION's innovations and the demand for these products grows accordingly, it is then an interesting proposition for the global players to have these new technologies integrated into their own platforms. Numerous large-sized monitor manufacturers have already incorporated PULSION's technologies into their patient monitoring systems, thereby expanding the available equipment base at an above average rate. PULSION benefits on the one hand from the revenue generated by the license arrangements, and on the other from growth in the volume of disposable business induced by its partner companies.

PULSION's access to the market, coupled with the degree of specialization discussed above, means that cooperation arrangements are also of interest to start-up and development companies. Such companies generally do not have easy access to the market or the sales and marketing resources to position their own innovative products. By contrast, global players have strong sales and marketing departments but rely on the regular introduction of new products. It is also generally true to say that they cannot be innovative in all areas. This is precisely where PULSION comes in: promising products are established on the early markets, mainly using a medical-based marketing approach. If a substantial market emerges, it then becomes the joint goal to integrate the product into the product platform of these global players.



Rapid diagnosis, safe therapy decisions, and the ability to assess the success of a chosen therapy continuously: these fundamental demands made of doctors and medical staffs are being addressed by PULSION's Critical Care business unit. The precise parameters measured by the PULSION products provide the user with a comprehensive picture of the condition of certain vital organs and systems in critically ill patients. The innovative depiction of measurements with state-of-the-art monitors facilitates the interpretation of the vast array of information that is available, thus enabling the users to identify the condition of a patient quickly and to reach well-informed decisions.

Business Unit

Critical Care: Seeing more than others ...




The main focus of this business unit is currently cardiovascular monitoring of critically ill patients in intensive care units – a reliable adequate oxygen supply is essential for the proper functioning of organs and tissues. Ensuring that there is an adequate oxygen supply to the body's organs is one of the top priorities of intensive care specialists.

In the near future, it is PULSION's intention to offer appropriate monitoring solutions that take into account the severity of a patient's illness. The amount of information for a patient's treatment in hospital can be adjusted depending on the patient's actual need. This will broaden the target markets for PULSION products and increase the benefits gained by the customer since monitoring can be even more finely-tuned to each patient's needs.

PULSION will also expand its activities into other areas related to cardiovascular monitoring, taking into account the complexity of diseases and the human body, even more so than in the past.

» Products and monitoring technologies

Despite intensive competition, PULSION continues to sell a number of products and monitoring parameters which are worldwide unique in this context.

PiCCO$_2$ platform

PULSION's PiCCO$_2$ platform, which can be used in intensive care medicine in conjunction with the treatment of critically ill patients, is very well positioned. The finish, design, user interface, usability and visualization of parameters provided by this platform are amongst the best that the market has to offer at the moment.

Thanks to its platform concept, PiCCO$_2$ combines several PULSION technologies within a single piece of equipment. Users are able – depending on the patient, complications and the progression of a disease – to select the relevant parameters and the appropriate monitoring technology. This concept seems to have impressed the medical press: one US publication described PiCCO$_2$ recently as the "all-in-one-hemodynamic-monitor".

With the PiCCO$_2$ platform, the medical practitioner receives precise information about oxygen supply within the body (CeVOX Technology), real-time cardiac and circulatory measurements as well as the existence of pulmonary complications (PiCCO Technology), and liver function and blood supply to the abdominal organs (LiMON Technology). During the past year, the focus has been on extending the PiCCO$_2$ platform with an emphasis on making further improvements and enhancements in the area of integrated monitoring technologies.

PiCCO Technology

PiCCO is the flagship among PULSION's various monitoring technologies. It enables doctors and health professionals to monitor the cardiovascular system of critically ill patients and to manage selected therapies. In contrast to its competitors, PULSION is able to provide an

especially comprehensive picture of the patient with PiCCO. An analogy with the car may help to illustrate the difference. Instead of only measuring the speed (in medical terms: cardiac output – the volume of blood pumped by the heart in one minute), which in itself does not provide a full picture of motor performance, PiCCO also provides other important measurements. In addition to the number of revs (pulse rate), further measurements are the torque and the engine performance (contractility and cardiac power), the wind and frictional resistance (vascular resistance) and the fuel supply to the engine (cardiac preload). The additional information does not only show that the engine (heart) is unable to bring the car (blood) to a specific speed (since the volume of blood being pumped by the heart is too low); the parameters incorporated into the system also show the reasons for these problems and the measures that can be taken to improve the situation. This is the all-important distinction between a simple and a complete picture.

CeVOX Technology

CeVOX Technology is designed to continuously monitor oxygen balance (ratio of oxygen supply and demand). It enables the early detection of inadequate oxygen supply, which could result in severe complications. CeVOX therefore serves as an early warning system, enabling the appropriate countermeasures to be undertaken at an early stage.

LiMON Technology

LiMON Technology is used to evaluate and monitor liver function. This product is used in intensive care medicine for the early detection of complications and to monitor the progress of patients suffering from liver dysfunction and liver failure. In the area of hepatic surgery for example, LiMON is used to monitor liver function, e.g. before and after operations on the liver or a liver transplant. Several studies carried out by leading liver transplantation centers and published in 2009 confirm that the use of LiMON is currently the best way to detect functional problems or potential rejection of a transplanted organ at an early stage, thus enabling the required treatment to be given in good time (reference: Levesque E, Liver Transplantation 2009; Olmedilla L, Liver Transplantation 2009).

CiMON Technology

CiMON, one of PULSION's newest monitoring systems, provides the medical practitioner with an accurate picture of pressures within the abdomen. This enables the risk of the occurrence of increased abdominal pressure – which can have disastrous consequences – to be better evaluated, so that the appropriate measures can be taken. CiMON is most commonly employed in abdominal surgery. In 2009, PULSION completed the test market phase for CiMON Technology and commenced normal sales activities.

» Markets and competition

The total market for hemodynamic monitoring (cardiovascular monitoring) in the critical care sector is currently growing at over 10% p.a., reaching a level of approximately USD 180 million in 2009. Growth in the area of perioperative monitoring was particularly strong.

Worldwide, up to three million intensive care patients and up to 15 million patients undergoing surgery could potentially benefit each year from improved hemodynamic monitoring and management. At present, the number of patients benefiting from these healthcare technologies is below 500,000 since these methods have so far not become standard applications.

In addition to the largest competitor and market leader, Edwards Lifesciences, and the well-established, but smaller competitors, LiDCO and Deltex, a number of other companies are edging their way into this developing market. This includes Masimo, Cheetah Medical, BMeye and other manufacturers. Whilst PULSION has been able to remain the market leader in the area of intensive care medicine, especialy in Europe, Edwards Lifesciences has recorded very strong growth in the perioperative sector. It is also likely that it will increase the reach of its intensive care medicine business activities in the near future with new products. LiDCO and Deltex also focus primarily on the perioperative sector and wish, ultimately, to gain a foothold in the critical care sector.

» Strategy

PULSION is – after its competitor and the market leader, Edwards Lifesciences – the second largest provider of advanced hemodynamic monitoring products. The intention is to strengthen and build on this position. The main focus will be placed on the so-called “platform strategy” which was initiated with the $PiCCO_2$. Additional technologies and improvements as well as new parameters will be added to the product range in the years 2010 and beyond to provide further benefits for patients and practitioners. This means that the number of areas of application for which PULSION monitoring solutions can be used will increase. A further focus will be on expanding cooperation arrangements with the sector’s global players with the aim of broadening the installed base by integrating PULSION’s Monitoring technologies into other systems (see also section “Business partners“). Targeted expansion of the patent portfolio and other measures to protect PULSION’s business will help to raise the value of the company and its business units further.

» Research and development

Intensive research and development work performed in 2008 and 2009 laid the foundation for the introduction of new technologies and products in 2010. The main focus has been on physiology, new parameters and algorithms. In addition, PULSION also studies the market and medical literature continuously and keeps abreast of developments in the patent world with a view to identifying potential technologies for integration into the PULSION product range.

Production

Approximately two thirds of the disposable products sold by the Critical Care business are produced in Germany. This ensures the highest levels of process safety and product quality. The process of transferring disposable products to in-house production is now approximately 80% completed; an important move that will generate process and cost benefits over the coming years.

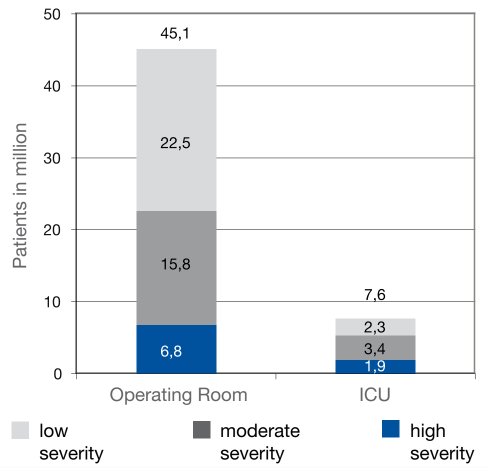
Marketing

PULSION is represented worldwide in 72 countries. The basis for this high level of market presence comes from eight subsidiaries and several distributors. PULSION has traditionally been very strong in Central and Western Europe with its subsidiaries or joint ventures. Close cooperation with sales partners in Eastern Europe and Asia ensure that the markets in these areas are well serviced. Since 2009, the sales team has focused more on explaining the medical benefits of PULSION products. This was made possible by a targeted change in the sales team structure and a greater emphasis on training. As a result, the sales team can apply the argumentation put forward by the marketing department more effectively. In order to achieve the best marketing results, an appropriate combination of medical and classical marketing elements are applied. The provision of basic and further training to customers and practitioners also plays an important role in marketing. In this context, experts provided information at numerous workshops, symposia and congresses on selected areas of application of PULSION products.

Business partners

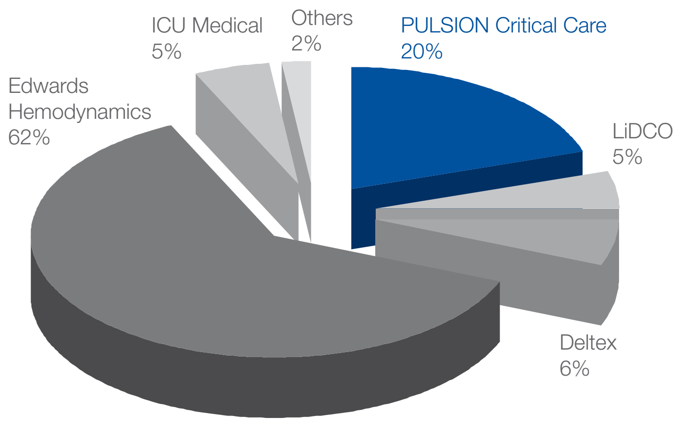
Strategic cooperation arrangements with numerous business partners, such as Philips Healthcare, Dräger Medical, Philips Dixtal and GE Healthcare, were further broadened over the past year. The main highlights in 2009 were the integration of the CeVOX Technology into the Philips' systems as well as contract production of the CeVOX components on behalf of Philips Healthcare. Further progress was also made with the integration of PiCCO Technology into GE monitoring equipment; the resulting products will become available shortly. The process of integrating CeVOX and PiCCO into the monitoring equipment of the leading Brazilian manufacturer Philips Dixtal, agreed in 2007, was successfully completed in 2009; marketing will commence during the first quarter 2010. The integration of further technologies with major providers of monitoring equipment remains a fundamental objective for PULSION. Several strategically important contracts are nearing signature.

Patient numbers in OR and ICU per year



Quelle: based on Rubenfeld, NEJM 2005

Market shares in Advanced Hemodynamic Monitoring 2009



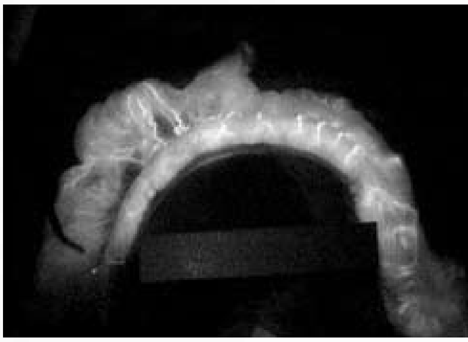
Quelle: based on business reports of the different companies and PULSION market research

Before being able to commence with some courses of treatment or surgical procedures, it is essential that the state of perfusion in certain individual organs or specific areas of tissue is reliably assessed. PULSION has made a name for itself in the field of perfusion diagnostics with its own diagnostic agent, ICG-PULSION (Indocyanine Green). ICG-PULSION is injected directly into the circulatory system. The medical practitioner is able to see the blood vessels with the appropriate equipment, for example using PULSION's PDE solution. Medics choose to use ICG-PULSION not only because it involves no radiation, but also because it provides them with such finely detailed images of the structures they wish to investigate.

Business Unit

Perfusion: Highly promising imaging technologies.





The Perfusion business unit is central in PULSION's efforts to take full advantage of the enormous market potential offered by the diagnostic dye, ICG-PULSION. Numerous areas of application – some of them not yet addressed – in the area of imaging diagnostics could be serviced in the future with this dye. As well the opportunities identified in the areas of abdominal, breast cancer, neuro- and plastic surgery, it is also used traditionally on the field of ophthalmology and, most recently, for rheumatology diagnostic purposes.

Products

ICG-PULSION

ICG-PULSION (Indocyanine Green) is the core product of the Perfusion business unit. This green dye fluoresces when stimulated by light from specific wavelengths. ICG-PULSION is injected directly into the circulatory system and allows superficial vessels to be visualized. There are numerous areas of application. In the areas of abdominal and plastic surgery, ICG-PULSION allows efficient and reliable testing of the perfusion of newly created blood vessel connections. Ophthalmology physicians use the dye to identify pathological changes in the vascular bed at the fundus of the eye. In the area of breast cancer surgery, ICG-PULSION – in combination with the new product "Photodynamic Eye" (see below) – can be used to determine, simply and quickly, whether cancer cells are likely to have spread from the tumor or not. If not, the patient may, under the right set of circumstances, be spared the routine, but extremely stressful removal of the lymph nodes. In general it can be said that ICG-PULSION is often the better alternative to more expensive and time-consuming computer tomography (CT) procedures which also involve exposure to radiation.

Photodynamic Eye (PDE)

Photodynamic Eye (PDE) is the name given to the equipment used in some of the areas of application mentioned above that involve ICG-PULSION. This product visualizes the dye's fluorescence for the physician. A camera device is held directly on the body region being examined, enabling doctors and medical staff to assess tissue perfusion immediately at the bedside.

Among other benefits this technology brings with it substantial cost advantages. The use of the PDE can, e.g., reduce the necessity for repeat abdominal operations by 50% or more. Potential costs savings have also been identified for breast cancer surgery when the PDE is used.

Markets and competition

The markets in which ICG-PULSION is sold are developing heterogeneously, reflecting the great diversity in the areas of application for this product. In the area of ophthalmology, the use of ICG for fluorescence angiography (to depict the blood vessels of the ocular fundus) is declining slightly. Ophthalmic doctors tend to prefer simpler procedures that do not involve the use of fluorescence dyes. By contrast, the market is growing in the area of surgical applications, albeit not sufficiently at present to fully offset the decline in usage in ophthalmology. The method is, however, slowly becoming standard in other fields, in particular neurosurgery. Strategic cooperation arrangements in place between PULSION and Carl Zeiss Meditech, Oberkochen are providing momentum in this area. Although there is a need for efficient depiction of tissue perfusion in the areas of general surgery, plastic surgery and breast cancer surgery, the related markets are only gradually being built up.

» Strategy

PULSION's business model – with revenues supported by two pillars – also applies to the Perfusion business unit. The primary aim is to achieve a wide installed base for PDE or other equipment requiring the use of ICG in order to generate continuous revenues from the sale of ICG-PULSION. Partnership arrangements with other MedTech providers are helping in this respect. These providers are already using PULSION's technology or depend on ICG-PULSION for other purposes. In addition to ICG-PULSION, PULSION also sells other disposable products, in particular for use with the PDE. This product range includes sterile sheaths and disposable fluorescence standards. The latter are also used for surgical microscopes.

» Research and development

Development activities are currently focused on further developing the evaluation software, IC-Calc, and adapting it to the new product, Photodynamic Eye. In addition to research into the use of Indocyanine Green for diagnostic purposes, research is also being carried out into its use for therapeutic purposes. In this context, research cooperation arrangements are in place with various universities, institutes and companies.

» Production

PULSION is responsible for the production of ICG-PULSION in cooperation with various suppliers. The Photodynamic Eye is supplied under cooperation arrangements by the Japanese manufacturer Hamamatsu.

» Marketing

PULSION has exclusive rights (approvals) to market ICG in nine European countries. An additional application has been submitted for Spain. PULSION sells ICG in the USA as a generic. PULSION has exclusive rights to sell PDE in Europe. A direct sales channel is currently being set up for Germany. Distribution partners cover Italy, France, UK and Switzerland. Expansion of the sales network is seen as one of the main tasks to be tackled in 2010.

PULSION begins to supply CeVOX hardware to Philips Healthcare as OEM manufacturer

The Perfusion business unit presents Photodynamic Eye (PDE) at the German Surgical Congress

January | February | March | April | May | June

$PiCCO_2$ software V2.0 celebrates its debut at Europe's largest intensive medicine congress in Brussels

Integration of LiMON into the $PiCCO_2$ platform presented

Start of marketing of CiMON technology

July | August | September | October | November | December »

DIXTAL
COLLABORATIVE EVOLUTION

Integration of PiCCO and CeVOX technologies into Philips-Dixtal monitoring systems successfully completed

Events and Activities in 2009

Some major steps taken

2009 was a year in which numerous key decisions were taken at PULSION. Alongside major efforts in the areas of research and product development, the extension of the collaborations with the strategic partners was of atmost importance.

» *2009: Creating the foundation for future success*

PULSION begins to supply CeVOX hardware to Philips Healthcare as OEM manufacturer

This step represented an extension of our cooperation arrangements with Philips Healthcare. The integration of the second PULSION technology – CeVOX – into Philips monitoring equipment has now been completed. Further hardware required by Philips Healthcare is also being manufactured and supplied by PULSION. CeVOX probes, the related disposable product, are sold by PULSION.

PiCCO$_2$ software V2.0 celebrates its debut at Europe's largest intensive-care medicine congress in Brussels

The PiCCO$_2$ platform is currently the flagship of the PULSION Critical Care business unit. The new software presented in Brussels reflects the continued efforts to develop and optimize this product line further. Compared with the predecessor version, it incorporates – among other features – improved algorithms to measure volumes, one of the principal unique selling points of the PiCCO technology.

The Perfusion business unit presents Photodynamic Eye (PDE) at the Surgeons' Congress in Germany
PDE, successor to the previous IC-View product, enables the visualization of tissue perfusion and the smallest blood vessels. This function will be highly welcome in a number of surgical disciplines, as it enables evaluation and documentation of the success of surgical procedures.

Integration of LiMON into the $PiCCO_2$ platform presented
LiMON currently represents one of the best liver function tests on the market. The integration of LiMON into the $PiCCO_2$ platform completes the clinical picture of the patient for the medical practitioner. This technology is especially suitable for use after liver transplantations, in hepatic (liver) surgery in general as well as in the area of hepatology and intensive care medicine.

Integration of PiCCO and CeVOX technologies into Philips-Dixtal monitoring systems successfully completed
The agreement reached in 2007 to integrate PULSION's PiCCO and CeVOX technologies into Philips-Dixtal monitoring systems was successfully implemented in 2009. Philips-Dixtal, the market leader in the area of multiparameter patient monitoring in Brazil, is now – following in the footsteps of Philips Healthcare – the second manufacturer to offer both PULSION technologies as modules in its own products.

Start of marketing of CiMON technology
CiMON offers doctors and medical practitioners a technology for measuring intra-abdominal pressure. It can be used, e. g., after major abdominal surgery or in the area of general intensive care to assess the risk of high intra-abdominal pressure. In 2009, PULSION took the production of CiMON probes in-house, thus safeguarding serial production of this line of products.

PULSION in the US market

Going in the right direction

» *US market: optimization measures have delivered results in a short space of time.*

The USA accounts for almost 40% of the world market for medical technical products and solutions, making it an extremely important region for PULSION. The decisions taken to change and optimize activities in this area have paid off. Revenue generated in the USA doubled in 2009 compared to the previous year. At the same time, operating costs were reduced to a sustainable basis.

Hemodynamic monitoring in the United States is characterized by a number of specific factors. In the past, this sector has developed very differently in the USA compared to Europe. The pulmonary arterial catheter, sold by the US company Edwards Lifesciences, was the clinical standard for several decades. With the medical benefits of this procedure – compared to the additional risk – being increasingly questioned since the late nineties, there has been a sharp reduction in its usage since then. An appropriate replacement has, however, not yet been accepted by the market. Although Edwards did manage to market its product duo Vigileo / FloTrac widely on the back of its sales and marketing strength, a new standard has not been established.

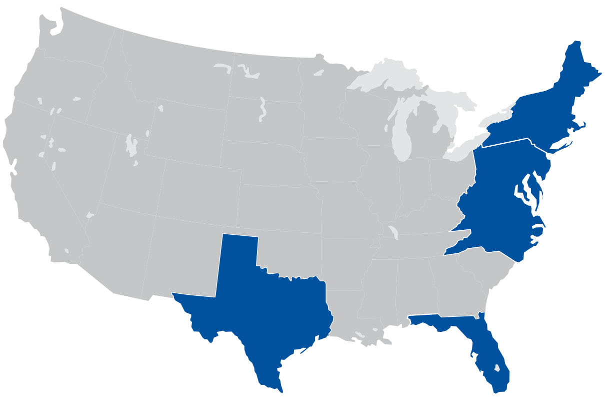
In many quarters, people still remain unconvinced of the importance of an all-encompassing approach to monitoring in connection with the treatment of critically ill patients. Emotional factors also play a role, in particular the possible risk of catheter complications through infection – cost-bearing organizations in the USA refuse to bear any of the cost in the event of such complications. Studies have shown for a long time, however, that the complication rate is similar to that for other standard procedures.

This situation has been further exacerbated by the financial crisis over the past year, the negative consequences of which were significantly greater in North America than in Europe. Clinics reduced their capital expenditure considerably. Moreover, no benefits are being felt in the USA from the integration of PULSION's technologies into the products of Philips, Dräger etc. since the manufacturers have as yet not been willing to support wider distribution.

PULSION's sales organization in the USA was realigned in 2009 in order to expand business on this market, even in the face of difficult conditions. A new sales team with an in-depth medical background is strengthening the basis of trust with customers. A further aspect of PULSION's strategy is to focus on the East Coast where many large-scale and important hospitals and university clinics are concentrated in a relatively small area. In addition, prime target groups were newly defined as part of this coordinated approach. PULSION has also been able to gain a number of renowned university hospitals as PiCCO customers. Several of the clinics acting as reference centers are among the USA's top 20 institutions. All in all, PULSION is better positioned than ever in the important, albeit difficult US market.

PiCCO$_2$ – US version

USA Sales areas 2009



PULSION Stock

In 2008 PULSION stock did not perform as well as the German Stock Exchange's Prime Pharma & Healthcare Index and also underperformed at the S-DAX, but in 2009 PULSION stock performance improved. Between December 31, 2008 and 2009, its XETRA closing price rose from EUR 2.14 to EUR 2.87, an increase of 34%. This compares to rises in the Prime Standard Pharma and Healthcare Index and the S-DAX of 14% and 25%, respectively. Overall therefore, PULSION stock performed better in 2009 than the relevant benchmarks.

After the slump in value throughout the first quarter 2009, the PULSION share price increased from the start of the second quarter as a result of the positive news contained in PULSION's quarterly reports. This positive trend continued through to the end of 2009, with the share finally closing at EUR 2.87. It is nevertheless true to say that other factors had a negative impact on the share price. In addition to the loss of confidence in markets and companies in the wake of the financial crisis, there is no doubt that the dispute between the Supervisory Board, parts of the Management Board and the major shareholder, the FORUM Group, and the related negative publicity, damaged confidence in the company. It is likely to take some time until existing and potential investors will perceive the company again as a reliable investment. A further significant improvement in earnings in 2010 will be a positive step in this direction.

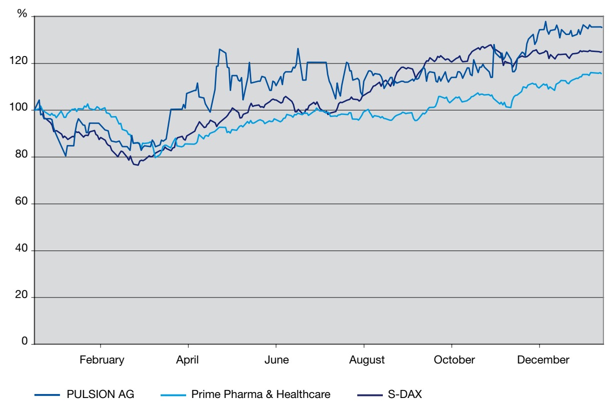
Analyzing the performance of PULSION stock on a multi-year basis, on the other hand, does not make good reading. Over the past 5 years (December 31, 2004 to December 31, 2009), the share price has fallen from EUR 4.88 to EUR 2.87, corresponding to a loss in value of 41%. Compared to its highest price (52 weeks) in 2007 of EUR 7.58, the loss in value is 62%. With its convincing business model and new strategic direction, the company must now do all in its power to return to the share price performances seen in earlier years and thus create a sustainable increase in value for PULSION's shareholders. This is underpinned by the company´s intension to pay dividends for the first time in subsequent years where this is viable in business terms.

Communication with investors

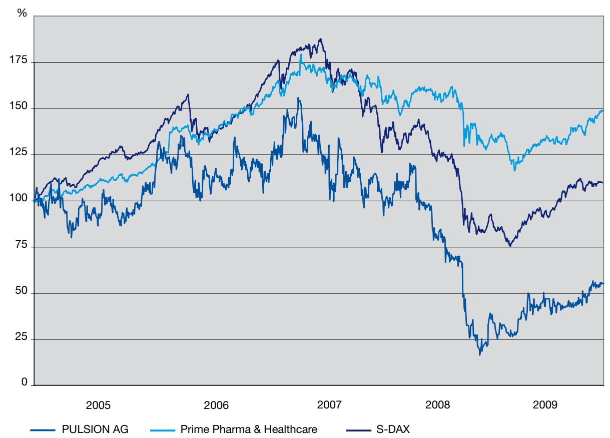
During the past year, shareholders and the public were provided with 20 press releases and 11 ad-hoc reports on important matters and developments. PULSION was also represented at two investor events (including one at the Equity Forum of the German Stock Exchange) where the opportunity was used to present the company. The Investor Day – first time organized in the financial year 2008 – is planned to become a regular event and will again be organized in 2010.

As well as improving earnings and its growth rates, PULSION also plans to pursue a policy of communicating openly and self-critically in order to win back the confidence of the capital markets. An important aspect of this will be to encourage new shareholders to take an interest in the company.

One-year-course of the share price



Five-year-course of the share price



Key data on PULSION stock at December 31, 2009

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 2008, xetra:	2,14 EUR
Closing market price 2009, xetra:	2,87 EUR
Highest price (52 weeks), xetra:	2,94 EUR
Lowest price (52 weeks), xetra:	1,50 EUR
Market capitalisation (December 31, 2009), xetra:	27,5 Mio. EUR
Earnings per share (diluted):	0,05 EUR

Employees

All employees deserve thanks for their tireless commitment during the year under report, in particular for their efforts in implementing a cost-reduction program and coping with a hiring freeze. Without any leeway for salary increases, the tasks of those leaving the company were allocated to others within the relevant departments and performed reliably. Although temporary short-term work arrangements caused some anxiety, PULSION was able to get through this phase without serious consequences thanks to the positive attitude of its employees. The PULSION team must be especially commended for its ability to "stick together" throughout this difficult time. One further aspect to which attention is particularly drawn is the low level of employee fluctuation in Germany. Despite the tense economic situation, teams in all sales areas were complete with effect from the third quarter 2009. Employee fluctuation at subsidiaries was somewhat higher, but by the beginning of the fourth quarter the situation had settled down and all sales areas were covered.


PULSION
Medical Systems

Corporate Governance Report

The German Corporate Governance Code ("Code") was adopted to instill confidence in the corporate governance of German listed companies. The intention of the Code is to make rules on corporate governance and on the monitoring of management within Germany more transparent for national and international investors. The principles of good and responsible corporate governance determine the actions of PULSION AG's Management and Supervisory Boards. The Management Board reports in this statement – also on behalf of the Supervisory Board – in accordance with section 3.10 of the German Corporate Governance Code.

Declaration of Compliance

The Management and Supervisory Boards' Declaration of Compliance pursuant to § 161 AktG dated December 11, 2009, was published in the Electronic Federal Gazette and made available to shareholders on the PULSION Group website at www.pulsion.com.

PULSION Medical Systems AG's Management Board declares that as a basic rule the recommendations of the „Government Commission on the German Corporate Governance Code" in the version dated June 18, 2009, have been and are being complied with. The Management Board considers that it has fulfilled its duties regarding the provision of a statement on deviations from the Code's recommendations by providing explanations in the following sections A. 3, B. 1 to 3 and C. 1 to 3. PULSION Medical Systems AG's Supervisory Board declares that as a basic rule the recommendations of the „Government Commission on the German Corporate Governance Code" in the version dated June 18, 2009, have been and are being complied with. There are, however three types of deviation:

Deviations from the Code and its recommendations which were not or are not being applied:

- deviations during the period from January 1 to November 16 which do not appear to be justified to the new Supervisory Board in office since November 17, 2009,
- deviations of a temporary nature which are to be remedied in the short term,
- deviations which the Supervisory Board in office since November 17, 2009, considers make sense and which it intends to retain.

A. Deviations during the period from January 1 to November 16 which do not appear justified to the existing Supervisory Board

1. Section 4.1.3: Compliance with internal policies and external laws

The previous Supervisory Board did not comply with the Company's Articles of Incorporation which require an Annual General Meeting to be held by June 30 of the following year. From the perspective of the current Supervisory Board there is no valid reason for this deviation from the Articles of Incorporation and the Code's recommendation.

2. **Section 4.2.3: Change of control clause with increased "severance pay cap"**

In June 2009 the previous Supervisory Board approved supplementary agreements to the existing service agreements of two members of the Board of Management containing so-called "change of control clauses" which stipulated compensation equivalent to three year's remuneration plus a separate period of notice of six months. A similar provision is also included in the service contract of the third (newly appointed) member of the Board of Management. Contrary to the misleading designation, the provision is not actually a change of control clause since the condition is fullfilled as soon as a controlling investment is acquired or already exists. As a result of the mandatory offer made by FORUM European Smallcaps GmbH after the control threshold of 30% was reached on February 15, 2009, the condition was already fulfilled before the clauses were incorporated into the supplementary agreements. In the opinion of the current Supervisory Board, this deviation runs contrary to the recommendations of the Code.

The current Management Board has agreed, in the meantime, to waive this contractual provision retrospectively and without consideration. The Supervisory Board welcomes this act of trust and can now state that none of the current members of the Management Board has a change of control clause in his service contract and that therefore the Code's recommendation is being complied with.

3. **Section 4.3.5: Requirement of Supervisory Board to approve sideline activities**

In the supplements to the existing service contracts of two members of the Board of Management dated June 21, 2009, and referred to above, the Supervisory Board waived its existing right and duty to approve sideline activities. A similar provision is included in the service contract of the third (newly appointed) member of the Board of Management. The contracts only define maximum limits for the time spent on, and the nature of, sideline activities.

In the opinion of the newly elected Supervisory Board, this clause does not comply with the Code's recommendation. The new Supervisory Board will therefore insist on the requirement to give approval for sideline activities in all new service contracts.

The current Board of Management has agreed, in the meantime, to waive this contractual provision retrospectively and without consideration. The Supervisory Board welcomes this act of trust and can now state that all sideline activities of members of the Management Board require the approval of the Supervisory Board and that therefore the Code's recommendation is being complied with.

4. **Section 5.1.2: No five-year contracts for new Management Board members**

The service contract with the Management Board member appointed in June 2009 stipulates an appointment period of five years. Since the initial public offering of PULSION AG, all service contracts of Management Board members, with the exception of the original founder of the company, were concluded for a period of three years, in line with the principle of prudence. The newly appointed Management Board member has agreed in the meantime to shorten the term of his contract to December 31, 2012. As a result, the deviation from this suggestion in the Code has been eliminated.

The newly elected Supervisory Board will return in future to the practice of only concluding three-year contracts with new Management Board members, thereby complying with the Code's suggestion.

5. **Section 5.1.2: No extensions to Management Board contracts prior to one year before end of appointment period**

The service contract of one of the ex-members of the Management Board was extended to 2013 on June 21, 2009, 24 months before the end of the appointment term.

In the opinion of the newly elected Supervisory Board, this act of the previous Supervisory Board did not comply with the Code's recommendation.

B. Deviations of a temporary nature:

1. Section 3.8: Increased deductible for D&O insurance

The current contract relating to D&O insurance only stipulates a deductible of EUR 10,000 per person for members of the Management and Supervisory Boards. This does not correspond to the new rule contained in section 3.8 paragraph 2 of the Code. The Supervisory and Management Boards intend to bring the provisions relating to D&O insurance into line with the requirements of the Code by June 30, 2010.

2. Section 4.2.1: Management Board to be comprised of several persons

The newly elected Supervisory Board found itself in a position where it was necessary to give immediate notice to two of the three members of the Management Board in order to re-establish cooperation and trust. As a result of the action taken, the Management Board comprised only one person with effect from November 26, 2009.

With the appointment of Hans-Hubert Schmitt as a second Management Board member with effect from January 4, 2010 the PULSION Management Board once again comprises several persons.

3. Section 4.2.3: Management Board variable compensation elements to be based on multi-year assessment

The variable compensation of the current Management Board for the year 2009 is only based on corporate earnings-related targets for the year 2009.

For the purposes of determining the parameters for variable compensation for 2010 and beyond, the Supervisory Board will set out multi-year assessment criteria so that the Code's recommendation will also be complied with.

4. Section 5.4.6: Corporate earnings-related compensation of the Supervisory Board

In accordance with the resolution taken at the Annual General Meeting on November 16, 2009, the corporate earnings-related compensation of the Supervisory Board depends on the Group achieving an operating margin of 15% or 20%. At the same time, the basic compensation was halved.
The Group's operating margin for the financial year 2008 was only approximately 3% and approximately 10% for the first nine months of 2009. Since the new rule can only be achieved in the medium term, the Supervisory Board is of the opinion that the new rule, rather than the old rule, most appropriately corresponds to the spirit of the Code's recommendation for companies to aim towards medium and long-term targets.

C. Deviations from the Code which the new Supervisory Board intends to retain

1. Section 5.3.1: Committees within the Supervisory Board

No committees have been formed within the Supervisory Board since all three members are involved in the performance of the tasks that would be transferred to individual committees. For this reason, the formation of committees does not add any value.

2. Section 5.3.2: Audit committee within the Supervisory Board

An audit committee has not been formed since all three members of the Supervisory Board are involved in the tasks that would be transferred to a audit committee. For this reason, the formation of an audit committee does not add any value.

3. Section 5.3.3: Nomination committee within the Supervisory Board

A nomination committee has not been formed since all three members of the Supervisory Board deal with the tasks that would be transferred to a nomination committee. For this reason, the formation of a nomination committee does not add any value.

Shareholders and Annual General Meeting

Shareholders exercise their rights at the Annual General Meeting and cast their votes at that meeting. The Annual General Meeting makes resolutions on all matters stipulated by law and with binding effect for all shareholders and the Company. Each share of common stock in PULSION AG carries one vote.

Shareholders who give notice in good time are entitled to attend the Annual General Meeting. Shareholders unable to attend in person have the option of casting their vote via an authorized proxy or, in line with the recommendation of the German Corporate Governance Code, via a representative designated by PULSION AG.

Notice of the Annual General Meeting and information and documents relating to proposed resolutions are published in accordance with the German Stock Corporation Act and are made available in „Investor Relations" section of PULSION AG's website.

Supervisory Board

The Supervisory Board appoints the members of the Management Board and supervises and supports it in an advisory capacity. The Supervisory Board has issued its own terms of reference in accordance with section 5.1.3 of the Code. In accordance with the Articles of Incorporation, it comprises 3 members. The periods of office of the individual members of the Supervisory Board are not identical. In accordance with a resolution taken at the Annual General Meeting, one previous member of the Management Board is a member of the Supervisory Board. None of the members of the Supervisory Board has more than 3 supervisory board mandates with non-PULSION stock corporation entities. The names of the members of the Supervisory Board are listed on pages 126 to 128 of the Annual Report 2009.

Committees

With the Supervisory Board of PULSION AG comprising only 3 members, no committees are formed since all members are involved in the performance of the tasks that would otherwise be transferred and since no added value would be gained.

Management Board

The Management Board consists of one or more members who, in accordance with the Articles of Incorporation, are appointed and dismissed by the Supervisory Board. The Supervisory Board may appoint a member of the Management Board to be Chairman of that board. The Management Board of PULSION AG manages the business and runs the enterprise's affairs. It carries out its actions and makes its decisions in the interest of the enterprise. It reports regularly, fully and in good time to the Supervisory Board on all matters relating to business performance, corporate strategies and potential risks. The names of the members of the Management Board are listed on pages 125 to 126 of the Annual Report 2009.

Risk management

In accordance with § 91 (2) AktG, the Management Board has set up a group-wide risk management system as an integral part of the Group's planning, management and reporting processes. The risk management system is integrated in the organization, enabling risks to be identified at an early stage and managed appropriately. The risk management system is audited as part of the external annual audit. Further details can be found in the Management Report on pages 56 to 61.

Compliance

Ensuring compliance with national and international legal principles and with other recommendations relevant for countries in which PULSION operates is a key aspect of PULSION's corporate culture. PULSION ensures that its employees comply with relevant national and international regulations.

Cooperation between Management Board and Supervisory Board

Good corporate governance depends on close and efficient cooperation between the Management and Supervisory Boards. The two boards work together closely in the interests of the enterprise. Open discussion between the two boards is of the utmost importance. The two boards jointly decide the strategic direction of the business. The Supervisory Board is provided with extensive information about business performance and forecasts as well as the Group's risk profile and risk management system. Major transactions require the approval of the Supervisory Board.

The Chairman of the Supervisory Board reports every year to shareholders at the Annual General Meeting on the activities of the Supervisory Board. He also coordinates work within the Supervisory Board and chairs its meetings. The Management Board fulfils its duties to the Supervisory Board by reporting orally and in writing about current business performance, corporate planning, the strategic direction and position, including the Group's risk profile and risk management system. At the request of the Chairman of the Supervisory Board, the Management Board participates in meetings of the Supervisory Board, reports on agenda topics and answers the Supervisory Board's questions at those meetings.

Management Board and Supervisory Board Compensation

The compensation systems for the Management and Supervisory Boards are described in the group management report. In addition, amounts of compensation paid to the members of the two boards are disclosed by individual person and analyzed into fixed and variable components in the notes to the consolidated financial statements. The structure of the compensation systems is reviewed regularly.

Transparency and communication

All of the requirements set out in section 6 of the German Corporate Governance Code are fulfilled by PULSION. In order to ensure that all market participants are provided with the same level of information, all important information is made available promptly and in a uniform manner on PULSION's website at www.pulsion.com. This includes, amongst other things, financial reports, press releases, the Articles of Incorporation, financial calendar and reportable transactions pursuant to §15a of the German Securities Trading Act (Directors' Dealings).

Information about Directors´ Dealings and shareholdings in the financial year 2009

The following reportable transactions involving the purchase and sale of PULSION AG shares were notified to PULSION AG by board members (Directors' Dealings) during the financial year 2009:

On April 8, 2009, FORUM European Smallcaps GmbH (an entity with a close relationship to the then Management Board and the current Supervisory Board Chairman, Dr. Burkhard Wittek) gave notice of the purchase of 18,798 PULSION AG shares in conjunction with the takeover offer published on March 5, 2009.

The details of all securities transactions made by members of the two boards are posted promptly to the PULSION AG website in accordance with legal requirements. The publication documents and the corresponding notifications are also communicated to the German Financial Supervisory Authority (BaFin).

Overview of shareholdings of board members in PULSION Medical Systems AG

	Shares (units) December 31, 2009
Management Board	
Christoph R. Manegold *	0
Supervisory Board	
Dr. Burkhard Wittek **	3.237.472
Jürgen Lauer	0
Frank Fischer ***	607.231

* Shares aquired before appointment to the Management Board are not disclosed.
** Based on a shareholder pooling agreement.
*** Directly and indirectly attributable via his activities as Management Board member of Shareholder Value Management AG and Shareholder Value Beteiligungen AG.

At December 31, 2009, Frank Fischer, directly and with close family members, holds 56,611 of the Company's shares. In total, 607,231 shares are attributable directly and directly via Mr. Fischer's activities as Management Board member of Shareholder Value Management AG and Shareholder Value Beteiligungen AG.

Financial reporting and audit of the financial statements

Financial reporting

The consolidated financial statements are drawn up in accordance with international requirements, International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as required to be used in the European Union. Shareholders are also informed during the year in the form of a half-year financial report and two quarterly reports. The interim reports were not reviewed by the external auditors in 2009.

The statutory separate entity financial statements of PULSION Medical Systems AG are drawn up in accordance with the German Commercial Code (HGB).

The consolidated financial statements are published within 90 days of the end of the financial year, the interim reports within 45 days of the end of each reporting period.

Share option programs and similar incentive systems

There are no share option programs or similar incentive systems in place for members of the Supervisory Board. Two share option programs are available to members of the Management Board. Details of these programs are disclosed in the notes to the financial statements.

Audit of the financial statements

The separate entity and consolidated financial statements of PULSION AG were audited by PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Munich, who had previously been elected by the shareholders at the Annual General Meeting. A declaration of independence was provided by the audit firm before commencement of the audit.

» Consolidated Financial Statements (IFRS) of PULSION Medical Systems AG as of December 31, 2009

09

Report of the Supervisory Board

Dear customers, shareholders and colleagues,

the financial year 2009 was dominated above all by two developments:

- the realignment of the PULSION Group undertaken, following the change at the head of Management Board in October 2008, is showing the first signs of success and bringing with it a significant and sustainable improvement in earnings
- major changes in the Management Board and Supervisory Board

I make the following comments on these two points.

1. First signs of success from realignment

The current Management Board sets out in its Management Report which objectives were achieved in 2009 and where there is potential for improvement. A whole series of measures have been implemented, both on the revenue and cost side, and these are now beginning to have an impact on earnings.
It is typical for the sector that it takes a relatively long time for measurable results to come through from selling/marketing activities in a conservative market environment such as the medical-technology sector.
The 12.5% operating margin before exceptional expenses recorded in 2009 came fairly close to the previous best ever level of 14.3% achieved in 2007. The Supervisory Board considers that this is an excellent performance by PULSION‘s employees, all of whom have played their role in making the necessary changes. It can, however, only be seen as one step on route to a margin level achieved by diagnostics providers with a comparable business model.

2. Change in Management Board and Supervisory Board

On May 14, 2009, Dr. B. Wittek‘s position on the Management Board was revoked with immediate effect by the then Supervisory Board. In the meantime, Dr. B. Wittek’s appeal against the revocation of his appointment without notice has been accepted by the Regional Court I of Munich.
On June 6, 2009, Christoph R. Manegold was appointed by the Supervisory Board as member of the Management Board with responsibility for Research & Development (Chief Technology Officer/CTO).
On November 16, the Company’s Annual General Meeting was convened by one of the Company’s major shareholders, FORUM European Small Caps GmbH, after receiving court approval to do so. At that meeting, the members of the Supervisory Board in office up to that date were refused – in individual votes – discharge from liability for their activities. A completely new Supervisory Board was elected which subsequently voted unanimously Dr. B. Wittek as its Chairman.
At an extraordinary meeting of the Supervisory Board held on November 23, unanimous resolutions were taken to revoke the appointments of, and remove from office with immediate effect, Matthias Bohn and Frank Posnanski as members of the Management Board.
Hans-Hubert Schmitt was appointed as a further member of the Management Board on January 4, 2010. Mr. Schmitt is responsible for the areas Finances and Sales and Marketing, and Mr. Manegold for Research, Development, Production, Logistics, International Approvals and Purchasing.
These changes in the Supervisory and Management Boards create the foundation for lasting and trusting cooperation between the two boards. Both boards are focused on the long-term nature of the business model.

3. Report on the activities of the Supervisory Board in 2009

3.1 Focus of the Supervisory Board’s deliberations

According to the records of the Supervisory Board meetings during the first half of the year, discussions were held in particular on the progress being made with the two following corporate projects:

Report of the Supervisory Board

a) the realignment of international sales activities
b) the reduction of operating costs

Other topics covered were changes in the organizational structure, new service contracts and remuneration changes for members of the Management Board, amendments to the Supervisory Board' terms of reference and issues relating to the Annual General Meeting.

After November 17, the newly elected Supervisory Board focused primarily on organizational changes, operational sales topics and new areas for innovation.

3.2 Due process

During the financial year 2009, the Supervisory Board carried out all its tasks in accordance with the law, Company statutes and its own terms of reference, assured itself of the proper governance of the Company by executive management, monitored the activities of the Management Board on a regular basis and supported it in an advisory capacity.

In all, 17 meetings were held, of which 10 were attended in person and 7 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, Dr. Burkhard Wittek has also been in regular contact with the Management Board since November 27, 2009, outside meetings to discuss major issues and forthcoming decisions.

4. Corporate governance

During the financial year 2009, there were numerous divergencies from the recommendations of the most recent version of the German Corporate Governance Code dated June 6, 2009. For a list of these divergencies and the reasons for them, we refer to the Declaration of Compliance dated December 11, 2009, published on the PULSION website (www.pulsion.com).

The Supervisory Board in office since November 11, 2009, has considered how corporate governance principles can be further developed within the enterprise. The outcome is a commitment to the core philosophy of good corporate governance, ensuring that the interests of owners and management are in unison by focusing on increasing the value of the business.

The newly elected Supervisory Board comprises two members representing the two largest shareholders of the Company alongside one independent member with the necessary qualifications to cover the areas accounting and financial reporting. We believe that strong representation of shareholders in the Supervisory Board is a prerequisite for implementing responsible corporate governance practises.
At a formal level, the Company strives to implement all of the recommendations of the German Corporate Governance Code in its relevant up-to-date version unless major reasons dictate otherwise.

5. Focus of the newly elected Supervisory Board

The changes in the Supervisory Board and Management Board since November 17, 2009, provide a new basis for the two boards to work together within a culture of trust. The task now of all concerned is to grasp the opportunity to make a new start and raise competitiveness.

The newly elected Supervisory Board sees the following areas of emphasis for its work:

a) strengthening the core principle of corporate governance, in other words ensuring that the interests of owners and management are in unison
b) greater professionalism in the sales process and further internationalization
c) rigorous pursuit of the medium-term “Pulsion 100/20” concept.

5.1 Strengthening the core principle of corporate governance

The Supervisory Board is engaging in a process of dialogue with the newly formed Management Board, thus emphasizing the importance of a better understanding of the core principles of corporate governance.

In the short term, this means putting the Company into a position where it can pay dividends and potentially buy back shares at the earliest possible point in time. This is the basis for enabling a portion of the corporate earnings to flow back to the shareholders in the form of an appropriate rate of return on capital employed.

As long as revenue growth remains relatively low, the business should be generating substantial levels of free cash flow. In 2009, management succeeded in turning round the free cash flow (defined as the cash flow from operating activities less the cash flow from investing activities) from a negative EUR 1.1 million in 2008 to a positive EUR 2.3 million in 2009. The Supervisory Board will focus on cash flow generation in 2010 and, together with management, seek new ways of taking full advantage of the potential available.

It would be even more desirable, of course, if PULSION were in a position to reinvest cash funds in organic growth since additional volumes would result in better margins as long as the appropriate cost discipline were achieved. The approach we intend to take to achieve this is discussed in the next section.

5.2 Greater professionalism in the sales process and further internationalization

With a dedicated external sales force (ESF) of 42 people in countries with direct sales out of a total of 142 employees, plus internal sales and marketing staff, PULSION is first and foremost a sales company. The productivity of direct sales activities varies considerably from region to region – ranging from EUR 1.0 million of revenues per ESF in the DACH region, EUR 0.5 million in Western Europe and EUR 0.2 million in the USA.

These differences are attributable to the divergent levels of efficiency within the sales process, i. e., throughout the whole process from first contact with a customer through to making the final deal. During the period since the end of 2008, PULSION has begun to systematically analyze the various steps of the sales process in each country and implement the necessary changes internally to improve the chances of success at every step.

Those changes include new employee profiles, new remuneration systems, a deeply structured customer relationship management (CRM) system, consistent campaign management as well as professional customer and employee training. All of this is part of a management process which tracks changes and ensures the transfer of successful ideas and methods between the national companies on a „best practice" basis.

The Supervisory Board is of the opinion that good progress was made in this respect in 2009. The improvement process was, in the view of the Supervisory Board, not significantly hampered by the divergencies between management and shareholders.

As far as the process of internationalization is concerned, the Management Board stated in the Annual Report for the financial year 2008 its preference for joint ventures and new subsidiaries in key markets over a distributor strategy, since this was seen as the best way to access the markets. At that stage the Management Board set itself the target of establishing 1-2 new joint ventures in 2009. This target was missed unfortunately as the strategy was not pursued from mid-year onwards.

The Supervisory and Management Boards fully concur that the focus on joint ventures and direct sales is the right one. In the meantime, activities in this direction have been taken up again. The Supervisory Board hopes that management will be more successful in this respect in 2010. We will support the Management Board in an advisory capacity as it prepares to take the appropriate steps.

Report of the Supervisory Board

5.3 Rigorous pursuit of the medium-term "Pulsion 100/20" concept

The Supervisory Board presented the "Pulsion 100/20" strategy back in 2006. This set out the target of achieving revenues of USD 100 million and an EBIT margin of 20% in the medium term. The Management Board stated in the Annual Report for the financial year 2008 that these targets had not been jettisoned as a result of the negative developments during the Gould era.

From today's perspective, and seen realistically, a revenue level of USD 100 million (=approximately EUR 65 million) has moved into the far distance. We will take up this target again once we see the performance of the new products that PULSION will present in March 2010.

The Supervisory and Management Boards concur, however, that the target of a 20% EBIT margin is still very feasible: this is underpinned by the fact that numerous medical diagnostics manufacturers with a similar business model reached or exceeded this level. We refer to the table below for further information.

The Supervisory Board will deliberate with the Management Board in 2010 as to how this target can be achieved as early as possible.

6. 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 separate and consolidated financial statements of PULSION Medical Systems AG, as well as the Company and Group management reports. The auditors described the relevant auditing principles in their Auditors' Report.

They concluded that PULSION AG and its subsidiaries complied with International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Boards (IASB) and with the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as endorsed for use within the European Union.
The consolidated financial statements were given an unqualified audit opinion.

The annual financial statements, the Company management report and the Dependent Company Report pursuant to § 312 AktG, the consolidated financial statements and the Group management report, together with the long-form audit reports of the auditors were made available to all members of the Supervisory Board. The relevant documents were

No.	Company	Reporting period	Revenues	Gross Margin	R&D	Sales & Marketing	General & Admin & Other Income	Total Operating Costs	EBIT Margin
1.	**In-Vitro Diagnostics**								
1.1	Diasorin	1 - 9 2009	100,0%	70,1%	5,1%	18,3%	11,5%	34,9%	35,2%
1.2	Immunodiagnostic Systems	H1 2010	100,0%	72,9%	n.a.	16,0%	27,7%	43,7%	29,2%
2.	**In-Vivo Diagnostics**								
2.1	Masimo	FY 2008	100,0%	70,5%	8,7%	37,6%	37,6%	46,3%	24,2%
2.2	PULSION	1 - 9 2009	100,0%	66,0%	8,4%	34,9%	12,9%	56,2%	9,8%
2.3	Medi-Stim	1 - 9 2009	100,0%	74,4%	n.a.	n.a.	n.a.	51,8%	22,6%

discussed in detail at the Supervisory Board meeting held on March 16, 2010, in the presence of the external auditors.

The Supervisory Board examined the annual financial statements, the Company management report, the proposed appropriation of results and the Dependent Company Report as well as the consolidated financial statements and Group management report. No objections were raised. At the meeting on March 18, 2010, 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.

7. Risk management

The Supervisory Board again addressed the issue of PULSION's risk management system during the financial year 2009. The risk management system was also tested in conjunction with the external audit of the annual financial statements. The Supervisory Board was not made aware of any major weaknesses in the system.

8. Approval of the Dependent Company Report

As a result of an agreement reached in 2009, the shareholdings of a group of shareholders in PULSION AG exceeded the level of 33% and a mandatory takeover offer made pursuant to German Securities Transitional Act (WpÜG). As a result, it was necessary for the first time to draw up a Dependent Company Report pursuant to § 312 AktG.

The Management Board prepared the Dependent Company Report in accordance with § 313 AktG. The report was audited by PriceWaterhouseCoopers Wirtschaftsprüfungsgesellschaft. Since the audit did not give rise to any objections, the external audit issued the following assurance report:

"Based on our audit and the conclusions reached, we confirm that

1. the disclosures made in the report are factually correct,
2. the consideration received or paid by the Company for each legal transaction disclosed in the report was not unreasonably high,
3. there are no other circumstances relating to the transactions and measures disclosed in the report which would lead a conclusion different to the one reached by the Management Board.

The Supervisory Board examined the Report on Relationships with Affiliated Companies (Dependent Company Report) and approved it in accordance with § 324 AktG. The Supervisory Board had no objection to the report and the conclusion reached by the Management Board.

9. Thanks to shareholders and employees

The Supervisory Board would like to thank PULSION's shareholders for the trust they have placed in it. Even though you may have been disappointed many times along the way, you have given us – as a new team – the opportunity to represent your interests as shareholders, following the basic concept of good corporate governance.

We would also like to thank all employees for their commitment in 2009 without which the improvement in earnings would not have been possible.

Munich, March 18, 2010

Dr. Burkhard Wittek
Chairman of the Supervisory Board

Group Management Report

A Review of the Financial Year

Summary

- Sales revenue up marginally at EUR 28.1 million
- Gross margin slightly down on the previous year
- EBIT well up on 2008 but adversely affected by one-time costs
- Start of marketing of CiMON and start of sales of PDE (Photodynamic Eye)
- Further contract with GE Healthcare (CeVOX module)
- Brazilian manufacturer DIXTAL integrates CeVOX and PiCCO into its products
- New country registrations for $PiCCO_2$ in Brazil and Korea

Group revenues for the financial year 2009 totalled EUR 28.1 million and were therefore marginally above the previous year's figure of EUR 28.0 million. Profit before interest and taxes (EBIT) improved from EUR 0.6 million in 2008 to EUR 2.4 million in 2009 (+314%). The EBIT margin went up from 2.1% to 8.5%. Group net profit before minority interests turned around from a loss of EUR 0.7 million in 2008 to a profit of EUR 0.6 million in 2009. Earnings per share turned round from a negative 8 cents to a positive 5 cents per share.

Revenues of the Critical Care business unit, with its core product PiCCO, edged up by 2% from EUR 24.1 million to EUR 24.6 million while revenue of the Perfusion business unit fell by 10% from EUR 3.9 million to EUR 3.5 million. The Perfusion business unit generates most of its revenues with the Group's own diagnostic agent, indocyanine green, which is sold under the name ICG-PULSION. The main reason for the decrease in sales revenue was a change in the ordering practices of a major customer, resulting in significantly lower sales than one year earlier.

The gross margin, which was influenced amongst other factors by a change in presentation of depreciation on monitors, was 66% for the financial year 2009 (2008: 67%). A further exceptional impact came from the sell-off of PiCCOplus equipment in Asia on below average conditions in a measure aimed at strengthening PULSION's business in China.

Earnings were also adversely affected by one-time expenses recorded at the year-end, including the departure of three members of the Management Board and the related legal disputes. For this reason, the EBIT forecast for the full year reported in the third quarter 2009 was not fully attained.

The cash flow from operating activities was again improved compared to the previous year, rising in 2009 by over 300% to EUR 4.0 million.

A further positive factor to report is the start of regular marketing of CiMON technology in summer 2009. The relationship with GE Healthcare, a leading manufacturer of patient monitoring systems, was further strengthened. Following on from the successful integration of the PiCCO module on a license basis in 2008, GE Healthcare decided in 2009 to integrate CeVOX technology into its products. PULSION was also successful in this context in Brazil. The cooperation arrangements decided on in 2007 with the local market leader, DIXTAL, relating to the integration of CeVOX and PiCCO were contractually confirmed. Market launch is scheduled for the first quarter of 2010. PULSION also began to sell its new product PDE (Photodynamic Eye) in 2009, the hardware counterpart to ICG-PULSION. Selling activities are currently being focused on Europe, with direct sales channels being built up in Germany and Belgium. Customers in Italy, France, Great Britain and Switzerland are serviced by distribution partners. $PiCCO_2$, one of PULSION's key products, received further approvals in 2009 for Brazil and Korea.

During 2009 the parent company participated for a period of three months in the German Government's short-time working program. The extent to which the program was actually used was, however, very small (< 1% of total payroll).

PULSION AG also received a public sector grant. The application was submitted in 2009 in conjunction with the "Central Innovation Program for Mittelstand Companies" and the approval period runs until September 2010. The grant, which is intended to promote one specific development project, is earmarked for a specific purpose and may only be used in conjunction with the specified project in accordance with the terms of the application and only to cover costs incurred for that project. The grant is not repayable. Further grants will only be paid after approval and audit of the relevant project phases.

Group structure

Stability as foundation for future growth

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

PULSION Medical Systems AG, Germany

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

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 audits. Based on the latest information, it is not possible at present to predict when the liquidation will finally be completed. It is not expected, however, that these local audits will give rise to any further obligations for PULSION AG.

With effect from January 1, 2009, shares acquired in 2008 of Pulsion Austria GmbH (formerly ESOMA Beteiligungsverwaltung) were transferred to Pulsion AG. As a result of the fact that the transfer took legal effect during the first quarter, the investment was consolidated for the first time in the quarterly financial report as of March 31, 2009.

A distribution contract was concluded in 2009 at the level of the subsidiary PULSION Pacific with the consequence that the sales region Australia and New Zealand is effectively no longer handled by the entity. The contract did not result in any changes in the group reporting entity.

Financial Report

General and sector business environment

In contrast to initial expectations, the world economy did not perform quite as badly as feared in 2009, thanks to a tangible recovery in global markets in the second half of the year. Nevertheless, the financial crisis which broke out in 2007 continued to exert a firm hold on the economy worldwide. The USA recorded the greatest downturn in gross domestic product (GDP) since 1946: economic activity in the USA contracted by almost two-and-a-half per cent compared to the previous year's performance. The vast majority of industrial countries suffered a similar fate. In Germany GDP declined by 5.0% (source: German Federal Bureau of Statistics), the worst figure recorded since the German Federal Republic was founded. Furthermore, the German economy contracted for the first time in six years in 2009. In the course of the year, however, economic performance began to show moderate signs of new stability, albeit at a low level. The OECD forecasts growth of 1.4% for the German econ-omy in 2010 and a further increase of 1.9% in 2011 (source: OECD Economic Outlook No. 86).

In contrast to many other sectors, the German medical-technology sector proved to be largely stable throughout 2009. A moderate decrease in export figures led to a slight decline in total sales according to SPECTARIS, the industry journal. Domestic demand, however, remained stable.

Current predictions also see positive developments for the future, driven in particular by rising income and population figures in the developing and emerging countries (Brazil, China and India) as well as the demographic ageing process in industrial nations. The risk of a negative impact on PULSION due to cutbacks in countries in which healthcare depends on public sector subsidies cannot, however, be entirely ruled out over the coming years. Long-term cost-cutting measures introduced in the National Health System by the British Government to the tune of GBP 20 billion have already had an impact and will continue to do so up to 2014.

Organization

Within its marketing department PULSION continued to focus on the medical background of its employees. The sales teams are being strengthened step by step by well-trained employees who are convinced of the benefits offered by PULSION's products. With their expertise and professional background, they are particularly good at bringing across the medical and commercial benefits of PiCCO technologies to customers and other interested parties. The training program for the sales field force initiated in the year 2008 was continued and expanded in 2009. With intensive training programs, which culminate in written tests and assessments employees, are able to deepen their understanding of products and applications.

The focus in 2009 was on marketing PULSION technologies. In addition to demonstrating the advantages of PULSION products in general, greater emphasis was placed on details of particular conditions, since the application and medical benefits of PULSION's technologies can differ greatly. Campaigns such as "Septic Shock" or "Cardiogenic Shock" each addressed one specific application. As a result, PULSION's sales department was better equipped to present the specific advantages of the products as well as showing how to be of use for new groups of patients.

The Supervisory Board revoked the appointment of the two PULSION Management Board members, Frank Posnanski and Matthias Bohn with immediate effect following an extraordinary Supervisory Board meeting in November 2009. Frank Posnanski left PULSION in December 2009 on mutually agreed terms (see also section on legal disputes).

Revenues

Revenues edged up by 0.6% in the financial year 2009 to EUR 28.1 million (2008: EUR 28.0 million). 65% of sales revenue related to disposable products sold by the Critical Care business unit, 24% to the sale of monitors and 11% to the sale of ICG-PULSION and other disposable products by the Perfusion business unit.

Business units

Revenues from the sale of monitors (PiCCO, CeVOX, LiMON) in the Critical Care business unit fell by 8% from EUR 7.1 million to EUR 6.5 million, with the installed base rising by 9% to 6,247 monitors. This decrease was mainly due to the lower number of $PiCCO_2$ monitors sold in 2009 after sales of this product were boosted in 2008 when the new generation was introduced. Furthermore, the number of PiCCO modules placed on the market via PULSION's strategic sales partners (Philips Medical Systems and Dräger Medical), increased by 2,100 units from 13,473 units at the end of 2008 to 15,573 modules at the end of 2009 (+16%).

Sales of critical care disposable products – primarily catheter kits and probes – went up by 7% from EUR 17.0 million in 2008 to EUR 18.1 million in 2009. The sales volume of PiCCO catheters – an important product for PULSION – increased by 1.7% to approximately 109,000. This moderate increase was achieved in 2009 following successful implementation of a new sales strategy and more intensive marketing activities for disposable products. It is important to note, however, that this was achieved on the back of higher demand from customers and not, as in the past, by generous price reductions or by excessively increasing inventory levels of the various sales channels.

Group Management Report

Revenues by product:

in EUR million		2009	2008	Deviation in %
Monitors	Critical Care	6.5	7.1	-8%
	Perfusion	0.3	0.0	13,701%
Disposables	Critical Care	18.1	17.0	7%
	Perfusion	3.1	3.9	-19%
Subtotal	Critical Care	24.6	24.1	2%
Subtotal	Perfusion	3.5	3.9	-10%
Total		**28.1**	**28.0**	**0.6%**

In order to better reflect the proportion of medical-technical products used for image-creating purposes, PULSION's business units were restructured during the financial year under report. The previous year's figures have been brought into line with the new presentation.

The Perfusion business unit is focused on products and activities relating to diagnostics 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 and other disposable products fell by 19% to EUR 3.1 million. This was due mainly to the changed ordering pattern of one major customer with whom sales volumes unfortunately fell short of the previous year's level. Further momentum for growth will come from the new area of application of ICG-PULSION in diagnostics for rheumatic illnesses. Other areas of application for ICG-PULSION will be found and marketed in the future.

Regions

The core region of PULSION's sales activities continued to be Europe where 89% of total sales (EUR 24.9 million) were generated. This represented a decrease of 2% compared to the previous year. Revenues generated in Belgium fell by 8% mainly reflecting lower monitor sales whereas in the Netherlands they were up by 20% against the previous year. The increase here was largely achieved with disposable products which generally have better margins.

Within Europe, the best-selling countries were Germany, Austria and Switzerland (the so-called "DACH" countries) with revenues of EUR 12.9 million. Here too, however, revenues were down by 5% due to the lower number of PiCCO$_2$ monitors placed.

Revenues by region:

in EUR million	2009	2008	Deviation in %
DACH*	12.9	13,6	-5%
thereof Germany	10.9	11,5	-5%
thereof Austria	1.2	1,2	-3%
thereof Switzerland	0.8	0,9	-9%
Europe (non DACH)	12.0	11,9	1%
USA	1.0	0,6	81%
Australia-Pacific	0.6	0,9	-31%
Other	1.6	1,0	55%
Total	**28.1**	**28.0**	**0.6%**

* Germany, Austria, Switzerland

Business in the USA is making encouraging progress. Revenues in this region jumped by 81% to EUR 1.0 million in 2009. Revenues generated by the sales platform Australia fell by 31% from EUR 0.9 million to EUR 0.6 million.

Sales to dealers outside Europe ("Other") went up by 55% from EUR 1.0 million in 2008 to EUR 1.6 million in 2009, partly as a result of the sell-off of PiCCOplus equipment on the Asian market in the first quarter 2009.

Sales made via distributors rose by 6% during the year under report. This business is recorded by the parent company whereas revenues generated through direct sales are recorded by the relevant national companies. The parent company reported a 5.1% decrease and the subsidiaries a 3.7% increase. In business unit terms, Critical Care grew by 2% while Perfusion contracted by 10%.

Earnings Performance

The gross profit for 2009, at EUR 18.6 million, was almost identical to the previous year. The gross margin percentage slipped from 67% in 2008 to 66% in 2009. The operating result was adversely affected by the change in presentation of depreciation on monitors and the increased level of amortization on intangible assets. Impairment losses amounting to EUR 0.1 million recognized on two intangible assets are included in cost of sales. These losses were recorded since the assets are not expected to generate any significant level of revenues in the future. A further adverse effect arose in 2009 as a result of the sell-off of PiCCOplus monitors at below average conditions on the Asian market. This was partly offset by improved margins at the level of the subsidiaries.

Profit before interest and taxes (EBIT) improved fourfold from EUR 0.6 million in 2008 to EUR 2.4 million in 2009. Net operational expenses (including other operating income and expenses) were reduced by 10% to EUR 16.2 million compared to EUR 18.0 million in the previous year and represent 58% of revenues (2008: 64%). Excluding the reclassification of depreciation on monitors to cost of sales, operational costs fell by 7%. This reflects targeted cost savings in conjunction with the cost reduction program initiated at the end of 2008, the temporary hiring stop as well as good progress made in optimizing processes. The expense recorded for possible compensation to be paid to ex-Board of Management members and the ex-director of a subsidiary (approximately EUR 1.0 million) had a negative impact on the result. Expenditure of KEUR 116 in conjunction with the repeated cancellation of the Annual General Meeting also held down earnings. Excluding these one-time items, the adjusted operating profit (EBIT) was EUR 3.5 million.

Spending on research and development in 2009, at EUR 2.2 million, was at a similar level to the previous year. Further details are provided in the section on R&D activities.

As a result of the higher operating profit, the group net profit turned round from a loss of EUR 0.7 million in 2008 to a profit of EUR 0.6 million in 2009, despite the higher income tax expense. Diluted earnings per share after minority interests increased therefore from a negative EUR 0.08 in 2008 to a positive EUR 0.05 in 2009.

Assets, liabilities and financial position

Financial performance indicators

The consolidated balance sheet total (total assets/total capital employed) amounted to EUR 25.7 million at December 31, 2009, up by 8% compared to one year earlier (EUR 23.8 million).

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

Indicator	Basis of computation	Unit	2009	2008	Change
Days of Sales Outstanding	Trade accounts receivable *360 days / Group sale	days	71	71	0%
Inventory turnover	Cost of sales / Average level of inventories		2.0	2.1	-8%
Cash ratio	Liquid funds * 100 / Current liabilities	%	75	62	21%
Equity ratio	Equity / Balance sheet total	%	66	68	-3%
Fixed assets coverage	Shareholders' equity / Fixed assets		1.8	1.6	9%
Liquid funds *	Cash on hand and at bank	EUR m.	4.7	3.2	50%
Net Working Capital	Current assets less liquid funds and less current liabilities	EUR m.	5.3	5.6	-6%

* including pledged cash of EUR 0.1 million (2008: EUR 0.2 million)

On the assets side of the balance sheet, non-current assets decreased during the financial year 2009 from EUR 10.0 million to EUR 9.4 million (-6%), mainly reflecting the lower level of property, plant and equipment. This balance sheet item decreased from EUR 6.2 million to EUR 5.2 million as a result of the sell-off of monitors and the expiry of sale-and-leaseback contracts on the one hand and the reduced volume of capital expenditure in 2009 on monitors recognized as property, plant and equipment. Non-current trade accounts receivable were down by EUR 0.1 million. By contrast, intangible assets increased by EUR 0.5 million to EUR 4.0 million, mainly reflecting investment in new and further development of products and in product approvals.

Current assets went up by 18% from EUR 13.8 million to EUR 16.3 million, mainly as a result of the increase in liquid funds from EUR 3.2 million at the end of the previous year to EUR 4.7 million at December 31, 2009. At December 31, 2009, EUR 0.1 million (2008: EUR 0.2 million) of cash and cash equivalents held in bank accounts were pledged. The pledge relates to guarantees given on behalf of the Spanish subsidiary and asset assignments made by the French subsidiary.

Inventories went up from EUR 4.5 million to EUR 5.2 million (+14%), partly reflecting the change in presentation of monitors. With effect from January 1, 2009, all newly manufactured monitors which are held in stock are reported as inventories rather than as property, plant and equipment.

Current trade accounts receivable increased by EUR 0.2 million to EUR 5.6 million during the year under report. At the same time, the length of time between billing and payment (DSO) remained unchanged at 71 days compared to the previous year.

On the equity and liabilities side of the balance sheet, liabilities increased by EUR 1.2 million from EUR 7.6 million at the end of 2008 to EUR 8.8 million at December 31, 2009 (+15%). Within that figure, provisions and trade accounts payable increased by EUR 0.8 million and EUR 0.5 million respectively. Liabilities to banks decreased by EUR 0.4 million compared to December 31, 2008. Lease liabilities were reduced by EUR 0.2 million in line with schedule. Overall, the cash ratio improved from 62% at the end of 2008 to 75% at December 31, 2009.

After netting deferred tax assets and liabilities, PULSION reports a net deferred tax liability of EUR 1.5 million. Deferred tax liabilities exceed deferred tax assets, resulting in the disclosure of net deferred tax liabilities on the equity and liabilities side of the balance sheet.

Equity went up in 2009 by EUR 0.7 million from EUR 16.2 million to EUR 17.0 million. As a result of a resolution taken by the Management Board, an amount of EUR 19.3 million was transferred from additional paid-in capital for offset against the accumulated deficit at December 31, 2009. The equity ratio decreased from 68% to 66%.

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, went up from EUR 1.0 million in the previous year to EUR 4.0 million in 2009.

The cash outflow for investing activities in 2009 totaled EUR 1.7 million and decreased therefore by EUR 0.4 million (-18%) compared to the previous year. The higher level of capital expenditure in 2008 was mainly due to investment in the new production site in Feldkirchen.

Scheduled repayments of financial and lease liabilities resulted in a cash outflow for financing activities of EUR 0.6 million (2008: EUR 1.1 million).

Overall therefore, PULSION's liquidity (including pledged cash at bank in accordance with IAS 7) rose to EUR 4.7 million, compared to EUR 3.2 million one year earlier (+50%).

Non-financial performance indicators

In addition to financial performance indicators, the following non-financial performance indicators also affect the performance and profitability of the Group.

First and foremost: the skills and qualifications of employees. PULSION Group employees represent a key capital resource. Identifying that and putting it to good use makes a decisive contribution to the Group's success. A flexible remuneration system and purposeful further training of staff helps to reduce know-how drift and retain skills within the Group (see also the Personnel Development section of this report for further details).

Quality management: the quality management system covers product quality and process security. The Group's system is regularly tested by internal audit and certified by external organizations.

Capital expenditure

Total capital expenditure in 2009 amounted to EUR 2.3 million (2008: EUR 5.0 million).

Capital expenditure related to the following:

- EUR 0.7 million was invested in monitors.
- EUR 1.1 million was invested in intangible assets including
  – EUR 0.8 million on product development
  – EUR 0.3 million for patents, approval coverage of ICG-PULSION, software and goodwill.
- EUR 0.5 million was invested in technical equipment, plant and machinery as well as other equipment, furniture and fixtures

The capital expenditure ratio (i.e. the ratio of capital expenditure to group revenues) was 8% (2008: 18%). Whereas in the previous year, a substantial portion of capital expenditure had been invested in the installed base of PiCCO$_2$ monitors and in new production facilities, the focus in 2009 was on product development and approvals.

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 of great strategic importance as a key region for future growth.

The year 2009 was dominated by the restructuring of the US subsidiary. Unnecessary management posts were cut out, an effective cost management system introduced and the personnel structure geared towards clinically trained staff. By focusing on the clinical advantages of PiCCO technology and concentrating on developing solutions for clearly defined indications, revenues almost doubled in 2009 with margins up and costs down. This strategy, which for the first time is being based on the product and on the location of core customers, will be continued in the future. The marketing approach is designed to fit in with the very specific structure of the healthcare system in the USA. All of PULSION's US employees are currently located along the East Coast between Massachusetts and Florida. The Texas region has been transferred to a distributor who is provided with clinical backup but otherwise works independently. The US subsidiary therefore receives support in those areas in which it is not worth having the company's own direct sales channel.

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. The approximately EUR 2 million invested in the new site located near to Munich will help to cut the manufacturing cost of disposable products on a medium term, improve flexibility and reduce dependence on suppliers. These investments also ensure that PULSION has sufficient production capacity headroom for future growth.

Following the production changes described above, PULSION intends to 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 made to locate alternative partners to supply key components and parts, and therefore keep dependence on individual suppliers to a minimum.

Human resources

PULSION is keeping to the strategy embraced in 2008 of investing in training for its employees. These measures focused primarily on providing the sales force with the medically-based knowledge which is essential if our products – which require a high degree of explanation – are to be successfully marketed. Training programs are individually designed to meet specific purposes and ensure that employees are always kept up to date with the latest information. It is generally acknowledged that PULSION's employees are technically competent and well trained. Particular attention has been paid to providing further training to employees within the Group, thus making it possible to fill a number of posts internally. PULSION will carry on in this vein in the future since it is keen, wherever possible, to encourage its own employees to develop their skills.

Another clear focus is on the remuneration of employees which is based in most cases on corporate targets and performance: bonus agreements take into account specific personal targets as well as revenues or Group EBIT. The terms have been clearly defined.

The Group employed a worldwide workforce (including those employed on a low wage-earning basis), of 139 people at the end of the year (2008: 147), 5% less than one year earlier. Personnel expense increased by 4%, mainly as a result of the expense for severance pay recorded.

Environmental care and quality management

PULSION's quality management system was again certified by Dekra Certification GmbH in 2009 to EN ISO 13485:2003 + AC:2007 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 CMDCAS.

PULSION is committed to protecting the environment and endeavors to keep its energy requirements and waste to a minimum. Neither the production process nor the products themselves pose any direct or indirect risks to the environment.

Research and Development Report

Research and development activities

The Group'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 aim to integrate product improvements continuously and open up new product areas and/or lines of business.

The key product, PiCCO$_2$, which is being sold successfully worldwide, was enhanced with new functions in 2009. Further improvements were made and handling simplified in response to customer suggestions. The PiCCO$_2$ measurement parameter PDR (ICG Plasma Disappearance Rate) was built into a new module for recording liver function and perfusion using PULSION ICG. As a consequence LiMON, which was previously a stand-alone product, is now also a part of the PiCCO monitoring system.

GE agreed in 2009 to integrate the optic CeVOX module (under the GE name) into its monitoring system, replicating the move made by Philips in 2008. PULSION has therefore become an OEM product supplier for GE Healthcare Finland Oy.

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.

A completely new monitoring platform has been planned for 2010 which can be adapted to the varying conditions of patients, thus complementing the product range and increasing the number of parameters. It will require more medical disposable products and will significantly expand the areas of applications for PULSION technologies in hospitals.

Patents and approvals

At the end of 2009, PULSION has 179 national patents (December 31, 2008: 159) at its disposal in various countries. This comprised 144 patents held by PULSION and 35 patent rights licensed to PULSION. In addition, PULSION is currently in the process of applying for a further 325 patents (2008: 291) in various countries. The patents and patent applications relate to 52 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 Group also has 29 (2008: 28) registered trade names which are either already in force or have been applied for.

PULSION was successfully able to conclude two major approval proceedings in 2009. Approvals for the PiCCO$_2$ platform were obtained for Brazil and Korea. Approvals for Japan, China and Taiwan are imminent.

Risk Report

In the course of its operating activities, PULSION is exposed to a number of risks which inevitably arise in connection with entrepreneurial activities. All companies are faced with a two-fold challenge – on the one hand they must promptly recognize economic opportunities and make the best possible use of them; on the other hand, they must be able to identify the risks accompanying every business activity, analyze 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. PULSION has set up a comprehensive risk management and internal control system to achieve this.

Risk management system

Pursuant to § 91 (2) of the German Stock Corporation Act (AKtG), a uniform risk management system has been installed across the PULSION Group, covering all functions and processes. The objective of the group-wide risk management system is to detect risks at an early stage, and assess, communicate and manage those risks. Serving as an integrated management and control tool, the risk management system forms the basis for decision-making, i.e., whether to accept new risks or implement measures to minimize any potential adverse impact. The prerequisite for good risk management is that risks are identified at an early stage at all corporate levels.

The Risk Manager heads the risk management organization. Operational risks are managed by members of the operational risk management team under the leadership of the Risk Manager. Entity risk managers have been designated for each of the subsidiaries. The system is based primarily on a bottom-up approach. Those responsible for business processes within the various departments are required to review processes, transactions and new developments for potential and existing risks and to report operational risks appropriately. The Group Risk Management Manual, which is continually revised to take account of internal and external developments, helps employees to identify potential risks and assess the probability of potential losses for the Group. Risks are classified into categories on the basis of the likelihood of occurrence and the expected amount of loss and summarized at Group level. If a particular risk can be reduced, the residual risk is included after taking account of implemented countermeasures. Risks are considered over a period of one year.

At least three risk workshops are held each year under the leadership of the Risk Manager. The results are incorporated in PULSION's standardized risk reporting system and communicated to the Management and Supervisory Boards. The two boards are informed immediately if a risk or loss has been incurred.

PULSION's controlling system complements the risk management system with weekly, monthly and quarterly analyses / reports with comparisons to prior year, forecasted or estimate figures and appropriate variance analysis.

Internal control system

The internal control system (ICS) in place within the PULSION Group covers all principles, procedures and measures taken to ensure that financial reporting systems are functioning effectively, economically and properly and that relevant regulations are complied with. The accuracy and reliability of accounting and financial reporting processes and hence the preparation of financial statements and management report in compliance with the law are safeguarded by a whole range of procedures and internal controls. Changes in law, financial reporting standards and other pronouncements are regularly analyzed for their relevance for, and impact on, the consolidated financial statements and incorporated where appropriate into the Group's Accounting Policies Manual.

The internal control system for financial reporting is based on control procedures that are either integrated into the relevant processes or are independent of those processes. Procedures integrated into processes include:

- the dual control principle which is documented in authorized signatory rules or work instructions (SOPs)
- the maintenance of records to ensure the correct and proper treatment of transactions
- segregation of duties wherever this is possible given the appropriate personnel structures and economically acceptable
- an access and authorization concept at all management levels
- a group reporting system based on the Group Accounting Policies Manual

Group companies prepare their financial statements locally. In some cases, transactions are recorded centrally by the parent company. The amounts shown in the subsidiaries' separate financial statements are recorded mostly in the relevant local accounting systems. For the purposes of preparing consolidated financial statements, data is collated via a uniform group reporting package based on the Group Accounting Policies Manual. Group companies are responsible for complying with the manual and other group-wide instructions and for the proper and timely execution of financial reporting-related processes and systems. Throughout the reporting process, local companies receive support from contact persons at the parent company. The reporting packages submitted by group companies are reviewed and checked at a group level in order to ensure that the consolidated financial statements are properly and reliably derived from them.

Thanks to well-defined structures and processes, the internal control and risk management system allows all relevant items to be recorded, processed and assessed and then presented appropriately in the consolidated financial statements. The internal control system does, however, have some inherent limits, in particular in the case of discretionary decisions, unsuitable controls or other circumstances. As a consequence, there can be no absolute guarantee that the objectives of financial reporting will be met or that errors will be prevented or identified with the appropriate level of assurance.

Specific risks

Market and competition

Developments in the MedTech sector 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. This gives rise to potential risks for PULSION. e. g., a strong downward pressure on selling prices. There is also a risk that the net assets, financial and earnings position could be adversely affected if PULSION does not react adequately to market developments in terms of the range of products it offers.

PULSION counters these risks by developing its range of products continuously. This includes the further development of existing technologies and the expansion of the product range with new developments. Risks are also minimized by ensuring that intellectual property is appropriately protected by patents, registered trade names etc., by continuous market observation and ongoing improvements to cost structures.

Financial markets risk

The financial and global economic crisis did not have any significant impact on the MedTech market. Given the current growth prospects it is unlikely that any related risks will arise for PULSION. Since operations are largely funded out of own resources, the fact that it has become more difficult to raise debt capital only affects PULSION marginally. PULSION closely observes developments on the financial markets in order to identify potential risks in advance. Sound equity coverage ensures that PULSION has a good rating so that capital could be raised if required. The Group's level of debt was reduced in line with schedule in 2009. Based on forecasts, other than investment in product development and improvements, no major items of capital expenditure or acquisitions are planned that need to be financed out of cash flow from operating activities. PULSION is not at present subject to any covenants.

If the financial market crisis results in further savings needing to be made by customers, particularly in the area of public sector budgets, this could have a negative impact on demand with corresponding consequences for revenues and earnings.

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 that the use of PiCCO technologies 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. There was no perceptible deterioration in the situation in 2009.

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, however, be ruled out that PULSION will have to face such claims in the future and that the amounts involved could exceed insured amounts. PULSION did not have to utilize its product liability insurance in 2009.

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 Group's products or a delay in obtaining approval could have a negative impact on the level of PULSION's revenues and earnings and could result in an impairment of capitalized development costs.

PULSION works together continuously with experienced external consultants and trains its own staff in the appropriate areas in order to identify and react to potential risks at an early stage. In recent years, extensive regulatory know-how has been built up enabling process product approvals to be carried through faster and more effectively.

Production and purchasing risks

PULSION moved into its new production premises in Feldkirchen near Munich in spring 2008. At present PULSION buys in a relatively high level of pre-manufactured components and parts. The level will be reduced further in 2010 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.

Financial risks

PULSION has an equity ratio of 66% at December 31, 2009. Unpledged cash and cash equivalents of EUR 4.6 million and current receivables of EUR 5.6 million also provide financial flexibility. The cash flow from operating activities in 2009 amounted to EUR 4.0 million. From a current perspective, the financing and liquidity situation of the Group can be considered to be solid. The forecast growth and related capital expenditure are to be financed out of the Group's own resources with the consequence that the current liquidity cushion might be reduced in the future. PULSION addresses this risk with a very detailed forecasting and control system, which compares actual and budget figures on a weekly and monthly basis in order to identify variances at an early stage so that counter-measures can be taken.

The Group counters bad debt risk with a tight receivables management system and provides for such risk in the form of specific and general allowances. For export sales, PULSION generally obtains payments in advance to protect it against bad debts. The risk is also mitigated by the fact that PULSION does business with a wide range of customers, many of which are financed by public sector budgets or which are public sector organizations themselves. PULSION is not exposed to significant seasonal fluctuations in its cash flows.

The interest-rate risk with relation to financing is partially mitigated by having fixed interest rates in place for the whole term of the financing arrangements. Since the net amounts of foreign currency cash flows have not been significant to date, forward currency contracts are not employed.

Patents and intellectual property

PULSION is not aware of any infringements of patents or other protected industrial rights of third parties. It can, however, never be fully ruled out that third parties will not make claims in the future.

A negative outcome of possible 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 submits innovations and improvements for patent protection – after appropriate review – as quickly as possible and analyzes patents granted in the relevant areas at regular intervals.

Personnel

Sales and product development can suffer if sufficient numbers of qualified employees cannot be retained or recruited. In this respect PULSION must compete with other companies in the sector in which it operates. In order to minimize the risk of personnel fluctuation and to recruit/ retain qualified and experienced employees, PULSION endeavors to motivate staff with appropriate levels of remuneration, clear lines of responsibility and room for employees to show initiative. In addition, a target agreement system is in place that includes transparent evaluation and an individual assessment at least once a year.

Warehousing and transportation

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

PULSION endeavors to identify this risk as early as possible and adjust production accordingly with the aid of flexible framework agreements with suppliers and a monthly up-date of worldwide sales forecasts (forecast management).

Information technologies

PULSION's daily operations depend increasingly on error-free and safe information technology solutions which are permanently on call.

In order to mitigate any resulting risks at an early stage, PULSION utilizes up-to-date hardware and software, with appropriate back-up systems, mirror databases, virus and access protection as well as encryption systems to ensure the integrity of data and systems.

Nevertheless, the loss of important data, breaches of security and the loss of confidential information cannot be ruled out entirely. Such occurrences could have a negative impact on PULSION's competitive position.

Subsidiaries
PULSION is also indirectly exposed to the risk environment facing its subsidiaries. PULSION could be affected negatively by the statutory and contractual position of its subsidiaries. In the light of losses recorded by some of the subsidiaries in the past, it may become necessary to take measures to increase the capital of the entities involved. A comfort letter has been issued on behalf of the subsidiary PULSION Pacific Pty. Ltd as security for the financing of that company up to December 31, 2010. 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.

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.

Dr. Dr. Pfeiffer and UP Med AG i. L. filed an application with the Regional Court I of Munich for enforcement on the settlement dated January 28, 2009, since, allegedly, the publication of a press release by PULSION relating to the settlement agreement had not been published in accordance with the contractual agreement. Based on the assessment of attorneys representing PULSION AG in this matter, the application is unfounded. A provision has therefore not been recognized. As with all legal proceedings, however, it cannot be ruled out that the court responsible for the proceedings will have a different legal opinion.

One ex-member of the Management Board has filed a claim for declaratory judgment at the Regional Court I of Munich against PULSION AG requesting that the revocation of his appointment as member of the Management Board be declared invalid and that payment of his remuneration be continued. Based on the assessment of attorneys representing PULSION AG in this matter, the required provision for the possible payment of compensation is EUR 400,000. This amount was recognized with income statement impact as a provision at December 31, 2009.

A further ex-member of the Management Board has filed a claim at the Regional Court I of Munich for declaratory judgment against PULSION AG that his earlier employment relationship did not come to an end as a result of the summary revocation of his appointment as member of the Management Board. A provision of EUR 135,102. has been recognized with income statement effect. The court ruling is scheduled for February 26, 2010; this ruling will not, however, be legally valid by the time the financial statements are approved for issue.

The French subsidiary has been sued by an ex-director whose appointment was revoked in the past. The lawsuit was resumed during the financial year under report and a provision recognized on the basis of the current assessments of the potential risk.

Other legal disputes which arise in the normal course of business are not material, taken either individually or as a whole.

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 points will enable PULSION to generate substantial growth through greater exploitation of existing markets and expansion on target markets:

- PULSION's range of products to monitor critically ill patients, with the core competences "expanded haemodynamic monitoring" (cardiovascular system) and the monitoring of vital organ functions.
  Improving and expanding the product range represents PULSION's main potential. The detailed short- and medium-term product development plan for the years ahead has been approved. The first set of results will be presented at the specialist trade fair in Brussels in March 2010. Marketing is to begin before the end of 2010.

- An excellent reputation on the markets and strong brands such as "PiCCO" and "PULSION" combined with a high degree of expertise in sales and marketing.

- A large network of "key opinion leaders", scientists and leading clinical experts as well as a Medical Advisory Board that consists of international experts in the fields of anesthetics and critical care medicine.

- A strong international presence through Group subsidiaries in France, Spain, Belgium, Great Britain, Switzerland and Austria, the USA and Australia, combined with a comprehensive distributor network. Plans are underway to expand market presence by establishing a subsidiary in Poland in 2010.
  Subsidiaries have so far not been able to fully realize the market potential of PULSION's products and in some cases earnings have been unsatisfactory. The objective for the coming year is therefore to sharpen the focus of selling and marketing activities by taking a more potential-oriented approach to sales and ensuring continuous training of the sales force. In addition to its subsidiaries, PULSION also works with local distributors in numerous countries. These arrangements will be retained and expanded in the future.

- Opportunities to enter into joint ventures, in particular in the BRIC countries (Brazil, Russia, India and China)
  The huge potential of the BRIC countries can be tapped by entering into joint venture arrangements with local business partners in a step-by-step strategy. Those partners contribute their sales and management expertise, PULSION its product and application expertise. The main advantages of this strategy are lower capital requirements and reduced exposure to risks.

- Strong licensing partners in the form of Philips Healthcare, Dräger Medical, and GE Healthcare. Further agreements to expand existing cooperation arrangements and set up new partnerships are in the pipeline.

- Innovative strength driven by extensive expertise and application knowledge in all of the fields in which PULSION operates.

Outlook

Business strategy

The PULSION Group is working in the short and medium term on the following major projects on the basis of which growth targets are planned to be achieved:

- Improvement and expansion of the product range
  Expansion of the areas of application for PULSION patient monitoring products using new minimally invasive technologies and enhanced use of existing technologies
- Optimization of the sales and marketing function
  Rigorous implementation of added (medical) value marketing and sales strategies throughout the Group; improved sales management
- Development of the market in the USA
  Fine-tuning the product range and marketing strategy to the particular circumstances of the US market
- Production
  Optimization of all production processes in terms of product quality, ability to deliver and costs
- Professional marketing of ICG
  Establishment of adequate structures; development of new areas of application such as perfusion diagnostics in the areas of neuro-, plastic, abdominal and general surgery
- Foundation of new joint ventures and subsidiaries
  Creation of optimal marketing conditions, particularly in the emerging markets

Outlook

Based on the assumption that there will be no major deterioration in 2010 in the business conditions relevant for PULSION, the plan is to improve revenues and earnings further with the aid of the following measures:

- Implementation of the corporate strategy described above
- Development and introduction of new products and opening up new fields of application
- Improvement of margins at a more stable price level by focusing more during the sales process on the medical benefits of PULSION products
- Optimization of the cost structure and continuation of projects aimed at reducing operating costs
- Revenue increases in the USA and France

Alongside the measures that have already been initiated, management see a number of uncertainties that could in theory have a negative impact on earnings in 2010:

- Greater competition in the core segment “haemodynamic” monitoring which is resulting in a corresponding downward pressure on selling prices
- It cannot be ruled out that competitors will launch an attack on the main product which currently sets PULSION apart in the field of critical care medicine
- The trend towards greater economy in the field of medicine and the growing cost pressure within the world’s healthcare systems
- The new sales team is now more or less in place. It is now important that PULSION manages to keep fluctuation to a minimum
- The weak state of health of some European economies and the impact that that has on healthcare systems
- Prices for materials (in particular basis materials) could increase as a result of their dependence on oil
- The risk of deflation which could have an impact on sales and margins must be observed

The Management Board forecasts that revenues will rise in 2010 within a mid-single digit range and that the adjusted operating profit (EBIT) will improve in the similar magnitude. Further improvements are being targeted for 2011.

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, 2009 is EUR 9,577,302, divided into a total of 9,577,302 non-par-value bearer shares. 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:

Based on the conclusion of a shareholders’ agreement, Dr. Burkhard Wittek gave notice at December 31, 2009 that he held 3,237,472 shares which were attributable jointly to pool participants pursuant to § 30 (2) p.1.of the German Securities Transitional Act (WpÜG).

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.

Authorization of Management Board to issue shares

A conditional capital of KEUR 481 was in place at the balance sheet date in accordance with shareholder resolutions taken at the Annual General Meeting. The Management Board is authorized to use this conditional capital to issue share options.

The authorization passed at the Annual General Meeting on June 9, 2004 to increase the Company's share capital expired on June 8, 2009.

Authorization 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 authorized in accordance with § 71 (1) no. 8 AktG to acquire, prior to November 7, 2009, up to 10% of its own present share capital.

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 at the balance sheet date.

Statement on Corporate Governance

The statement of corporate governance pursuant to § 289a HGB comprises the declaration of Compliance required by § 161 AktG, relevant information about corporate governance and a description of the work procedures of the Management Board and Supervisory Board.

Declaration of Compliance with the Corporate Governance Code

In 2009, PULSION again based its approach to corporate governance of the principles set out in the German Corporate Governance Code, as updated on June 18, 2009. Not all of the recommendations were complied with in 2009. These are described in detail in the Declaration of Compliance issued by the Management Board and Supervisory Board on December 11, 2009 which can be accessed on PULSION's website at www.PULSION.com in the section "Investor Relations".

Relevant disclosures with respect to corporate governance practices

PULSION is committed to responsible corporate governance and takes a long-term approach to value creation. By a combination of efficient cooperation between the Management and

Supervisory Boards, and open and timely communication in general, PULSION actively reinforces the trust placed on it by investors, customers, employees, and members of the public alike. Compliance with these principles is therefore a vital aspect of achieving reliable corporate governance at PULSION.

Further details and the Corporate Governance Report can be found in the Annual Report 2009. The principles of the Group's remuneration systems and remuneration paid are presented in the "Compensation Report" which is part of the Management Report.

Work procedures of the Management Board and the Supervisory Board

The common objective of the Management and Supervisory Board is corporate governance based on a long-term approach to value creation. The two boards work together closely in the interests of the enterprise. The Management Board manages business. The Supervisory Board monitors the Management Board and is directly involved in certain decisions that could materially change the net assets, financial or earnings position of the Group.

Extensive disclosures on work procedures of the Management Board and the Supervisory Board at PULSION AG can be found in the "Corporate Governance Report".

Compensation Report for Management Board and Supervisory Board

Management Board remuneration system

The Supervisory Board determines the total remuneration of the individual members of the Management Board, finding a reasonable balance between the duties and work performed by board members and the economic position of the Group. 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. Management Board members are also entitled to a company car. As a long-term incentive, Management Board members also receive options on PULSION stock in conjunction with the existing stock option programs. Full details of the remuneration of Management Board members, analyzed by individual, are provided in the notes to the consolidated financial statements.

Supervisory Board remuneration system

In accordance with the Company's Articles of Incorporation, the Supervisory Board comprises three members. In accordance with the shareholders' resolution taken at the Annual General Meeting on November 16, 2009, the remuneration of the Supervisory Board comprises a fixed and a corporate earnings-related remuneration. Supervisory Board members are also reimbursed expenses and liability insurance premiums.

The fixed remuneration (basic remuneration) is EUR 10,000.00 for a member (up to November 16, 2009: EUR 20,000.00), EUR 15,000.00 for the Deputy Chairman (up to November 16, 2009: EUR 30,000.00) and EUR 20,000.00 for the Chairman (up to November 16, 2009:

EUR 40,000.00). Supervisory Board members who have not held office for the whole of a financial year receive their remuneration on a time-apportioned basis from the date of their election.

The corporate earning-related remuneration for 2009, 2010 and 2011 is calculated as follows: if the Group's EBIT margin as per the consolidated financial statements (EBIT as a % of group revenues) is at least 15.0% but less than 20.0% for the relevant financial year, each Supervisory Board member receives an additional remuneration for the financial year equivalent to 50% of the basic remuneration; if the Group's EBIT margin is at least 20.0% for the relevant financial year, each member receives instead of the described remuneration an additional remuneration for the financial year equivalent to 100% of the basic remuneration.

Full details of the remuneration of the Supervisory Board, analyzed by individual, are provided in the notes to the consolidated financial statements.

No loans or share options were granted to the Management or Supervisory Board members during the financial year under report.

Subsequent Events Report

The Supervisory Board appointed Hans-Hubert Schmitt as member of the Management Board with effect from January 4, 2010. Mr. Schmitt will be responsible for Finance and Sales and Marketing.

In a ruling dated February 26, 2010 (received on March 8, 2010), Dr. Wittek's claim for a declaratory judgement that his employment relationship did not come to end as a result of the extraordinary notice given on May 14, 2009 was accepted. No other findings were reached. A provision is recognized in the financial statements for the related potential obligations (see section Provisions and Management Board).

Matthias Bohn reached an out-of-court agreement with the Supervisory Board on March 11, 2010 and will leave PULSION on mutually agreed terms. The actions brought against PULSION will not be pursued further following the agreement reached between the Supervisory Board and Mr. Bohn. The provision recognized with income statement in the consolidated financial statements effect reflects the agreement reached. PULSION AG has no other obligations in this matter.

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

Forward-looking Assertions

This group management report contains assertions that refer to the future performance of PULSION Medical Systems AG and to economic and business conditions and developments. These assertions represent estimations made on the basis of information available to PULSION AG at the date of preparation of this group management report. If the assumptions used do not turn out to be accurate or if other risks arise, actual results could differ from expected results. It is therefore not possible to give a guarantee for these assertions.

Munich, March 15, 2010
PULSION Medical Systems AG

Christoph R. Manegold
Member of the Management Board

Hans-Hubert Schmitt
Member of the Management Board

Consolidated Balance Sheet

of PULSION Medical Systems AG at December 31, 2009

ASSETS		Note	Dec. 31, 2009 KEUR	Dec. 31, 2008 KEUR
Non-current assets	Intangible assets	12, 13	3,975	3,492
	Property, plant, equipment	14	5,246	6,151
	Investment property	16	198	215
	Financial assets	17	0	40
	Trade accounts receivable	19	0	122
	Total non-current assets		**9,419**	**10,020**
Current assets	Inventories	18	5,164	4,527
	Trade accounts receivable	19	5,582	5,410
	Other current assets	20	833	596
	Tax receivables		0	134
	Cash and cash equivalents *	21	4,749	3,163
	Total current assets		**16,328**	**13,830**
	Total assets		**25,747**	**23,849**

* including fixed term deposits of EUR 0.1 million (Dec. 31, 2008: EUR 0.2) pledged as security

EQUITY AND LIABLILITIES

		Note	Dec. 31, 2009 KEUR	Dec. 31, 2008 KEUR
Equity Note 22, 23	Share capital		9,577	9,577
	Additional paid-in capital		1,416	20,596
	Statutory reserve		1	0
	Other reserves		(421)	(542)
	Accumulated profit / deficit		6,052	(13,671)
	Minority interests	11	356	280
	Total equity		**16,981**	**16,240**
Non-current liabilities	Provisions	24	205	181
	Liabilities to banks	25, 26	704	1,627
	Lease liabilities	15, 25	0	69
	Other liabilities	25, 29	76	239
	Deferred taxes	10	1,461	392
	Total non-current liabilities		**2,446**	**2,508**
Current liabilities	Provisions	24	910	91
	Liabilities to banks	25, 26	924	390
	Financial liabilities	25, 27	0	26
	Trade accounts payables	28	1,513	1,061
	Lease liabilities	15, 25	69	217
	Taxes payables	10	110	144
	Other liabilities	25, 29	2,794	3,172
	Total current liabilities		**6,320**	**5,101**
	Total equity and liabilities		**25,747**	**23,849**

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

Group Income Statement

of PULSION Medical Systems AG
for the Financial Year ended December 31, 2009

	Note	2009 KEUR	2008 KEUR
Sales	5	28,141	27,962
Cost of sales	6	(9,526)	(9,358)
Gross profit		**18,615**	**18,603**
Selling and marketing expenses	9	(10,149)	(12,972)
Research and development expenses	9	(2,229)	(2,172)
General and administrative expenses	9	(4,505)	(3,525)
Other operating expenses	7, 8	(38)	(41)
Other operating income	7, 8	687	737
Operating profit		**2,383**	**630**
Exchange losses		(52)	(185)
Exchange gains		61	133
Profit before interest and taxes (EBIT)		**2,392**	**578**
Interest expenses	7	(144)	(193)
Interest income	7	32	88
Profit before taxes (EBT)		**2,280**	**474**
Income taxes	10	(1,718)	(1,124)
Group net profit / loss (before minority interests)		**562**	**(650)**
of which attributable to shareholders of the group parent company		465	(727)
of which attributable to minority interests	11	97	77
Earnings per share			
Undiluted – ordinary operations after taxes (in EUR)	33	0.05	(0.08)
Diluted – ordinary operations after taxes (in EUR)		0.05	(0.08)
Average number of shares in circulation (undiluted)		9,577,302	9,577,302
Average number of shares in circulation (diluted)		9,577,302	9,577,302

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

Reconciliation of Result to Total Comprehensive Income

of PULSION Medical Systems AG for the Financial Year ended December 31, 2009

IFRS	2009 KEUR	2008 KEUR
Group net profit / loss (before minority interests)	562	-650
Exchange differences on translating foreign operations	-339	-16
Exchange differences on net investments in subsidiaries	478	-336
Valuation of financial assets-held-for-sale (money market funds)	0	11
Income and expenses directly recognised in equity	**138**	**-342**
Total comprehensive income / loss for the period	**700**	**-992**
of which attributable to minority interests	114	-9
of which attributable to owners of the parent company	586	-983
Total comprehensive income / loss for the period	**700**	**-992**

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

Consolidated Cash Flow Statement

of PULSION Medical Systems AG for the Financial Year ended December 31, 2009

		Note	2009 KEUR	2008 KEUR
Cash flow from operating activities	Group net profit / loss after monority interests		465	(727)
	Minority interests	11	97	77
	Dividends		(39)	0
	Amortization and depreciation of intangible assets and property, plant and equipment		1,822	2,051
	Changes in receivables	19	(54)	327
	Changes in inventories	18	(673)	79
	Interest received		32	82
	Interest paid		(146)	(190)
	Income taxes received		25	0
	Income taxes paid		(505)	(863)
	Changes in other assets and liabilities		2,280	281
	Other non-cash income and expenses		672	(131)
	Cash flow from operating activities		**3,977**	**986**
Cash flow from investing activities	Purchase of intangible assets and property, plant and equipment (without monitors)		(1,641)	(2,390)
	Purchase of monitors		(702)	(2,584)
	Purchase of financial assets		0	(40)
	Proceeds from sale of available-for-sale financial assets (money market fund)		0	1,548
	Proceeds from disposal of intangible assets and property, plant and equipment		647	1,404
	Cash flow from investing activities		**(1,696)**	**(2,062)**
Cash flow from financing activities	Payments into equity capital		0	0
	Purchase of minority interests		0	(99)
	Proceeds from raising current and non-current loans		1	0
	Repayments of bank borrowings		(390)	(359)
	Repayments of financial liabilities		(26)	(189)
	Repayments of finance lease	15, 25	(217)	(411)
	Cash flow from financing activities		**(632)**	**(1,058)**
Cash funds at the end of the period	Decrease / increase in cash funds		1,649	(2,134)
	Cash funds at the beginning of the period		2,995	5,129
	Cash funds at the end of the period	**21**	**4,644**	**2,995**

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, 2009

	Subscribed captal	
	Shares	KEUR
Balance at January 1, 2008	**9,577,302**	**9,577**
Exchange differences *		0
Group net loss / profit		0
Total result for the period	**0**	**0**
Employee share options programs	0	0
Valuation of financial assets held-for-sale		0
Total items recognised directly in equity		**0**
Total		**0**
Balance at December 31, 2008	**9,577,302**	**9,577**
Balance at January 1, 2009	**9,577,302**	**9,577**
Exchange differences		0
Group net profit		0
Total result for the period	**0**	**0**
Dividends		0
Employee share options programs	0	0
Transfer out of additional paid-in capital		0
Allocation to the statutory reserve		0
Total items recognised directly in equity		**0**
Total		**0**
Balance at December 31, 2009	**9,577,302**	**9,577**

* Exchange differences attributable to minority interests include a correction of KEUR 23 relating to the previous period.

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

Additional paid-in capital	Statutory reserve	Accumulated deficit / profit	Other reserves	Minority interests	Total
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
20,407	**0**	**-12,943**	**-299**	**312**	**17,054**
0	0	0	-243	-109	-352
0	0	-727	0	77	-650
0	**0**	**-727**	**-243**	**-32**	**-1,002**
178	0	0	0	0	178
11	0	0	0	0	11
189	**0**	**0**	**0**	**0**	**189**
189	**0**	**-727**	**-243**	**-32**	**-813**
20,596	**0**	**-13,671**	**-542**	**280**	**16,240**
20,596	**0**	**-13,671**	**-542**	**280**	**16,240**
0	0	0	121	17	138
0	0	465	0	97	562
0	**0**	**465**	**121**	**114**	**700**
0	0	0	0	-39	-39
80	0	0	0	0	80
-19,259	0	19,259	0	0	0
0	1	0	0	0	1
-19,179	**1**	**19,259**	**0**	**-39**	**42**
-19,179	**1**	**19,724**	**121**	**75**	**742**
1,416	**1**	**6,052**	**-421**	**356**	**16,981**

Analysis of Changes in Fixed Assets

of PULSION Medical Systems AG at December 31, 2009

Analysis of Changes in Fixed Assets at December 31, 2009

	Historical cost			
	Jan. 1, 2009 KEUR	Translation differences KEUR	Additions KEUR	Reclassifications KEUR
Intangible assets				
Purchased intangible assets	597	0	150	0
Internally generated intangible assets	4,249	0	925	0
	4,846	**0**	**1,075**	**0**
Property, plant and equipment				
Technical equipment, plant and machinery	1,199	0	373	0
Other equipment, furniture and fittings	8,675	12	429	466
Finance leases	915	0	0	0
	10,789	**12**	**802**	**466**
Investment property	379	0	0	0
	16,014	**12**	**1,877**	**466**

Analysis of Changes in Fixed Assets at December 31, 2008

	Historical cost			
	Jan. 1, 2008 KEUR	Translation differences KEUR	Additions KEUR	Reclassifications KEUR
Intangible assets				
Purchased intangible assets	501	0	104	0
Internally generated intangible assets	3,809	0	440	0
	4,310	**0**	**544**	**0**
Property, plant and equipment				
Technical equipment, plant and machinery	763	0	464	0
Other equipment, furniture and fittings	7,933	-8	3,966	0
Finance leases	1,831	0	0	0
	10,527	**-8**	**4,430**	**0**
Investment property	379	0	0	0
	15,216	**-8**	**4,974**	**0**

		Accumulated amortization, depreciation and impairment losses						Carrying amounts	
Disposals	Dec. 31, 2009	Jan. 1, 2009	Translation differences	Additions	Reclassifi-cations	Disposals	Dec. 31, 2009	Dec. 31, 2009	Dec. 31, 2008
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
0	747	440	0	69	0	0	509	238	157
0	5,174	914	0	523	0	0	1,437	3,737	3,335
0	**5,921**	**1,354**	**0**	**592**	**0**	**0**	**1,946**	**3,975**	**3,492**
26	1,546	501	0	138	0	20	619	927	698
1,431	8,151	3,712	12	972	0	717	3,979	4,172	4,963
503	412	425	0	103	0	263	265	147	490
1,960	**10,109**	**4,638**	**12**	**1,213**	**0**	**1,000**	**4,863**	**5,246**	**6,151**
0	379	164	0	17	0	0	181	198	215
1,960	**16,409**	**6,156**	**12**	**1,822**	**0**	**1,000**	**6,990**	**9,419**	**9,858**

		Accumulated amortization, depreciation and impairment losses						Carrying amounts	
Disposals	Dec. 31, 2008	Jan. 1, 2008	Translation differences	Additions	Reclassifi-cations	Disposals	Dec. 31, 2008	Dec. 31, 2008	Dec. 31, 2007
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
8	597	376	0	72	0	8	440	157	125
0	4,249	421	0	493	0	0	914	3,335	3,388
8	**4,846**	**797**	**0**	**565**	**0**	**8**	**1,354**	**3,492**	**3,513**
28	1,199	420	0	102	0	21	501	698	343
3,216	8,675	4,399	-6	1,124	0	1,805	3,712	4,963	3,534
916	915	789	0	244	0	608	425	490	1,042
4,160	**10,789**	**5,608**	**-6**	**1,470**	**0**	**2,434**	**4,638**	**6,151**	**4,919**
0	379	148	0	16	0	0	164	215	231
4,168	**16,014**	**6,553**	**-6**	**2,051**	**0**	**2,442**	**6,156**	**9,858**	**8,663**

Notes to the Consolidated Financial Statements

1. Business and nature of operations

PULSION Medical Systems AG, with its main seat at 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 diagnostic products and specific sterile disposable items used to monitor patients.

The PULSION Group employed 139 (2008: 147) people worldwide as of December 31, 2009, of whom 102 (2008: 112) worked at PULSION AG's headquarters in Munich and its production location in Feldkirchen.

These consolidated financial statements were released by the Management Board on March 15, 2010 for approval by the Supervisory Board.

2. General comments

The consolidated financial statements of PULSION AG and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed for use in 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) and interpretations of the International Financial Reporting Interpretations Committee / Standing Interpretations Committee (IFRIC/SIC), which were mandatory for the financial year 2009, 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, 2010 or later:

IFRS 2 Share-based Payment

In June 2009 the IASB issued an amendment to IFRS 2 relating to the accounting treatment of cash-settled share-based payments. This amendment is mandatory for the first time for annual periods beginning on or after January 1, 2010. The amendment also replaces IFRIC 8 and IFRIC 11.

The first-time application of Standards, Amendments to Standards and Interpretations in 2009 or later will not result in any material changes compared to previous years. The following Standards and Interpretations were adopted for the first time in 2009:

IAS 1 Presentation of Financial Statements
The Standard requires separate presentation of changes in equity relating to transactions with equity holders in their capacity as such and other changes in equity. In addition, the Standard introduces a statement of comprehensive income in which all income and expenses recognized in the income statement and all income and expenses recognized directly in equity are reported either in a single statement or in two linked statements. The revised Standard was applied for the first time in the year under report.

IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements in Accordance with IFRS
The changes relate to the measurement of the cost of investments in subsidiaries, entities under common management and associated companies on first-time adoption of IFRS. Other changes relate to the recognition of dividend income from subsidiaries in the separate financial statements of the parent company.

IFRS 3 Business Combinations
The revised Standard on business combinations was issued in January 2008 and is mandatory for the first time for annual periods beginning on or after July 1, 2009. The Standard introduces changes in the accounting treatment of business combinations which will have an impact of the amount recognized as goodwill, on the profit and loss for the period in which an entity is acquired and on future earnings. The revised Standard was applied early by the Group.

IAS 27 Consolidated and Separate Financial Statements
In January 2008, the IASB issued the revised version of IAS 27 which deals with consolidated and separate financial statements. The new IAS 27 stipulates that changes in the carrying amount of an investment which do not involve the loss of control must be recognized directly in equity. For this reason, neither goodwill nor a gain/loss can arise on such a transaction. In addition, the requirements for allocating losses to the owners of the parent company and to non-controlling interests as well as the accounting rules for transactions which result in a loss of control have been changed. The revised Standard was applied for the first time in the year under report.

IFRS 2 Share-based Payment
In January 2008, the IASB issued an amendment to IFRS 2 specifying the definition of vesting conditions and the accounting treatment of cancellations.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
The amendment specifies how the principles contained in IAS 39 should be applied in the case of hedging relationships for the designation of a one-sided risk in a hedged item and for the designation of inflationary risks as the hedged item. This amendment is mandatory for the first time for annual periods beginning on or after July 1, 2009.

IFRS 7 Financial instruments: Presentation
The amendment stipulates additional disclosures on the determination of fair values and the liquidity risk. The revised Standard was applied for the first time in the year under report.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
The revisions to IAS 32 have changed the criteria for classifying items as equity or debt capital. If the conditions are met, certain puttable financial instruments (or components thereof), which impose on the entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, must be classified as equity.

IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement
The amendments require an entity to assess whether an embedded derivative should be separated from the underlying contract when the entity reclassifies a hybrid financial asset from the category “measured through profit/loss” to the category “measured at fair value”. This amendment is mandatory for the first time for annual periods beginning on or after June 30, 2009.

IFRIC 15 Agreements for the Construction of Real Estate
This Interpretation deals with how entities should determine whether an agreement to construct real estate falls under the application scope of IAS 11 Construction Contracts or IAS 18 Revenue and at which stage revenue from the construction of real estate should be recognized.

IFRIC 17 Distribution of Non-cash Assets to Owners
This Interpretation gives guidance on the accounting treatment of cases in which an entity distributes non-cash assets to owners. The Interpretation is mandatory for the first time for annual periods beginning on or after July 1, 2009.

IFRIC 18 Transfers of Assets from Customers
This Interpretation deals with the accounting treatment (from the perspective of the receiving party) of transfers of assets from customers and reaches the conclusion that – where the transferred asset meets the definition of an asset from the perspective of the receiving party – the receiving party must measure such assets at their fair value

at transfer date. The opposite entry is revenue (in accordance with IAS 18 Revenue). This Interpretation is mandatory for the first time for annual periods beginning on or after July 1, 2009.

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 for annual periods beginning on or after January 1, 2009. The revised Standard requires all borrowing costs that are directly attributable to the acquisition, construction or manufacture of a qualifying asset to be included as a component of cost. PULSION elected to apply the Standard early (at December 31, 2007).

In May 2008 and April 2009, the IASB issued two collective Standards of amendments to IFRS aimed primarily at eliminating inconsistencies and clarifying the wording of requirements. The collective Standards stipulate transitional rules for each amended IFRS. The Group has applied these amendments in the financial statements for the year ended December 31, 2009. The amendments do not have any impact of the net assets, financial position or results of operations or are not relevant for PULSION. Similarly, editorial changes made to existing Standards did not have any or only had 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 recognized 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., Rungis	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, Hounslow	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%(**)
PULSION Austria GmbH, Vienna	Austria	January 1, 2009	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.
(***) In accordance with an agreement dated December 23, 2008, as certified by public notary, PULSION AG acquired all of the shares of ESOMA Beteiligungsverwaltung GmbH (name changed to PULSION Austria GmbH following resolution on December 23, 2008). The shares were transferred subject to conditions precedent on January 1, 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%

The liquidation process has not yet been completed due to local audits. Based on the latest information, it is not possible at present to predict when the liquidation will finally be completed. It is not expected, however, that these local audits will give rise to any further obligations for PULSION AG.

Basis of consolidation: The consolidated financial statements comprise all subsidiaries over which PULSION has control. Control is realized at each of the subsidiaries by holding a majority of the voting power. There are no associates. All group entities draw up financial statements to December 31 of the relevant financial year. The financial year corresponds to the calendar year. The fully consolidated financial statements of group entities are drawn up using uniform accounting policies.

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

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

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 recognized directly in equity (other reserves).

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

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

	Closing rate at Dec. 31, 2009	Closing rate at Dec. 31, 2008	Average rate 2009	Average rate 2008
USD	0.69770	0.70950	0.71916	0.68341
GBP	1.1113	1.02720	1.12297	1.25968
AUD	0.62310	0.490	0.56644	0.57743
CHF	0.67230	0.6720	0.66245	0.63064

4. Accounting principles

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

Significant accounting areas of judgement and the principal sources of uncertainties in estimates: The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates, use its judgement and apply assumptions that can have an impact on the amounts reported in the financial statements and accompanying notes. Estimates and the underlying assumptions to those estimates are derived, where available, from past experience and after taking all relevant factors into consideration. Assumptions used to make estimates are regularly reviewed. Changes in estimate only affecting one accounting period are only taken into account in that accounting period. In the case of changes in estimates that affect the current and future accounting periods, these are taken into account appropriately in the current and subsequent accounting periods.

The most important forward-looking assumptions and other principal sources of uncertainties in estimates at the end of the reporting period, which could entail the risk that the amounts of assets and liabilities might need to be changed significantly in the next financial year, are described below:

a) The revaluation of property, plant and equipment and investment property:
As described in Note 4 – Property, plant and equipment – the Group reviews the estimated useful lives of assets at the end of each financial year. The useful lives assumed for capitalized monitors are based on an assessment of the revenue that can be generated with the monitors concerned over their expected life-cycle. The Group measures investment property at its fair value, with changes in fair value recognized through the income statement. The fair value reflects market conditions at the end of the reporting period and takes account, amongst other things, of rental income based on current rental arrangements and an appropriate and reasonable assumption with regard to future rental arrangements and income based on current market conditions.

b) Recoverability of internally generated intangible assets:
Development cost are capitalized in accordance with the accounting policy described in Note 4 Intangible assets. The initial recognition of costs as an asset is based on the Management Board's assessment that technical and commercial feasibility has been demonstrated; this is usually the case if a product development project has reached a specific milestone. For the purpose of determining the amounts to be capitalized, the Management Board makes assumptions with respect to the amounts of future expected cash flows from the project, the discount factors to be applied and the period over which economic benefits are expected to flow to the entity. Internally generated intangible assets are included in the consolidated balance sheet at December, 31, 2009 at a carrying amount of KEUR 3,737 (2008: KEUR 3,335). If assumptions (in particular the estimate of future expected cash flows) change in subsequent accounting periods, the appropriate adjustments will be recorded.

c) Income taxes:
Uncertainties exist with regard to the interpretation of complex tax regulations as well as to the amount and timing of future taxable income. Due to this complexity, it is possible that variances will arise between actual results and assumptions taken and that future changes in assumptions may require an adjustment to the tax expense recorded in earlier periods. Deferred tax assets are only recognized to the extent that taxable income is available for offset against tax losses available for carryforward. The Group has tax losses of KEUR 17,475 available for carryforward at the level of subsidiaries with a history of loss-making. Those tax losses do not lapse and cannot be offset against taxable income of other group entities. Subsidiaries do not have the appropriate tax planning opportunities that would justify even partial recognition of deferred tax assets.

d) Provisions and accrued liabilities:
Provisions are recognized to cover pending and future court proceedings for legal disputes. Provisions are recognized and measured at the amount of the probable outcome of the legal disputes based on information available and after consultation with the lawyers concerned. If the amount of expected obligations changes as a result of changes in the legal situation, it may be necessary to change provisions in subsequent years with a corresponding impact on earnings.

Goodwill: Goodwill arising on a business combination is recognized as an asset on the date which control over the asset is acquired (acquisition date). It corresponds to the amount by which the consideration given exceeds the amount of all non-controlling interests in the acquired entity and the fair value of the equity previously held by the acquirer in the acquired entity and the net amount of the identified assets and liabilities acquired at acquisition date. Goodwill is tested for impairment at least once a year and is not subject to scheduled amortization. Impairment losses recognized on goodwill are not reversed in subsequent periods. On the sale of a subsidiary, the amount attributable to goodwill is taken into account for the purposes of determining the gain or loss on disposal.

Cash and cash equivalents and current investments: Cash and cash equivalents comprise cash at bank and in hand.

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

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

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

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

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

With effect from January 1, 2009, all newly manufactured monitors which are held in stock are reported as inventories rather than as property, plant and equipment. As a result, scheduled depreciation is no longer recognized on these monitors, which are now recognized and measured in accordance with the requirements of IAS 2. The accounting policy change was necessary since the monitors are initially only held for trading purposes and are not available to the business on a long-term basis. All monitors not held for trading purposes continue to be treated as property, plant and equipment and are depreciated using the straight-line method. As a change of presentation compared with the previous year, the depreciation expense for these monitors is now presented within cost of sales rather than in selling expenses unless the monitors have been designated for use in studies. The accounting policy change does not necessitate a retrospective adjustment since the new policy is only being applied to newly manufactured monitors. The change in presentation does, however, result in a difference to previous years in that all monitors were previously classified as property, plant and equipment and therefore depreciated using the straight-line method (with the depreciation expense reported as a selling expense). Due to continual changes in the installed base, it is not feasible to restate previous years' figures.

Property, plant and equipment: Property, plant and equipment are stated at acquisition/manufacturing cost less accumulated depreciation. Acquisition/manufacturing cost includes all costs directly attributable to the acquisition. Subsequent costs are only recognized as part of the cost of the asset or – if relevant – as a separate asset, if it is probable that future economic benefits will flow to the Group and if the cost of the asset can be measured reliably. All other repair and maintenance costs are recognized as expense in the period in which they are incurred. Borrowing costs are capitalized 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 recognized when the carrying amount of an asset exceeds the estimated recoverable amount. The recoverable amount is defined as the higher of an asset's fair value less costs to sell and its value in use. 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 amortization is computed using the straight-line method over the estimated useful lives of the asset. The estimated useful lives for the various classes of intangible assets are as follows:

Internally generated intangible assets	5 - 20 years
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 live for the business in this case is 5 years. Capitalized items are amortized on a straight-line basis.
b) Expenditure on approvals in Europe and the USA. These costs are depreciated on a straight-line basis over periods of between 5 and 10 years, commencing on the date of market introduction.
c) Expenditure to obtain patents. Once a patent has been issued, it is amortized straight-line over a useful life of 20 years. When efforts to obtain the patent are discontinued, an impairment loss is recognized and the asset derecognized.

These items are recognized in accordance with IAS 38 as internally generated intangible assets. Intangible assets are periodically reviewed for impairment whenever circumstances and situations change such that there is an indication that the respective carrying amounts of such assets may not be recoverable. If the carrying value exceeds the estimated amount of undiscounted future cash flows before interest and tax, an impairment loss, measured as the difference between the fair value and the recoverable amount, is recognized.

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 standardized framework agreement and have a lease term of 48 months. PULSION can acquire the leased assets under a favourable purchase option at the end of the term or continue to lease the assets. Due to the favourable purchase option, the lease back transactions are classified as finance leases. Accordingly, the sale to the lease company does not lead to the recognition of sales and cost of sales. The excess of the sales proceeds (as invoiced to the leasing company) over cost is deferred under other liabilities and amortized over the lease term (IAS 17.59). The transaction is therefore accounted for as a financing transaction, with the equipment remaining in property, plant and equipment and subjected to systematic depreciation. 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 recognized within property plant and equipment and measured at amortized cost. The agreement runs for 48 months.

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

Free-of-charge usage: equipment is made available to customers free of charge on condition that they agree to purchase minimum volumes of disposable products. Ownership of the equipment remains with the Group. The equipment is depreciated over 90 months and presented in cost of sales.

Loan of equipment combined with usage agreements: These contracts generally run for a period of 3 years and are combined with minimum purchase volumes of disposable products. In addition, an annual usage fee is charged. This revenue is recognized on a time-allocated basis. Legal ownership of the equipment remains with the Group. This equipment is therefore capitalized within property, plant and equipment.

Rental agreements: Under this arrangement, equipment is loaned out to customers and a monthly rental invoice issued. The length of contract is individually agreed with each customer and therefore part of the contract. PULSION continues to own the equipment which is therefore reported within fixed assets.

The Group also earns rentals on apartments and office space that it does not use operationally. It also sub-lets one underground parking space that is used operationally.

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 recognized when the contracts are concluded since beneficial ownership is transferred to the customer. Legal ownership of the equipment remains with the Group 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 recognized when the entity has a present obligation to a third party as a result of a past event, it is probable that on outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at their expected settlement amount. The amount recognized as a provision is the best estimate at the balance sheet date of the expenditure required to settle the present obligation at the end of the reporting period taking account of inherent risks and uncertainties pertaining to the obligation. Provisions for warranties on products sold are recognized and measured on the basis of the Group's past experience of the level of costs necessary to settle warranty obligations. If a number of similar obligations exist, the probability of incurrence is determined on the basis of the overall group of these obligations.

Financial liabilities (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 capitalized in the case of qualifying assets.

Government grants and government assistance: In accordance with IAS 20, government grants are not recognized until there is reasonable assurance that the Group will be able to fulfil the relevant conditions for the grant and it is probable that the grants will be paid. Government grants received to offset expenditure or losses already incurred or intended as immediate financial support for which there will be no future corresponding expenditure, are recognized as income in the period in which the claim arises.

Revenue and cost recognition: Revenue from product sales is recognized when delivery has occurred or services have been rendered, the seller's price is fixed or determinable, and collectability is probable. Service revenues are generally recognized at the time of performance. Revenue from utilization fees is recognized straight-line on a time-apportioned basis over the period of the agreement. 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 recognized on timing differences between the tax bases and accounting carrying amounts of assets and liabilities (liability method), timing differences relating to consolidation procedures and on tax losses available for carryforward. The effect of changes in tax rates on deferred tax assets and liabilities is reflected in the income tax expense of the period in which the tax rate change is enacted. If the criteria set out in IAS 12 are met, deferred taxes are recognized on temporary differences between the tax base of the assets and liabilities of consolidated entities and the carrying amounts of those assets and liabilities in the consolidated balance sheet (netted).

Income taxes: Income tax expense represents the aggregate amount of current and deferred tax expense. Current tax includes tax relating to previous years and foreign withholding taxes. Current tax expense is measured on the basis of taxable profit for the fiscal year and relates to German corporation tax, German trade municipal tax and solidarity surcharge as well as foreign income taxes.

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

Deferred taxes are recognized on the one hand on timing differences between the accounting and tax bases of assets and liabilities. In addition deferred tax assets are also recognized on tax losses available for carryforward.

Deferred tax assets are only recognized at the level of subsidiaries if it is highly probable that they can be used 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 stock participation program / stock options: 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 in accordance with IFRS 2 at fair value, and the resulting amount is recognized as expense over the period up to the date of the assumed exercise of the options and the corresponding amount offset against equity.

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, whose operating results 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:

	2009 KEUR	2008 KEUR
Equipment	6,857	7,093
Disposables	18,142	17,000
Indication / diagnosis	3,142	3,869
	28,141	**27,962**

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

6. Cost of sales and personnel expense

Cost of sales comprises primarily the cost of raw materials and supplies used (KEUR 5,571; 2008: KEUR 6,138) and of bought-in goods and services (KEUR 945; 2008: KEUR 303).

Depreciation, amortization and imparement losses totalling KEUR 1,730 (2008: KEUR 1,016) are included. Depreciation of KEUR 758 (2008: KEUR 250) was recognized on monitors and amortization of KEUR 439 (2008: KEUR 343) on intangible assets. Imparement losses of KEUR 84 (2008: KEUR 150) recognized on intangible assets and KEUR 229 (2008: KEUR 27) recognized on current assets are presented in cost of sales.

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

	2009 KEUR	2008 KEUR
Wages and salaries	9,269	8,689
Statutory social security	1,313	1,413
Expense for stock options	80	178
	10,662	**10,280**

Wages and salaries include personnel recruitment costs of KEUR 128 in 2009 (2008: KEUR 139). Personnel expenses include statutory social security contributions totalling KEUR 423 (2008: KEUR 441) and pension expense of KEUR 48 (2008: KEUR 47).

The Group had 139 and 147 employees on average in 2009 and 2008, respectively. The average employee figure for 2009 included 7 people employed on a low wage-earning basis (2008: 6).

During 2009, the parent company participated for three months in the German Federal Government's program for short-term working arrangements necessitated by the weak state of the economy. The amount received from the Federal Employment Agency for short-time work (KEUR 9) was offset against personnel expense. Similarly, social security insurance reimbursements of KEUR 4 were also offset against personnel expense.

7. Income and expenses from financial assets

Sale-and-lease-back contracts gave rise to gains of KEUR 149 (2008: KEUR 291). Interest expense includes KEUR 104 (2008: KEUR 120) relating to liabilities to banks, KEUR 0 (2008: KEUR 6) for financial debt and KEUR 13 (2008: KEUR 40) for lease liabilities. Interest income on lease receivables amounted to KEUR 6 (2008: KEUR 11) and interest earned on bank balances totalled KEUR 26 (2008: KEUR 71). In the previous year, interest income of KEUR 5 was recognized on available-for-sale securities and a fair value gain of KEUR 11 was recognized directly in equity.

8. Other operating income and expenses

Other operating income includes income from the derecognition of other liabilities amounting to KEUR 215 (2008: KEUR 172), income from the private use of company vehicles amounting to KEUR 141 (2008: KEUR 130) and rental income of KEUR 25 (2008: KEUR 27). Other operating income also includes a government grant of KEUR 39 for which an application was submitted in 2009 in conjunction with the "Central Innovation Program for Mittelstand Companies". The approval period runs until September 2010. The grant, which is intended to promote one specific development project, is earmarked for a specific purpose and may only be used in conjunction with the specified project in accordance with the terms of the application and only to cover costs incurred in conjunction with that project. The grant is not repayable. The amount recorded as income relates to costs already incurred during the financial year 2009. Further grants will only paid after approval and audit of the relevant project phases. Other operating expenses also include foreign sales tax and other fees totalling KEUR 29 (2008: KEUR 7). In 2008 losses of KEUR 19 on cash deposits and of KEUR 7 from various contractual obligations were included.

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-capitalizable research and development costs.

10. Income taxes

	2009 KEUR	2008 KEUR
Current income tax expense	649	292
(of which relating to prior periods)	(40)	(-7)
Deferred tax expense	1,305	894
Deferred tax income	(236)	(62)
Total tax expense	**1,718**	**1,124**

The amount reported as current income 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, 2009 amounted to KEUR 110 (2008: KEUR 144).

Deferred taxes at December 31, 2009 were computed for the German company on the basis of a corporation tax rate of 15.0% (December 31, 2008: 15%). In addition, a solidarity surcharge of 5.5% on corporation tax (December 31, 2008: 5.5%) and an effective municipal trade tax rate of approximately 16.5% (December 31, 2008: 16.5%) were taken into account. Including the solidarity surcharge and municipal trade tax, an overall tax rate of 33% (December 31, 2008: 33%), therefore applies to the computation of deferred taxes for the Group's German company.

A deferred tax asset has been recognized 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 recognized deferred tax assets of KEUR 5,767 on unused tax losses of KEUR 17,475 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% (2008: 33%) for corporation tax, solidarity surcharge and municipal trade tax – and the actual tax expense:

	2009 KEUR	2008 KEUR
Group profit before taxes	2,280	474
Expected tax expense	752	156
Variances from expected tax expense:		
Tax-exempt income	(13)	0
Tax expense / income- prior years	40	(7)
Differences to group tax rate	(23)	(5)
Foreign withholding taxes	15	14
Non-deductible expenses, adjustments for tax rules	941	1,014
Other consolidation procedures	(5)	0
Utilization of tax losses	11	0
Recognition of deferred tax asset on unused tax losses	0	(43)
Other	0	(5)
	1,718	**1,124**

Deferred tax assets and liabilities relate to the following items:

	Dec. 31, 2009		Dec. 31, 2008	
	KEUR	KEUR	KEUR	KEUR
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Intangible assets	92	1,233	116	1,101
Property, plant and equipment	236	44	243	161
Inventories	144	0	157	0
Receivables and other current assets	0	38	0	53
Liabilities	66	0	197	0
Consolidation procedures	897	1,853	897	2,089
Accumulated deficit	272	0	1,402	0
	1,707	3,168	3,012	3,404
Offset of deferred tax assets and liabilities	-1,707	-1,707	-3,012	-3,012
Total	**0**	**1,461**	**0**	**392**

It is forecast that, of the KEUR 1,461 (2008: KEUR 392) reported as deferred tax liabilities at December 31, 2009, deferred tax assets amounting to KEUR 1,313 (2008: KEUR 1,393) and deferred tax liabilities amounting to KEUR 235 (2008: KEUR 240) will be utilized within one year.

11. Minority interests

The amount disclosed includes the portion of PULSION Medical UK Ltd.'s net profit for the year attributable to minority interests, an adjustment for prior year translation differences (KEUR 109) and the minority's share of translation differences for the financial year 2009. 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, 2009 comprised:

	Historical cost KEUR	Accumulated amortization and impairment losses KEUR	Carrying amount KEUR
Approvals	2,364	680	1,684
Patents	923	178	745
Distribution rights	178	178	0
Product development	1,888	579	1,309
Software	556	331	225
Goodwill	12	0	12
Total	**5,921**	**1,946**	**3,975**

Intangible assets at December 31, 2008 comprised:

	Historical cost KEUR	Accumulated amortization 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**

	Remaining amortization period	
	from	up to
Approvals	2 months	10 years
Patents	6.5 years	20 years
Product development	2.5 years	5 years
Software	1 month	5.5 years

Borrowing costs totalling KEUR 37 (2008: KEUR 21) were capitalized in intangible assets in 2009 on the basis of an interest rate of 6.37% (2008: 7.3%). The total amount of borrowing costs recognized as an asset at the end of the reporting period was KEUR 98 (2008: KEUR 61). Amortization and impairment loss expense for the financial year 2009 amounted to KEUR 508 (2008: KEUR 415). An impairment loss of KEUR 78 was recognized on patents for IC-View since the product is no longer expected to generate any significant amounts of revenue. In addition, a loss of KEUR 6 was recognized on patents relating to the cerebral perfusion product as a result of the impairment test. The impairment losses were recognized in the income statement (cost of sales).

13. Goodwill

	Dec. 31, 2009 KEUR	Dec. 31, 2008 KEUR
Cost	12	0
Accumulated impairment losses	0	0
Carrying amount at year-end	**12**	**0**

In accordance with an agreement certified by public notary on December 23, 2008, PULSION AG acquired all of the shares of ESOMA Beteiligungsverwaltung GmbH (name changed to PULSION Austria GmbH in accordance with resolution dated December 23, 2008), 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 investment was consolidated for the first time with effect from January 1, 2009 when the shares were transferred with legal effect, giving rise to goodwill of KEUR 12. The acquired company did not have any active operations at the date of acquisition and did not account for any significant assets or liabilities. Following the acquisition of the shares, the sales region Austria is now being handled by this subsidiary.

14. Property, plant and equipment

Impairment losses of KEUR 33 (2008: KEUR 0) were recognized in 2009 on property, plant and equipment to reduce their carrying amount to fair value. The depreciation expense for the financial year 2009 amounted to KEUR 1,180 (2008: KEUR 1,470).

The amount reported for property, plant and equipment in the balance sheet includes KEUR 0 (2008: KEUR 49) 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".

15. 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:

KEUR				**Dec. 31, 2009**
	Total	**< 1 year**	**1-5 years**	**> 5 years**
Minimum lease payments December 31, 2009	71	71	0	0
Interest expense for lease liabilities as at the balance sheet date	2	2	0	0
Present value of minimum lease payments at Dec. 31, 2009	**69**	**69**	**0**	**0**

KEUR				**Dec. 31, 2008**
	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**

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

	Dec. 31, 2009 KEUR	Dec. 31, 2008 KEUR
Medical and other equipment	412	915
Accumulated decpreciation	265	425
Finance leases	**147**	**490**

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

16. Investment property

Rental income from investment property amounted to KEUR 25 in 2009 (2008: KEUR 27). Costs directly related to investment property amounted to KEUR 8 (2008: KEUR 7). 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 (2008: KEUR 417).

17. Financial assets

The investment in ESOMA Beteiligungsverwaltung GmbH was reported on this line at December 31, 2008. This entity, whose name has since been changed to PULSION Austria GmbH, was consolidated for the first time with effect from January 1, 2009.

18. Inventories

Inventories comprise:

	Dec. 31, 2009 KEUR	Dec. 31, 2008 KEUR
Raw materials and supplies	2,938	2,187
Work in progress	231	315
Finished goods and goods for resale	1,995	2,025
	5,164	**4,527**

Write-downs on inventories were as follows:

			Dec. 31, 2009 KEUR			Dec. 31, 2008 KEUR
Raw materials and supplies	2,983			2,187		
Gross amount subject to write-down	45			0		
Write-downs		-45	2,938		0	2,187
Work in progress	231	0	231	315	0	315
Finished goods and goods for resale	2,033			2,071		
Gross amount subject to write-down	38			46		
Write-downs		-38	1,995		-46	2,025
			5,164			**4,527**

The net impact of write-downs in 2009 was recognized as an expense within cost of sales and amounted to KEUR 229 (2008: KEUR 100).

19. Trade accounts receivable

	Dec. 31, 2009 KEUR	Dec. 31, 2008 KEUR
Trade accounts receivable	5,599	5,545
(of which non-current)	(0)	(122)
less: allowances	17	13
Trade accounts receivable	**5,582**	**5,532**

Non-current trade accounts receivable reported in 2008 included the portion of receivables relating to finance lease sales contracts and license receivables and the portion of licence receivables due later than one year. As a result of a contractual amendment, the license receivable accrued in the precious year was derecognized.

Impairment allowances developed as follows:

	Dec. 31, 2009 KEUR	Dec. 31, 2008 KEUR
Allowances at January 1	13	32
Allocated	6	0
Utilized	-1	-18
Reversed	-1	-1
Allowances at December 31	**17**	**13**

Impairment allowances on trade accounts receivable include specific allowances of KEUR 6 (2008: KEUR 1) and flat-rate specific allowances of KEUR 11 (2008: TEUR 12). Specific allowances on receivables entail a significant degree of estimation and the assessments of individual balances based on the creditworthiness of each customer. Flat-rate specific allowances are based on estimates.

During the reporting period, trade accounts receivable amounting to KEUR 3 (2008: KEUR 16) were derecognized since the receivables cannot be recovered. In addition, customer accounts with statute-barred credit balances totalling KEUR 0 (2008: KEUR 1) were recognized as income in 2009.

The Group's payment periods range from 14 and 120 days depending on the customer concerned. Interest is not recognized 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 recognized automatically when agreed payment periods are missed since most receivables relate to public sector organizations so that the bad debt risk is limited. In addition, the bad debt risk in the case of new customers outside Germany is minimized by requiring up-front payments and carrying out creditworthiness checks. Trade accounts receivable relate to individual customers and global distributors. There is therefore no concentration of receivables for individual customers.

Specific impairment allowances were not recognized on trade accounts receivable amounting to KEUR 2,537 (2008: KEUR 1,979) 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:

KEUR	Carrying amount	of which neither subject to impairment loss nor overdue at the year-end	of which not subject to impairment loss and overdue at the year-end in the following time windows				of which subject to impairment loss and overdue at the year-end
December 31, 2009			1 to 30 days	30 to 60 days	60 to 90 days	more than 90 days	
Trade accounts receivable	**5,599**	3,056	933	545	285	774	6
December 31, 2008							
Trade accounts receivable	**5,545**	3,565	1,091	242	200	446	1

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 recognized.

Receivables due under finance lease sales contracts comprise the following:

KEUR	Dec. 31, 2009			
	Total	**< 1 year**	**1-5 years**	**> 5 years**
Minimum lease payments at Dec. 31, 2009	116	116	0	0
Interest income contained in lease receivables at balance sheet date	2	2	0	0
Present value of minimum lease payments at Dec. 31, 2009	**114**	**114**	**0**	**0**

KEUR	Dec. 31, 2008			
	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**

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.

20. Other current assets

This item comprises the following:

	Dec. 31, 2009 KEUR	Dec. 31, 2008 KEUR
Deferred expenses	408	199
Advance payments to suppliers	164	152
Receivables from German Tax Office – value added tax	111	87
	683	438
Other	150	158
Total	**833**	**596**

21. Cash and cash equivalents / cash funds

Cash funds reported in the cash flow statement comprise:

	Dec. 31, 2009 KEUR	Dec. 31, 2008 KEUR
Cash and cash equivalents	4,749	3,163
Cash pledged as collateral	(105)	(168)
	4,644	**2,995**

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.

The authorization to increase the Company's share capital pursuant to the resolution taken at the Annual General Meeting on June 9, 2004 expired on June 8, 2009.

At December 31, 2009, 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.

Conditional Capital V pursuant to the resolution taken at the Annual General Meeting on June 9, 2004 also expired on June 8, 2009.

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 translation differences.

Additional disclosures relating to capital management: Equity capital increased during the financial year 2009 by 5%, primarily as a result of the increased unappropriated profit. Despite the increase in equity, the equity ratio at December 31, 2009 fell to 66% (December 31, 2008: 68%), while the return on equity improved to 2.9% (December 31, 2008: negative return of 4.5%) and the total return on capital improved to 1.9% (December 31, 2008: negative return of 2.9%). The improvement in the return of capital primarily reflected the improved group net result (group net profit in 2009 compared to a group net loss in 2008) achieved largely on the back of significantly reduced operating costs. The objective of capital management is to ensure the Group's solvency and improve the capital structure.

Performance indicator	Basis of computation	Dec. 31, 2009	Dec. 31, 2008
Equity ratio	Equity / balance sheet total	66%	68%
Return on equity	Group profit (loss) / average equity	2.9%	-4.5%
Return on total capital	Group profit (loss) / average total capital	1.9%	-2.9%

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

	KEUR
Balance at January 01, 2009	20,596
Transfer from fair value measurement of share options	80
Transfer out of additional paid-in capital	19,259
Balance at December 31, 2009	**1,416**

An amount of KEUR 19,259 was transferred out of additional paid-in capital at the level of the parent company and offset against the accumulated deficit of that company in 2009.

The statutory reserve includes for the first time amounts transferred in accordance with local regulations (for PULSION Switzerland GmbH).

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 2009 was EUR 2.29.

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

	Dec. 31, 2009		Dec. 31, 2008	
	Options	Weighted average exercise price (EUR)	Options	Weighted average exercise price (EUR)
Outstanding at the beginning of the year	175,000	6.27	283,000	6.76
Granted during the year	84,000	2.86	35,000	5.03
Exercised during the year	0	0.00	0	0.00
Expired during the year / forfeited *	38,000	5.23	143,000	6.94
Outstanding at the end of the year	221,000	5.15	175,000	6.27
Thereof Management Board	10,000	4.13	45,000	4.83
Exercisable at the end of the year	91,500	6.03	46,000	4.46
Thereof Management Board	10,000	4.13	10,000	4.13

* of which 38.000 are available for re-issue.

The following table summarizes information about options outstanding at December 31, 2009:

			Options outstanding		Options exercisable
Exercise price	Number outstanding	Weighted average remaining contractual period	Weighted average exercise price	Number exercisable	Weighted average exercise price
EUR	Units	Years	EUR	Units	EUR
7 - 8	91,000	5.52	7.61	45,500	7.61
5 - 7	10,000	3.55	5.63	10,000	5.63
4 - 5	36,000	2.65	4.13	36,000	4.13
2 - 3	84,000	7.73	2.86	0	0.00
	221,000	**5.95**	**5.15**	**91,500**	**6.03**

At December 31, 2009 and December 31, 2008, conditional capital was available to meet subscription rights exercised in conjunction with incentive compensation plans. At December 31, 2009, 44 employees 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:

	2009	2008
Risk-free interest rate	2.22%	4.34%
Dividend income	0%	0%
Volatility	56.63%	54.93%
Exercise price (EUR)	2.860	5.030
Terms of option rights	8 years	8 years

Volatility was determined on the basis of the past volatility of the market price of PULSION stock during the period from January 2, 2004 to November 19, 2009 for options granted in 2009. The Group has elected to apply the earliest exercise date as its exercise strategy. The weighted-average fair value of options granted during 2009 was EUR 0.76. In 2008, it had been EUR 1.35.

24. Provisions

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

	Jan. 1, 2009 KEUR	Utilized KEUR	Reversed KEUR	Interest unwound KEUR	Allocated KEUR	Dec. 31. 2009 KEUR
Warranties	131	66	0	0	97	162
Other contractual obligations	115	0	0	7	0	122
Pending losses on onerous contracts	0	0	0	0	20	20
Legal disputes	0	0	0	0	785	785
Other	26	0	0	0	0	26
	272	**66**	**0**	**7**	**902**	**1,115**

In accordance with IAS 37, a provision is recognized when it is probable that an outflow of resources will be necessary to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions were recognized primarily for warranties, in particular for monitors, in conjunction with statutory warranty obligations (KEUR 162), for other contractual obligations (KEUR 122) and for legal disputes, mainly in connection with ex-members of the Management Board (KEUR 785). With the exception of a partial amount of KEUR 205, provisions all have an expected maturity of up to one year. The non-current portion will be utilized in instalments through to January 31, 2022.

25. Financial liabilities

	Current		Non-current	
	Dec. 31, 2009 KEUR	Dec. 31, 2008 KEUR	Dec. 31, 2009 KEUR	Dec. 31, 2008 KEUR
Unsecured financial liabilities at amortized cost				
Current account balances	0	0	0	0
Bank loans	0	0	0	0
Financial debt	0	26	0	0
Lease liabilities	69	217	0	69
Other	2,794	3,172	76	239
Secured financial liabilities at amortized cost				
Current account balances	1	0	0	0
Bank loans	923	390	704	1,627
Financial debt	0	0	0	0
Lease liabilities	0	0	0	0
Other	0	0	0	0
	3,787	**3,805**	**780**	**1,935**

26. Liabilities to banks

The liabilities disclosed at December 31, 2009 were subject to the following terms and conditions:

Bank	Type	Maturity	Interest rate %	Dec. 31, 2009 KEUR	Current KEUR	Non-current KEUR
WestLB AG, Düsseldorf	Loan	09/2013	5.4	144	40	104
WestLB AG, Düsseldorf	Loan	10/2010	6-month-EURIBOR + 1.5 percentage points	600	600	0
WestLB AG, Düsseldorf	Loan	07/2012	6.32	850	250	600
Münchner Bank e.G./Raiffeisenbank München e.G., Munich	Loan	04/2010	5.5	33	33	0
Banco Pastor, Alcorcon/Spain	Cur. acct.	06/2010	2.5	1	1	0
Total				**1,628**	**924**	**704**

The following collateral has been given to secure liabilities to banks totalling KEUR 1,628: At the balance sheet date, mortgages on property totalled KEUR 417 (2008: KEUR 417). In addition, cash at bank totalling KEUR 105 (2008: KEUR 168) was pledged as collateral. Assignment as collateral has also been agreed for purchased equipment totalling KEUR 720 (including value added tax) (2008: KEUR 720). Asset collateral pledges of KEUR 417 (2008: KEUR 417) were also in place at December 31, 2009. There were no other collateral pledges of goods for resale or operational equipment at the end of the reporting period (2008: KEUR 0).

At December 31, 2009, the Group had unused credit lines of KEUR 498 (2008: KEUR 391).

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

Bank	Type	Maturity	Interest rate	Dec. 31, 2008	Current	Non-current
			%	KEUR	KEUR	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 maturities of loans are as follows:

	KEUR
2010	924
2011	290
2012	390
2013	24
after 2014	0
	1,628

Interest expenses in 2009 include KEUR 104 (2008: KEUR 120) for liabilities to banks.

27. Financial liabilities

	Dec. 31, 2009	Dec. 31, 2008
Current financial liabilities		
Bayerische Beteiligungsgesellschaft mbH (BayBG)	0	26
Total financial liabilities	**0**	**26**

Formerly 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 was 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 1,513 (2008: KEUR 1,061).
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, 2009 KEUR	Dec. 31, 2008 KEUR
Audit of company / group financial statements	120	77
Advanced payments from suppliers	69	13
License fees	25	129
Deferred income	84	276
(of wich finance lease from SALB)	(25)	(137)
Personnel-related obligations	1,126	1,164
Outstanding invoices	822	625
Court settlement agreement	0	250
Other	548	638
	2,794	**3,172**
Non-current other liabilites		
Deferred income	0	206
(of wich finance lease from SALB)	(0)	(25)
Retention of business documentation	53	0
Other	23	33
	76	**239**
Total other liabilities	**2,870**	**3,411**

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

Obligations from:	2010 KEUR	2011 KEUR	2012 KEUR	2013 KEUR	after 2014 KEUR	Total KEUR
Rental contracts	648	631	136	7	0	1,422
Vehicle leases	320	202	51	2	0	575
Other service contracts	51	47	46	45	7	196
Supplier framework agreements	843	0	0	0	0	843
Purchase agreements	1,920	2,475	1,132	1,353	1,739	8,619
Capital expenditure commitments	97	0	0	0	0	97
Total	**3,879**	**3,355**	**1,365**	**1,407**	**1,746**	**11,752**

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

	2009 KEUR	2008 KEUR
Up to 1 year	963	884
Later than 1 year up to five years	1,032	1,350
Later than 5 years	0	0
	1,995	**2,234**

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. 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. A lease expense of KEUR 1,224 (2008: KEUR 1,216) was recognized in the income statement for operating leases.

The Group uses framework agreements (KEUR 843) and purchase agreements (KEUR 8,619) to keep production volumes in line with sales forecasts and, with the aid of fixed prices, to avoid unexpected price increases. They also help to reduce the risk of over-stocking.

In addition, at December 31, 2009, the Group had purchase commitments for the purchase of raw materials, supplies and other items in the year 2010 amounting to EUR 1.3 million.

As the lessor under operating leases: PULSION AG rents out investment property and sublets one rented parking space. PULSION AG also makes monitors available to customers in return for commitments to purchase PULSION products and in return for a fee.

At December 31, 2009, contingent liabilities totalled KEUR 149 (2008: KEUR 149) for rental guarantees and KUSD 2 (2008: KUSD 2) for a performance guarantee.

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 recognized directly in equity.

Details disclosed 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 classes of assets and liabilities (all attributable to the category "loans and receivables") were as follows at December 31, 2009:

	Carrying amount	Amount relevant for IFRS 7 purposes	Amortized cost	Recognized directly in equity	Recognized through income statement	Carrying amount at fair value
	KEUR	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**
Cash and cash equivalents	4,749	4,749	4,749	–	–	4,749
Trade accounts receivable	5,582	5,582	5,582	–	–	5,582
Other assets	833	–	–	–	–	–
Trade accounts payable	1,513	1,513	1,513	–	–	1,513
Liabilities to banks	1,628	1,628	1,628	–	–	1,628
Financial debt	0	0	0	–	–	0
Lease liabilities	69	69	69	–	–	69
Other liabilities	2,870	1,021	1,021	–	–	1,021

At December 31, 2008, the classes of assets and liabilities (all attributable to the category "loans and receivables") were as follows:

	Carrying amount KEUR	Amount relevant for IFRS 7 purposes KEUR	Amortized cost KEUR	Recognized directly in equity KEUR	Recognized through income statement KEUR	Carrying amount at fair value KEUR
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

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

Dr. Dr. Pfeiffer and UP Med AG i.L. filed an application with the Regional Court I of Munich for enforcement of the settlement dated January 28, 2009, since, allegedly, the publication of a press release by the Company relating to the settlement agreement had not been published in accordance with the contractual agreement. Based on the assessment of attorneys representing PULSION AG in this matter, the application is unfounded. A provision has therefore not been recognized. As with all legal proceedings, however, it cannot be ruled out that the court responsible for the proceedings will not have a different legal opinion.

One ex-member of the Management Board has filed a claim at the Regional Court I of Munich for declaratory judgement against PULSION AG for the revocation of his appointment as member of the Management Board to be declared invalid and for payment of his remuneration to be continued. Based on the assessment of attorneys representing PULSION AG in this matter, the required provision for the possible payment of compensation is EUR 400,000. This amount was recognized with income statement impact as a provision at December 31, 2009.

A further ex-member of the Management Board has filed a claim at the Regional Court I of Munich for declaratory judgement against PULSION AG that his earlier employment relationship did not come to an end as a result of the revocation of his appointment as member of the Management Board without notice. A provision of EUR 135,102 has been recognized with income statement effect. The court ruling is scheduled for February 26, 2010; this ruling will not, however, be legally valid by the time the financial statements are approved for issue.

Matthias Bohn reached an out-of-court agreement with the Supervisory Board on March 11, 2010 and will leave PULSION on mutually agreed terms. The actions brought against the Company will not be pursued further following the agreement reached between the Supervisory Board and Mr. Bohn. The provision recognized with income statement in the consolidated financial statements effect reflects the agreement reached. PULSION AG has no other obligations in this matter.

The French subsidiary has been sued by an ex-director whose appointment was revoked in the past. The lawsuit was resumed during the financial year under report and a provision recognized on the basis of the current assessments of the potential risk.

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

33. Earnings per share

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

		2009	2008
Weighted average number of shares (undiluted)	**Number**	**9,577,302**	**9,577,302**
Dilutive effect of options	Number	0	0
Weighted average number of shares (diluted)	**Number**	**9,577,302**	**9,577,302**
Group net profit/loss (after minority interests)	KEUR	465	-727
Earnings per share (undiluted)	**EUR**	**0.05**	**-0.08**
Earnings per share (diluted)	**EUR**	**0.05**	**-0.08**

The computation of diluted earnings per share does not take account of 137,000 (2008: 175,000) options which have an anti-diluting effect. There was no diluting effect for 2009 due to the fact that the average market price in 2009 was lower than the exercise price of exercisable options.

34. Financial instruments / Risk management

Significant accounting policies: Details of the Group's principal accounting policies, including recognition criteria, measurement principles and the principles for recognizing 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 analyzed in Note 19.

Categories of financial instruments:

	Dec. 31, 2009 KEUR	Dec. 31, 2008 KEUR
Financial assets		
Measured at fair value through profit or loss	0	0
Loans and receivables (including cash and cash equivalents)	10,331	8,695
Financial assets	0	40
Financial liabilities		
Measured at fair value through profit or loss	0	0
Other financial liabilities measured at amortized cost	6,080	4,327

In the course of its operating activities, PULSION is exposed to a number of risks which inevitably arise in connection with entrepreneurial activities. All companies are faced with a two-fold challenge – on the one hand they must promptly recognize economic opportunities and make the best possible use of them; on the other hand, they must be able to identify the risks accompanying every business activity, analyse the effects they may have on the enterprise and, as far as possible, use preventive measures to avoid or stave off dangers which could arise.

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 optimizing 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, recognized assets and liabilities and the net investment in foreign operations. A foreign currency risk arises when expected future transactions as well as recognized assets and liabilities are denominated in a currency other than the functional currency. The Group operates internationally and is therefore exposed to a foreign currency risk. This risk is mitigated by the fact that most transactions are denominated in the functional currency and that only a small volume of foreign currency transactions (USD, GBP, AUD, CHF) were transacted. 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, 2009	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008
	KEUR	KEUR	KEUR	KEUR
USD	448	385	183	118
AUD	437	570	56	83
GBP	1,188	443	314	184
CHF	207	170	37	4

The following tables show, from a group perspective, the sensitivity to a 10% change in the Euro against other currencies to which the Group has an exposure. 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			Assets		
	Carrying amount	Change +10%	Difference	Carrying amount	Change +10%	Difference
	Dec. 31, 2009	Dec. 31, 2009	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2008	Dec. 31, 2008
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
USD	448	493	45	385	423	38
AUD	437	481	44	570	627	57
GBP	1,188	1,307	119	443	487	44
CHF	207	228	21	170	187	17
	2,281	**2,509**	**228**	**1,568**	**1,724**	**157**

	Liabilities			Liabilities		
	Carrying amount	Change +10%	Difference	Carrying amount	Change +10%	Difference
	Dec. 31, 2009	Dec. 31, 2009	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2008	Dec. 31, 2008
	KEUR	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**
USD	183	202	18	118	130	12
AUD	56	61	6	83	91	8
GBP	314	345	31	184	203	18
CHF	37	40	4	4	4	0
	589	**648**	**59**	**389**	**428**	**39**

Exchange rate sensitivity increased during the financial year under report since the subsidiary in Great Britain reports higher assets at the balance sheet date, but which do not constitute an increased currency risk.

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 organizations 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.

Dec. 31, 2009	Due immediately KEUR	Due within 3 months KEUR	Due within 3 - 12 months KEUR	Due within 1 - 5 years KEUR	Due after more than 5 years KEUR
Liabilities to banks subject to variable interest rates	0	4	609	0	0
Liabilities to banks subject to fixed interest rates	0	51	328	756	0
Financial debt	0	0	0	0	0
	0	**55**	**936**	**756**	**0**

Dec. 31, 2008	Due immediately KEUR	Due within 3 months KEUR	Due within 3 - 12 months KEUR	Due within 1 - 5 years KEUR	Due after more than 5 years KEUR
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**

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. Inter-segment transactions are based on a cost-plus model.

Segment information at December 31, 2009 is analyzed as follows:

	Germany	France	Rest of Europe	USA	Australia	Recon-ciliations	Group
	KEUR	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**
Sales – 3rd parties	17,454	2,273	6,816	959	639	0	28,141
thereof equipment	4,925	588	959	314	72	0	6,857
thereof disposables	10,408	1,685	5,108	469	473	0	18,142
thereof indication / diagnosis	2,122	0	750	177	94	0	3,142
Sales – intragroup	6,051	0	0	8	0	-6,060	0
Depreciation and amortization	-1,434	-172	-336	-81	-22	222	-1,822
Impairment losses	-302	0	-10	0	-5	0	-317
Non-cash income and expenses	505	-28	7	3	8	177	672
Operating segment result before interest and taxes	**3,347**	**-697**	**539**	**-751**	**-189**	**142**	**2,392**
Interest expenses	-142	-182	-223	-321	-151	876	-144
Interest income	911	0	1	0	9	-888	32
Income taxes	-1,692	0	-87	0	0	62	-1,718
Minority interests						-97	-97
Group net profit (after minority interests)							**465**
Segment assets	41,197	1,411	5,062	768	546	-23,237	25,747
Segment liabilities	7,347	4,135	5,515	6,143	2,932	-17,307	8,765
Segment capital expenditure (without monitors)	1,566	21	42	0	0	12	1,641
Segment capital expenditure monitors	456	250	477	4	18	-504	702

Segment information at December 31, 2008 is analyzed as follows:

	Germany KEUR	France KEUR	Rest of Europe KEUR	USA KEUR	Australia KEUR	Reconciliations KEUR	Group KEUR
Sales – 3rd parties	19,391	2,003	5,183	458	927	0	27,962
thereof equipment	5,164	503	962	229	235	0	7,093
thereof disposables	11,185	1,500	3,471	229	615	0	17,000
thereof indication / diagnosis	3,042	0	750	0	77	0	3,869
Sales – intragroup	5,221	13	2	0	0	-5,235	0
Depreciation and amortization	-1,603	-187	-376	-97	-64	276	-2,051
Impairment losses	-280	-4	-27	-2	-10	0	-322
Non-cash income and expenses	237	0	-14	0	-2	-352	-131
Operating segment result before interest and taxes	**2,514**	**-602**	**123**	**-1,279**	**-71**	**-108**	**578**
Interest expenses	-186	-139	-196	-254	-142	723	-193
Interest income	792	0	7	1	13	-725	88
Income taxes	-198	0	-66	-1	0	-859	-1,124
Minority interests						-77	-77
Group net loss (after minority interests)							**-727**
Segment assets	38,859	1,339	3,413	875	754	-21,389	23,849
Segment liabilities	7,512	3,184	4,174	5,282	2,343	-14,886	7,609
Segment capital expenditure (without monitors)	2,287	29	8	63	1	0	2,390
Segment capital expenditure monitors	1,974	284	819	340	106	-937	2,584

As a result of the expansion of the group reporting entity with effect from January 1, 2009, the scope of the existing reportable segments at December 31, 2009 has been extended. In accordance with IFRS 8, the Rest of Europe segment has been expanded for business activities in Austria and Switzerland. In the previous year, the activities in these two countries were included in the operating segment Germany. At the same time, due to the criteria for reportable segments, the segment France is now reported separately. In the previous year, these activities were included in the Rest of Europe segment.

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 2009, the Management Board comprised the following:

Christoph R. Manegold

Member of the Management Board, responsible for Research and Development (since June 6, 2009), with sole right of representation of the board from December 1, 2009 until the appointment of Hans-Hubert Schmitt on January 4, 2010

Other mandates:

– Member of the Board of Directors of PULSION Austria GmbH (since December 3, 2009)
– Member of the Board of Directors of PULSION Pacific Pty. Ltd., Australia (since November 24, 2009)
– Member of the Board of Directors of PULSION Benelux N.V., Belgium (since December 18, 2009)
– Member of the Board of Directors of PULSION Medical Inc., USA (since December 1, 2009)
– Managing Director of PULSION France S.A.R.L, France (since December 31, 2009)

Further mandates, registered in 2010:

– Member of the Board of Directors of PULSION Switzerland GmbH, Switzerland (registered on January 8, 2010)
– Member of the Board of Directors of PULSION Medical Systems Iberica S.L., Spain (registered on January 15, 2010)
– Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom

Matthias Bohn

Spokesman of the Management Board, responsible for Research and Development (until June 5, 2009), Production and Logistics, International Approvals and Purchasing (until November 30, 2009)

Other mandates:

– Member of the Board of Directors of PULSION Medical Inc., USA (until November 30, 2009)
– Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom (until November 30, 2009)
– Chairman of the Board of Directors of PULSION Benelux N.V., Belgium (until November 30, 2009)
– Member of the Board of Directors of PULSION Pacific Pty. Ltd., Australia (until November 30, 2009)
– Member of the Board of Directors of PULSION Medical Systems Iberica S.L., Spain (until November 30, 2009)

– Managing Director of PULSION France S.A.R.L., France (until November 30, 2009)
– Member of the Board of Directors of PULSION Austria GmbH, Austria (until November 30, 2009)

Frank Posnanski
Member of the Management Board, responsible for Finance, Investor Relations, Administration and Human Resources (until November 30, 2009)

Other mandates:
– Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom (until November 30, 2009)
– Member of the Board of Directors of PULSION Benelux N.V., Belgium (until November 30, 2009)
– Managing Director of PULSION France S.A.R.L., France (until November 30, 2009)
– Member of the Board of Directors of PULSION Medical Systems Iberica S.L., Spain (until November 30, 2009)
– Member of the Board of Directors of PULSION Pacific Pty. Ltd., Australia (until November 30, 2009)
– Member of the Board of Directors of PULSION Medical Inc., USA (until November 30, 2009)
– Member of the Board of Directors of PULSION Switzerland GmbH, Switzerland (until November 30, 2009)
– Member of the Board of Directors of PULSION Austria GmbH, Austria (until November 30, 2009)

Dr. Burkhard Wittek
Chairman of the Management Board (until May 14, 2009), responsible for Marketing and Sales

Other mandates:
– Member of the Board of Directors of PULSION Medical Inc., USA (until May 14, 2009)

During the financial year 2009, the Supervisory Board comprised the following:

Dr. Burkhard Wittek
MBA, Entrepreneur, Chairman since November 17, 2009

Other mandates:
– iOnGen AG, Göttingen (member of the Supervisory Board)
– Immunodiagnostic System Holdings plc, Boldon Tyne & Wear, UK (non-executive Board Member)

Jürgen Lauer
Dipl.-Betriebswirt, MBA, Deputy Chairman since November 17, 2009
Director of JüLa Beteiligungs GmbH, Weißenhorn

Other mandates:
- Medica Medizintechnik GmbH, Hochdorf (member of the Advisory Board)
- Singulus Technologies AG, Kahl am Main (member of the Supervisory Board since August 17, 2009)
- WashTec AG, Augsburg (Deputy Chairman of the Supervisory Board)

Frank Fischer
Dipl.-Kaufmann, member since November 17, 2009
Chairman of the Shareholder Value Management AG, Frankfurt am Main
Chairman of the Shareholder Value Beteiligungen AG, Frankfurt am Main
Director of Value Focus Beteiligungs GmbH, Hofheim

No further mandates

Claus F. Vogt
Dipl.-Kaufmann (Univ.), Qualified Auditor, Qualified Tax Adviser, Certified Valuation Analyst (CVA), Fachberater für Sanierung und Insolvenz (DStV e.V.), Chairman since October 23, 2009, Deputy Chairman until October 22, 2009, ceased to be member on November 16, 2009

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

Michael Bourjau
Dipl.-Kaufmann (FH), Chairman until September 15, 2009,
ceased to be member on September 15, 2009

Other mandates:
- Schmidbauer GmbH & Co. KG, Gräfelfing (Member of the Advisory Board)
- HANSA Metallwerke AG, Stuttgart (Chairman)
- BIOGAS NORD AG, Bielefeld (Chairman until March 31, 2009)

Dr. Karsten W. Zimmermann
Diplom-Physiker, MPA Harvard, Dr. rer. pol., member,
ceased to be member on November 16, 2009

No further mandates

Andreas Frhr. von Schorlemer
Attorney, member of the Supervisory Board since October 5, 2009,
ceased to be member on November 16, 2009

Other mandates:
– Julia AG (Chairman of the Supervisory Board)
– UnitedScreens Media AG (Chairman of the Supervisory Board)

37. Related parties

The parent company is PULSION Medical Systems AG, based in Munich, Germany. Transactions between PULSION AG and its subsidiaries that are 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.

As a result of the organizational changes within the Management Board at the year end, Hans-Hubert Schmitt was temporarily engaged as consultant prior to his appointment to the Management Board on January 4, 2010. During this period, Mr. Schmitt took over responsibility for Finance and Sales and Marketing. A special remuneration will be charged for these advisory services.

A guarantee of KEUR 60 (2008: KEUR 168) has been issued on behalf of the Spanish subsidiary. 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 December 31, 2010.

In accordance with IAS 24, the Group also reports all transactions between it and its related parties (including family members). Members of the Management Board and Supervisory Board (and their relatives) have been defined as related parties.

An underground parking space has been sub-let to Christoph R. Manegold, member of the Management Board, by the Company at cost price for operational use. During the period from March 24, 2009 to May 25, 2009, two offices were sub-let to FORUM European Smallcaps GmbH and costs incurred by the Company billed to that entity.

Compensation Report for the Management Board

Management Board remuneration	2009				2008		
	Fixed *	Variable **	Variable ***	Other ****	Fixed *	Variable	Other ****
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Christoph R. Manegold (Member since June 6, 2009)	107	0	37	0	–	–	–
Matthias Bohn (Member until Nov. 30, 2009)	216	19	0	0	202	46	0
Frank Posnanski (Member until Nov. 30, 2009)	158	23	0	280	89	0	0
Dr. Burkhard Wittek (Chairman until May 14, 2009)	80	0	0	0	18	0	0
Bradley P. Gould (Chairman until Oct. 13, 2008)	–	–	–	–	228	85	119

* including private use of car, reimbursement of social security contributions and insurance benefits
** remuneration for work performed in 2008
*** estimated entitlement for 2009
**** remuneration earned on the exercise of stock options and redundancy payments

The remuneration shown for Christoph R. Manegold relates to the period after appointment to the Management Board. No stock options were granted to members of the Management Board during the financial year 2009. The expense for stock options recognized in 2009 on a time-apportioned basis was KEUR 18 for Mr. Posnanski (2008: KEUR 9) and KEUR 0 for Mr. Gould (2008: KEUR 75). Options held by Christoph R. Manegold have been treated as employee options in accordance with the resolution taken to issue the options. The total remuneration of the Management Board for 2009 amounted to KEUR 883 (2008: KEUR 787), of which KEUR 776 (2008: KEUR 432) related to members who had left the Company before the end of 2009.

The Management Board members' service contracts do not contain any specific commitment to pay compensation in the event of the early or regular termination of their contracts. Compensation may arise, however, in conjunction with a future specific contract termination agreement. In conjunction with the appointment of Christoph R. Manegold to the board, a "change of control" clause was added to the contract. This clause does not exist at the end of the reporting period due to a change in the board member's contract.

The following amounts were recognized as expense at December 31, 2009 as a result of legal disputes with former board members:

Dr. Burkhard Wittek .... EUR 135,102
Matthias Bohn .... EUR 400,000

These provisions are measured on the basis of information currently available and estimates and could change in the coming year as a result of new information and depending on the progress of legal proceedings.

Further disclosures with regard to the share-based remuneration of the members of the Management Board for 2009 are presented in Note 23.

Compensation Report for the Supervisory Board

The expense recognized for compensation paid of members of the Supervisory Board during the financial year 2009 by way of fixed remuneration totalled KEUR 80 (2008: KEUR 87). No variable remuneration (based on EBIT) was paid for the financial year 2009 (2008: KEUR 0). Amounts paid to the members of the Supervisory Board were as follows:

	period			2009			2008
		fixed	variable	others	fixed	variable	others
		KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Dr. Burkhard Wittek	Nov. 17, 2009 - Dec. 31, 2009	2	0	29	31	0	0
Jürgen Lauer	Nov. 17, 2009 - Dec. 31, 2009	2	0	0	0	0	0
Frank Fischer	Nov. 17, 2009 - Dec. 31, 2009	1	0	0	0	0	0
Michael Bourjau	Jan. 1, 2009 - Sep. 15, 2009	28	0	3	32	0	0
Claus F. Vogt	Jan. 1, 2009 - Nov. 16, 2009	27	0	70	22	0	0
Dr. Karsten W. Zimmermann	Jan. 1, 2009 - Nov. 16, 2009	18	0	0	2	0	0
Andreas Frhr. von Schorlemer	Oct. 5, 2009 - Nov. 16, 2009	2	0	0	0	0	0
Total		**80**	**0**	**102**	**87**	**0**	**0**

Other remuneration comprises mainly the reimbursement of costs. The amount reported for Claus F. Vogt also includes KEUR 59 of remuneration paid in conjunction with the preparation of a fairness opinion by Treuhandgesellschaft Südbayern GmbH, the managing shareholder of which is Claus F. Vogt.

Other remuneration of Dr. Burkhard Wittek includes KEUR 29 for reimbursements made to FORUM European Smallcaps GmbH in conjunction with the Annual General Meeting on November 16, 2009.

Shareholdings of Management Board and Supervisory Board members

At December 31, 2009 and 2008, PULSION AG Management Board members held the following shares (units) and stock options (number):

Management Board member	Dec. 31, 2009 Shares (Units)	Dec. 31, 2009 Options (Number)	Dec. 31, 2008 Shares (Units)	Dec. 31, 2008 Options (Number)
Christoph R. Manegold (since June 6, 2009) *	–	–	–	–
Matthias Bohn (until November 30, 2009)	0	10,000	42,313	10,000
Frank Posnanski (until November 30, 2009)	–	0	–	35,000
Dr. Burkhard Wittek (Chairman until May 14, 2009) **	0	–	1,749,741	–
Total	**0**	**10,000**	**1,792,054**	**45,000**

* options held by Christoph R. Manegold have been treated as employee options in accordance with the resolution taken to issue the options. Similarly, shares acquired prior to his appointment to the board, have not been disclosed.
** attributable via FORUM European Smallcaps GmbH

Supervisory Board members gave notice to the Company of reportable shareholdings in the Company as at December 31, 2009 as follows:
Based on the conclusion of a shareholders' agreement, Dr. Burkhard Wittek reported at December 31, 2009 that he held 3,237,472 shares which were attributable jointly to pool participants pursuant to § 30 (2) p.1.of the German Securities Transitional Act (WpÜG) .

At December 31, 2009 Frank Fischer, directly and with close family members, holds 56,611 of the Company's shares. In total, 607,231 shares are attributable directly and directly via Mr. Fischer's activities as management board member of Shareholder Value Management AG and Shareholder Value Beteiligungen AG.

Reportable transactions

A summary of transactions of Management and Supervisory Board members with PULSION securities, as notified to PULSION AG in accordance with § 15a of the German Securities Trade Act, can be accessed on the Company's website at www.pulsion.com.

38. Auditors' fees

In 2009, an expense of KEUR 85 was recognized for the audit of the Company and Group financial statements (2008: KEUR 81) and KEUR 10 for other services (2008: KEUR 0).

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 (www.pulsion.com/fileadmin/pulsion_share/Investor/2009_Entsprechenserklaerung.pdf).

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

SEDA GmbH, Munich, Germany, notified us on February 9, 2009 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG, Munich, Germany, ISIN: DE0005487904, WKN: 548790 went below the 3% threshold on December 4, 2008 and amounted to 0% at that date (corresponding to 0 votes).

SEDA S.p.A., Milan, Italy, notified us on February 9, 2009 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG, Munich, Germany, ISIN: DE0005487904, WKN: 548790 exceeded the threshold of 3% and 5% on December 4, 2008 and amounted to 5.01% at that date (corresponding to 479,800 votes).

FORUM Private Equity GmbH, Munich, Germany, notified us on February 17, 2009 pursuant to § 21 (1) WpHG that the voting rights of FORUM Private Equity GmbH in PULSION Medical Systems AG, Joseph-Wild-Strasse 20, 81829 Munich, exceeded the thresholds of 15%, 20%, 25% and 30% on February 15, 2009. FORUM Private Equity GmbH's share of voting rights in PULSION Medical Systems AG amounted on that date to 30.42% (corresponding to voting rights of 2,913,148 shares of common stock). PULSION Medical Systems AG has only issued shares of common stock. Of this total amount, approximately 18.89% of the voting rights (voting rights attached to 1,809,288 shares of common stock) are attributable to FORUM Private Equity GmbH pursuant to § 22 (2) sentence 1 WpHG. Voting rights of the following shareholder, whose share of the voting rights in PULSION Medical Systems AG exceeds 3%, are attributable to FORUM Private Equity GmbH: FORUM European Smallcaps GmbH.

FORUM European Smallcaps GmbH, Munich, Germany, notified us pursuant to § 21 (1) WpHG that the voting rights of FORUM European Smallcaps GmbH in PULSION Medical Systems AG, Joseph-Wild-Strasse 20, 81829 Munich, exceeded the thresholds of 20%, 25% and 30% on February 15, 2009. FORUM European Smallcaps GmbH's share of voting rights in PULSION Medical Systems AG amounted on that date to 30.42% (corresponding to voting rights of 2,913,148 shares of common stock). PULSION Medical Systems AG has only issued shares of common stock. Of this total amount, approximately 12.15% of the voting rights (voting rights attached to 1,163,407 shares of common stock) are attributable to FORUM

European Smallcaps GmbH pursuant to § 22 (2) sentence 1 WpHG. Voting rights of the following shareholder, whose share of the voting rights in PULSION Medical Systems AG exceeds 3%, are attributable to FORUM European Smallcaps GmbH: FORUM Private Equity GmbH.

Dr. Burkhard Wittek, Germany, notified us pursuant to § 21 (1) WpHG that his voting rights in PULSION Medical Systems AG, Joseph-Wild-Strasse 20, 81829 Munich, exceeded the thresholds of 20%, 25% and 30% on February 15, 2009. His share of voting rights in PULSION Medical Systems AG amounted on that date to 30.42% (corresponding to voting rights of 2,913,148 shares of common stock). PULSION Medical Systems AG has only issued shares of common stock. Of this total amount, 30.42% of the voting rights (voting rights attached to 2,913,148 shares of common stock) are attributable to Dr. Burkhard Wittek pursuant to § 22 (2) sentence 1 WpHG and at the same time 18.27% of the voting rights (voting rights attached to 1,749.741 shares of common stock) are attributable pursuant to § 22 (1) sentence 1 no. 1 WpHG. Voting rights of the following shareholders, whose share of the voting rights in PULSION Medical Systems AG exceeds 3%, are attributable to Dr. Burkhard Wittek:
– FORUM European Smallcaps GmbH (controlled by Dr. Wittek)
– FORUM Private Equity GmbH

PULSION Medical Systems AG received the following notification on February 18, 2009: Prof. Dr. Klaus Kühn, Germany, notified us pursuant to § 21 (1) WpHG that his voting rights in PULSION Medical Systems AG, Joseph-Wild-Strasse 20, 81829 Munich, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% on February 15, 2009. His share of voting rights in PULSION Medical Systems AG amounted on that date to 30.42% (corresponding to voting rights of 2,913,148 shares of common stock). PULSION Medical Systems AG has only issued shares of common stock. Of this total amount, approximately 29.95% of the voting rights (vot-ing rights attached to 2,868,601 shares of common stock) are attributable to Prof. Dr. Klaus Kühn pursuant to § 22 (2) sentence 1 WpHG. Voting rights of the following shareholders, whose share of the voting rights in PULSION Medical Systems AG exceeds 3%, are attribut-able to Prof. Dr. Klaus Kühn:
– FORUM Private Equity GmbH
– FORUM European Smallcaps GmbH

PULSION Medical Systems AG received the following notification on February 19, 2009: Gabriele Wittek, Germany, notified us pursuant to § 21 (1) WpHG that her voting rights in PULSION Medical Systems AG, Joseph-Wild-Strasse 20, 81829 Munich, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% on February 15, 2009. Her share of voting rights in PULSION Medical Systems AG amounted on that date to approximately 30.42% (correspond-ing to voting rights of 2,913,148 shares of common stock). PULSION Medical Systems AG has only issued shares of common stock. Of this total amount, approximately 30.26% of the voting rights (voting rights attached to 2,898,148 shares of common stock) are attributable to Gabriele Wittek pursuant to § 22 (2) sentence 1 WpHG. Voting rights of the following shareholders, whose share of the voting rights in PULSION Medical Systems AG exceeds 3%, are attributable to Gabriele Wittek:
– FORUM Private Equity GmbH
– FORUM European Smallcaps GmbH

PULSION Medical Systems AG received the following notification on February 20, 2009: Dr. Irmgard Wittek, Germany, notified us pursuant to § 21 (1) WpHG that her voting rights in PULSION Medical Systems AG, Joseph-Wild-Strasse 20, 81829 Munich, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25% and 30% on February 15, 2009. Her share of voting rights in PULSION Medical Systems AG amounted on that date to approximately 30.42% (corresponding to voting rights of 2,913,148 shares of common stock). PULSION Medical Systems AG has only issued shares of common stock. Of this total amount, approximately 30.42% of the voting rights (voting rights attached to 2,913,148 shares of common stock) are attributable to Dr. Irmgard Wittek pursuant to § 22 (2) sentence 1 WpHG. Voting rights of the following shareholders, whose share of the voting rights in PULSION Medical Systems AG exceeds 3%, are attributable to Dr. Irmgard Wittek:

– FORUM Private Equity GmbH
– FORUM European Smallcaps GmbH

Fidelity Funds SICAV, BP 2174, Luxemburg, notified us on June 5, 2009 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG, Munich, Germany, ISIN: DE0005487904, WKN: 548790 went under the threshold of 5% on June 3, 2009 and amounted to 4.98% at that date (corresponding to 477,258 votes).

Shareholder Value Beteiligungen AG, Frankfurt am Main, Germany, notified us on June 8, 2009 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG, Munich, Germany, ISIN: DE0005487904, WKN: 548790 exceeded the 5% threshold on June 2, 2009 and amounted to 5.01% at that date (corresponding to 480,250 votes).

On July 17, 2009, PULSION AG received notice that publication of notifications from February 9, 2009 required to be corrected as follows:

1. We hereby give notice pursuant to § 21 (1) WpHG that the share of the voting rights of SEDA GmbH, Munich, Germany, in PULSION Medical Systems AG went below the threshold of 10% on August 7, 2002 and amounted at that date to 9.90% (corresponding to 856,800 votes).
2. We hereby give notice pursuant to § 21 (1) WpHG that the share of the voting rights of SEDA GmbH, Munich, Germany, in PULSION Medical Systems AG went below the threshold of 5% and the threshold of 3% on December 4, 2008 and amounted at that date to 0% (corresponding to 0 votes).
3. We hereby give notice pursuant to § 41 (2) WpHG that the share of the voting rights of SEDA S.p.A., Milan, Italy in PULSION Medical Systems AG amounted to 10.89% (corresponding to 856,800 votes) on April 1, 2002. Of these, 10.89% (corresponding to 856,800 votes) were attributable to SEDA S.p.A. pursuant to § 22 (1) sentence 1 no. 1 WpHG via SEDA GmbH.
4. We give notice pursuant to § 21 (1) WpHG that the share of the voting rights of SEDA S.p.A., Milan, Italy, in PULSION Medical Systems AG went below the threshold of 10% on August 7, 2002 and amounted at that date to 9.90% (corresponding to 856,800 votes). Of these, 9.90% (corresponding to 856,800 votes) were attributable to SEDA S.p.A. pursuant to § 22 (1) sentence 1 no. 1 WpHG via SEDA GmbH.

5. Correction to notification dated February 9, 2009 pursuant to § 21 (1) WpHG (published on February 9, 2009): SEDA S.p.A., Milan, Italy, has held an investment of 5.08% (corresponding to 479,800 votes) directly since December 4, 2008, and no longer indirectly via SEDA GmbH. Accordingly the notification dated February 9, 2009 (published on February 9, 2009) is void since no reportable thresholds has been affected by comparison to the notification made on December 4, 2008.
6. We hereby give notice pursuant to § 41 (2) WpHG that the share of the voting rights of Giuseppa d'Ancona Danieli, Italy, in PULSION Medical Systems AG amounted to 10.89% (corresponding to 856,800 votes) on April 1, 2002. Of these, 10.89% (corresponding to 856,800 votes) were attributable to Giuseppa d'Ancona Danieli pursuant to § 22 (1) sentence 1 no. 1 WpHG via SEDA S.p.A. and SEDA GmbH.
7. We give notice pursuant to § 21 (1) WpHG that the share of the voting rights of Giuseppa d'Ancona Danieli, Italy, in PULSION Medical Systems AG went below the threshold of 10% on August 7, 2002 and amounted at that date to 9.90% (corresponding to 856,800 votes). Of these, 9.90% (corresponding to 856,800 votes) were attributable to Giuseppa d'Ancona Danieli pursuant to § 22 (1) sentence 1 no. 1 WpHG via SEDA S.p.A. and SEDA GmbH.

PULSION AG received the following notifications on July 21, 2009:
The share of the voting rights of FIL Investments International, Kent, United Kingdom, in PULSION Medical Systems AG, Joseph-Wild-Straße 20, 81829 Munich, Germany, went below the threshold of 5% of total voting rights on July 20, 2009. On that date, FIL Investments International held 4.98% of the voting rights of PULSION Medical Systems (477,423 votes). All of the voting rights held in PULSION Medical Systems AG were attributable to FIL Investments International pursuant to § 22 (1) sentence 1 no. 6 WpHG. The voting rights were attributable to FIL Investments International, among other parties, via Fidelity Funds SICAV, a shareholder holding more than 3% of the voting rights in PULSION Medical Systems AG.

The share of the voting rights of FIL Investment Management Limited, Kent, United Kingdom, in PULSION Medical Systems AG, Joseph-Wild-Straße 20, 81829 Munich, Germany, went below the threshold of 5% of total voting rights on July 20, 2009. On that date, FIL Investment Management Limited held 4.98% of the voting rights of PULSION Medical Systems (477,423 votes). All of the voting rights held in PULSION Medical Systems AG were attributable to FIL Investment Management Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG (in combination with sentence 2 WpHG). The voting rights were attributable to FIL Investments International, among other parties, via Fidelity Funds SICAV, a shareholder holding more than 3% of the voting rights in PULSION Medical Systems AG.

PULSION AG received the following notifications on July 27, 2009:
The share of the voting rights of FIL Limited, Pembroke, Bermuda, in PULSION Medical Systems AG, Joseph-Wild-Straße 20, 81829 Munich, Germany, went below the threshold of 5% of total voting rights on July 20, 2009. On that date, FIL Limited held 4.98% of the voting rights of PULSION Medical Systems (477,423 votes). All of the voting rights held in PULSION Medical Systems AG were attributable to FIL Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG (in combination with sentence 2 WpHG). The voting rights were attributable to FIL Investments International, among other parties, via Fidelity Funds SICAV, a shareholder holding more than 3% of the voting rights in PULSION Medical Systems AG.

Fidelity Funds SICAV, Luxembourg, Luxembourg, notified us on September 1, 2009 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG, Munich, Germany, ISIN: DE0005487904, WKN: 548790 went under the threshold of 3% on August 26, 2009 and amounted to 2.99% at that date (corresponding to 286,708 votes).

PULSION AG received the following notifications on September 9, 2009:
The share of the voting rights of FIL Investments International, Kent, United Kingdom, in PULSION Medical Systems AG, Munich, Germany, went below the threshold of 3% of total voting rights on September 7, 2009. On that date, FIL Investments International held 2.86% of the voting rights of PULSION Medical Systems (273,437 votes). All of the voting rights held in PULSION Medical Systems AG were attributable to FIL Investments International pursuant to § 22 (1) sentence 1 no. 6 WpHG.

The share of the voting rights of FIL Investment Management Limited, Kent, United Kingdom, in PULSION Medical Systems AG, Munich, Germany, went below the threshold of 3% of total voting rights on September 7, 2009. On that date, FIL Investment Management Limited held 2.86% of the voting rights of PULSION Medical Systems (273,437 votes). All of the voting rights held in PULSION Medical Systems AG were attributable to FIL Investment Management Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG (in combination with sentence 2 WpHG).

The share of the voting rights of FIL Limited, Hamilton, Bermuda, in PULSION Medical Systems AG, Munich, Germany, went below the threshold of 3% of total voting rights on September 7, 2009. On that date, FIL Limited held 2.86% of the voting rights of PULSION Medical Systems (273,437 votes). All of the voting rights held in PULSION Medical Systems AG were attributable FIL Limited pursuant to § 22 (1) sentence 1 no. 6 WpHG (in combination with sentence 2 WpHG).

Christian Schudy, Germany, gave notice on November 13, 2009 pursuant to § 21 (1) WpHG (in conjunction with § 22 (4) WpHG) that 701,300 voting rights had been transferred to him in conjunction with the Annual General Meeting of PULSION Medical Systems AG – ISIN DE0005487904 – held in Munich on November 16, 2009. Together with 3,000 voting rights already held by him, he will represent a total of 704,300 voting rights. (corresponding to 7.35% of the issued share capital). Of these, 701,300 voting rights are attributable to him pursuant to § 22 (1) sentence 1 no. 6. (corresponding to 7.32% of the issued share capital). The 3% and 5% thresholds were exceeded on November 10, 2009 with the issue of a proxy authorization by Seda S.p.A. At the conclusion of the Annual General Meeting, the voting rights of Christian Schudy will go below the 5% and 3% thresholds, at which stage Christian Schudy will have a holding of 3,000 shares (0.03%).

41. Events after the end of the reporting period

The Supervisory Board appointed Hans-Hubert Schmitt as member of the Management Board with effect from January 4, 2010. Mr. Schmitt will be responsible for Finance as well as Sales and Marketing.

In a ruling dated February 26, 2010 (received on March 8, 2010), Dr. Wittek's claim for a declaratory judgement that his employment relationship did not come to end as a result of the extraordinary notice given on May 14, 2009 was accepted. No other findings were reached. A provision is recognized in the financial statements for the related potential obligations (see section Provisions and Management Board).

Matthias Bohn reached an out-of-court agreement with the Supervisory Board on March 11, 2010 and will leave PULSION on mutually agreed terms. The actions brought against the Company will not be pursued further following the agreement reached between the Supervisory Board and Mr. Bohn. The provision recognized with income statement in the consolidated financial statements effect reflects the agreement reached. PULSION AG has no other obligations in this matter.

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

Munich, March 15, 2010
PULSION Medical Systems AG

Christoph R. Manegold
Member of the Management Board

Hans-Hubert Schmitt
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 15, 2010
PULSION Medical Systems AG

Christoph R. Manegold
Member of the Management Board

Hans-Hubert Schmitt
Member of the Management Board

Auditor's Report

We have audited the consolidated financial statements prepared by the PULSION Medical Systems AG, München, comprising the consolidated balance sheet, the group income statement and reconciliation of result to total comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2009 to December 31, 2009. 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 Director, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 15, 2010
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefano Mulas	ppa. Alexander Fiedler
German Public Auditor	German Public Auditor

Financial Calendar 2010

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 2010:

Financial report on 1st Quarter	May 12, 2010
Annual General Meeting	May 18, 2010
Financial report on 1st Half-year	August 11, 2010
Financial report on 1st 9 Months	November 11, 2010

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$_2$)

www.PULSION.com

PULSION Medical Systems

PULSION Medical Systems AG • Joseph-Wild-Str. 20 • D-81829 Munich, Germany
Tel. +49-(0)89-45 99 14-0 • Fax +49-(0)89-45 99 14-18
info@pulsion.com • www.PULSION.com

PULSION Medical Inc., USA
Tel. +1-214-446 85 00
info@pulsionmedical.com

PULSION Benelux nv/sa
Tel. +32-9-242 99 10
info@pulsion.be

PULSION Medical Systems Iberica S.L.
Tel. +34-91-626 61 08
info@pulsioniberica.com

PULSION France S.A.R.L.
Tel. +33-1-41 73 09 04
info@pulsion.fr

PULSION Medical UK Ltd.
Tel. +44-208-814 79 74
info@pulsionmedical.co.uk

PULSION Pacific Pty. Ltd., AUS
pulsionpacific@pulsion.com

PULSION Austria GmbH
Tel. +43-1-533 66 35
info@pulsion.com

PULSION Switzerland GmbH
Tel. +41-41-500 37 92
info@pulsion.com

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