Annual Report

10

Returning to growth!

PULSION
Medical Systems

Facts and Figures

PULSION (Group)		2010 IFRS	Change in %	2009 IFRS	2008 IFRS	2007 IFRS	2006 IFRS
Sales	EUR million	31.5	12%	28.1	28.0	28.3	24.5
Gross profit	EUR million	20.1	8%	18.6	18.6	20.5	18.4
EBITDA	EUR million	6.4	147%	4.2	2.6	6.0	5.2
EBIT	EUR million	4.6	91%	2.4	0.6	4.1	3.4
Group net profit / loss	EUR million	2.8	500%	0.5	-0.7	2.5	3.3
Cash flow from operating activities	EUR million	6.5	64%	4.0	1.0	4.5	3.2
Shareholders' equity *	EUR million	16.6	-2.4%	17.0	16.2	17.1	14.6
Shareholders' equity percentage *	%	64%	–	66%	68%	64%	64%
Total assets *	EUR million	25.7	–	25.7	23.8	26.8	22.7
R&D expense	EUR million	2.4	9%	2.2	2.2	2.0	2.2
Employees (average)	Amount	126	-9%	139	147	141	130
Revenue per employee	KEUR	250	23%	202	190	200	188
Installed base – PiCCO monitors *	Units	6,860	9.8%	6,247	5,743	5,256	4,630

* as of December 31

Content

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Report of the Management Board

Dear customers,
shareholders and employees,

we can look back today at a good year for PULSION. Revenue and earnings were well up on the previous year and cost management yielded more than the targets that we had set ourselves.

Sales revenue rose by more than 12% compared to the previous year. Adjusted for one large-size order and currency gains, the increase was more than 8%. Productivity was improved in almost all of the Group's sales companies, in some cases at a double digit rate.

Cost management also contributed to a further improvement in earnings. Despite of some one-off expenses recorded in connection with inventories and intangible assets, EBIT rose by 2.2 Mio. EUR (+91%) from 2.4 Mio. EUR to 4,6 Mio. EUR.

Thanks to the new strategic direction adopted, PULSION returned to profitable growth for the first time in two years. The task in 2011 will be to maintain and accelerate that momentum.

The hard work and commitment of the entire workforce are worthy of special mention at this point.

I. A review of the financial year 2010

The restructuring program having started at the end of 2008 under the motto "Back to the Roots/BTR" was continued in 2010. In the following section we would like to outline its contents once again and report on the progress made in 2010:

1. Emphasis on medical benefits by the sales team

1.1 Content/direction

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 at an early stage and make the correct decisions with regard to possible treatment.

In order to sell this added value and to differentiate PULSION's products from those of competitors, there has to be a convincing and professional line of argument.

Having a highly qualified sales team is therefore the prerequisite for being accepted by doctors and nursing staff as a competent partner and an important step in being able to explain the full range of possibilities that can be gained from PULSION's products for the benefit of the patient.

Appropriate training and several years of experience in an intensive care nursing environment are a crucial aspect of ensuring that products are used safely by customers. Further training based on product training, study evaluations and case studies as well as the ability to put learning to good use all require practical experience with patients.

1.2 Implementation in 2010

During 2010, 9 new employees were added to the field sales force worldwide. Of these, 8 have training in nursing or similar professions. At the end of 2010, PULSION's field sales force comprised 30 employees, of whom 24 have an appropriate medical training.

It is important to stress at this point that we also have some very professional sales force staff who are highly successful without such training. We are extremely glad to have these highly committed employees on board who have acquired the necessary level of knowledge and skills in practise.

As far as **training** is concerned, we retained campaign management in 2010. In conjunction with this program, two training events took place on a coordinated European basis, with more than 90% of the sales representatives participating.

Similarly, the system introduced 2008 to check **learning progress** was continued. All field sales staff nevertheless undergo learning progress checks after 6, 12, 24 and 36 months of service with the company, feedback from which is used to determine further training requirements. In total, 18 members of the field sales force participated in learning progress checks in 2010.

One further important aspect of increasing the range of medical knowledge is to retain staff within the organization or in other words achieve a **low employee fluctuation rate**. Of the 27 field sales force employed at January 1, 2010, 22 remained with the Group at January 1, 2011 – the difference is employee fluctuation, giving an employee fluctuation rate of 19%. The plan is to reduce this rate by improving qualification measures and quality standards even more during the recruitment phase.

2.2. Sales management on the basis of potential rewards

2.1 Content / direction

A uniform customer relationship management (CRM) system enables the systematic management of selling activities at each of the subsidiaries. This system 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 field sales force and serves as the basis for systematically following up potential transactions. This information is crucial for a streamlined sales management process, enabling the activities of the sales force to be analyzed and tracked with the aim of increasing productivity.

As part of the sales management process, the individual members of the sales team are 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 standardized ABC analyses.

2.2 Implementation in 2010

In 2010 the CRM system was further improved in terms of the documentation of potential business with, and decision-maker structures at the major hospitals in those countries where PULSION has direct sales. At December 31, 2010 we have organisational charts for some 200 of the largest hospitals in Europe.

We are now in the process of replicating this system in America.

The CRM system has not yet been implemented in the UK.

Report of the Management Board

3. Profit orientation, cost reduction programs

3.1 Content / direction

PULSION's medium-term earnings targets are set at 100/70/20 (revenue/Grossmargin/EBIT).

Sales and marketing costs represent the largest block of operating expenses. Therefore it is essential that productivity is raised in this area.

Annual sales per field sales force employee (critical care) differ significantly in different areas of the business:
a) In the DACH-region the figure is in excess of EUR 1.1 million.
b) In Western Europe (excluding DACH), the figure is in the region of EUR 530,000.
c) In the USA, the figure is about EUR 200,000.

This gap needs to be reduced over time by increasing the level of support offered in the markets concerned and making more consistent use of existing potentials.

3.2 Implementation in 2010

Since 2009, every sales force employee with a bonus agreement, receives part of the bonus on the basis of the extent to which the budgeted EBIT target is achieved. This was also the case in 2010.

The first two points – improvement in efficiency and profitability of sales activities – were further pursued in 2010 and yielded good results in almost all entities.

II. Outlook for 2011

A. Focus set by management and key projects

The year 2011 has started positively. The Group's sales organisations are now in place, their staff trained to a large degree and capable of marketing PULSION's technologies by reference to medical indications. Targets have been set to increase the skills base within the Group and to reduce employee fluctuation significantly. Managing sales activities on the basis of customer potential will be supplemented by a range of measures such as training, test placements and workshops, all of which should contribute to increased usage of PULSION's technologies.

Cost reduction programs will be continued. Projects that have already been completed in the disposables segment will bear fruit in 2011.

In 2011 the Management Board will focus on mobilising resources in the following areas:

1. Improving the results of loss-making subsidiaries

The Group's entities in the USA and in France are two important strings on the company's bow. The French company is set to reach the break-even point in 2011.

The conclusion of agreements with additional distributors in the Perfusion segment means that the break-even point should be reached in the USA in 2012.

2. Increasing field sales force productivity

The Management Board is aiming for a further improvement in the productivity of the field sales force by 2012. The targets are
a) DACH: + 5%
b) Western Europe excluding DACH: at least + 10%
c) USA: at least + 10%

3. Expansion of international business

PULSION's strategy for international business is as follows:

a) Establish a medium and long-term direct presence in markets with a high potential. In a preliminary stage, we aim to enter into joint ventures with local partners.
b) In markets with less potential or with structural problems (reimbursement, poor payment patterns), PULSION works together with distributors.

The aim of the Management Board for 2011 is to establish 1-2 new joint ventures and new partnerships with new distributors.

4. Development and market launch of new products

The proportion of revenues generated by products which are less than 5 years old was 17% in 2010. This is much too low for a medium-sized med-tech company whose very justification for existence alongside the major players is based primarily on innovative strength, ability to respond quickly and good service. The figure will drop even more in 2011 as PiCCO$_2$ will then be more than 5 years old and no longer be included. It is therefore very important in strategic terms that the pipeline of new products is strengthened in such a way that the proportion increases in the medium term to at least 25%.

In 2010 CE approval was received for the new monitor platform PulsioFlex®, the second platform to be established by PULSION. The full market launch of this product based on a new technology for minimal invasive trend monitoring is planned for the second half of 2011.

In the USA, we are aiming in 2011 to obtain approval of CEVOX for measuring oxygen saturation in the bloodstream and of the minimally-invasive trend monitoring system, Pulsioflex®/ProAQT®.
In the medium term we will add non-invasive monitoring of hemodynamic parameters to our product range. We will also offer additional parameters and integrate them into the existing platforms.

We are also looking at the possibility of acquiring young technology companies whose innovative products can be integrated into our international sales platform.

5. Perfusion business unit

Business generated with the diagnostic dye, indocyanine green (ICG) grew by more than 20% in 2010. Further approvals are expected for 2011, increasing both the number of countries and types of imaging systems in which it is used. This represents another important market for the product alongside ophthalmology. Additional staff will be taken on in this area in 2011.

Overall, we expect this line of business to grow at a double-digit rate

B. Group targets

We believe that setting the focus of the 5 points described above represent a good step towards achieving the Group's medium-term earnings target of 100/70/20.

Specifically for 2011 we forecast:
a) sales revenue growth of at least 8%
b) an increase in the gross margin of at least 100 basis points
c) an EBIT margin of 16-19%.

2011 will be the first full year in which PULSION's key product, PiCCO, will be exposed to a direct competitor with an extremely strong sales base. For this reason, the outlook for 2011 is subject to a higher degree of risk than in the past.

The Group

PULSION – an overview

» *20 years of PULSION Medical Systems AG*

PULSION Medical Systems AG is one of the world's leading providers of med-tech solutions for Advanced Hemodynamic Monitoring.

PULSION's products are used mainly 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 the condition of critically ill patients to be monitored far more comprehensively by comparison to standard monitoring systems. Medical and nursing staff can construct a complete picture and make correct and well-informed decisions more quickly – potentially life-saving advantages. 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 130 employees. Particularly in Europe, it has become one of the leading providers of hemodynamic monitoring systems for critically ill patients. Alongside its own sales activities, PULSION also works in partnership with selected global players from the MedTech sector. Those 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 management, a sales force with the appropriate set of skills and a Medical Advisory Board comprising internationally renowned members.

Business firmly supported by two pillars

Critical Care and Perfusion: *two business units with great potential*

In its Critical Care business unit, PULSION develops and manufactures medical products for diagnostics and the monitoring of critically ill patients. The products are primarily for use in intensive care units and, following the introduction of new product lines, increasingly also in operating theatres. Physicians 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 systems in the body. The data can be collated by physicians and medical practitioners to create an informative, complete picture which helps them to make the correct decisions. 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 Perfusion business unit deals with the visualization of blood perfusion in tissues and organs. This is useful for identifying pathological changes in blood vessels or lymph vessels; it also makes it possible during cancer surgery to detect sentinel lymph nodes which show evidence of whether metastasis has already occurred. During surgery and post-operatively, it is possible to check whether there is an adequate blood supply to the tissues. For this purpose, PULSION uses its own diagnostic agent, ICG-PULSION. After injection into the bloodstream, the dye becomes fluorescent, thus making the vessels visible. It is a real alternative to X-ray since 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, surgical procedures for many types of cancer, particularly breast cancer, general and plastic surgery and rheumatology diagnostics. PULSION currently holds a monopoly in nine European markets for the sale of this product. PULSION has permission to market ICG PULSION in the USA.

An upward trend!

Following a year of transition in 2009, PULSION achieved double-figure growth in 2010.

All of the measures decided upon in previous years for change and improvement – including a multi-stage cost saving program – were pursued rigorously in 2010. PULSION has continued to put considerable effort into achieving the aims, formulated in 2008, to achieve further success with new products from 2010 onwards.

The Business Model

Recurring revenues

A strong business model

To generate revenues with each application: that is the basis of PULSION's business model. Like the manufacturers of ink jet printers, we do not focus exclusively on one-off sales of equipment. Recurring business generated with the disposable products required to use PULSION technologies accounts 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 us from the majority of med-tech manufacturers whose business models are limited to initial installations of equipment in hospitals and medical practices, supplemented at the most with equipment replacement investments and technical services.

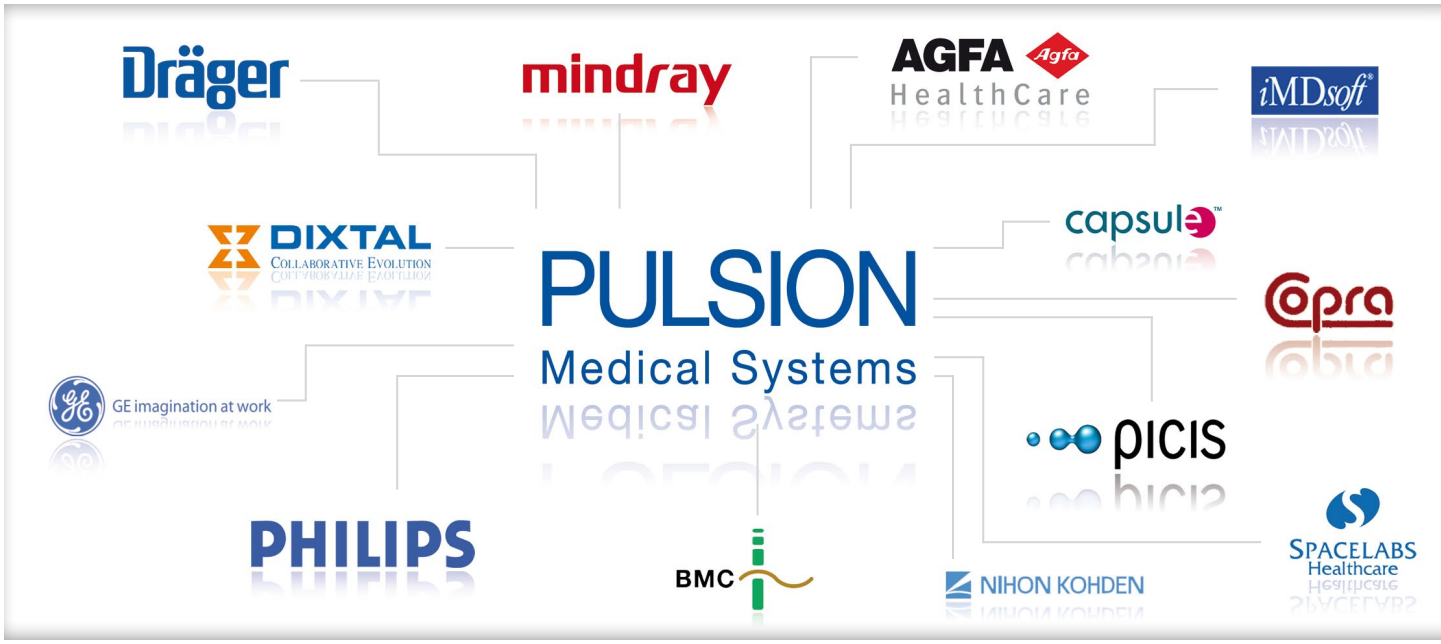
The same principle applies to PULSION's extensive and successful cooperation with major med-tech providers in the area of monitoring hardware. Even though the equipment in this case is supplied by third parties, the related disposables business is PULSION's responsibility.

Business firmly supported by two pillars

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 requiring 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 generally provide users with considerably more information than the products of 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 in their own platforms. Numerous major 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 arrangement, and on the other hand from the growth in the volume of disposable product business generated by the company.

PULSION's ability to access the market, coupled with the degree of specialization discussed above, means that co-operation 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 one of the global players.



The Critical Care Business Unit:

Seeing more than others ...

Rapid diagnosis, safe therapy decisions, the ability to assess the success of a chosen therapy continuously: these fundamental demands made of doctors and medical staff are being addressed by PULSION's Critical Care business unit. The precise parameters measured by our products provide the user with a comprehensive picture of the condition of certain vital organs and their 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.

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

Another minimally invasive monitoring system has been added to the range of current technologies under the umbrella of the StepWISE® – Intelligent Patient Monitoring – brand name. A non-invasive technology will be added in future, thus completing the product range. The required amount of information can be prepared. This will broaden the target markets for PULSION's products and increase the benefits gained by the customer since monitoring can be even more finely tuned to suit the needs of each individual patient. The new PulsioFlex® platform puts this concept fully into practice.

Products and monitoring technologies

$PiCCO_2$ platform

PULSION's $PiCCO_2$ platform, which is for use in intensive medical care in conjunction with the treatment of critically ill patients, is a very well positioned product. The finish, design, user interface, ease of use and visualization of parameters offered by this platform are amongst the best currently available on the market.

Thanks to its platform concept, $PiCCO_2$ combines several PULSION technologies within a single piece of equipment. Users are able to select the relevant parameters and most appropriate monitoring technology according to patient, complications and progression of a disease.

With the $PiCCO_2$ platform, the medical practitioner receives precise information about the oxygen supply within the body (CeVOX technology), real-time cardiac and circulatory measurements, the existence of any pulmonary complications (PiCCO technology) as well as information on liver function and the blood supply to the abdominal organs (LiMON technology).

PulsioFlex® platform

Perioperative medicine is another field in which the $PiCCO_2$ platform can be employed for visualizing parameters. This area of medicine involves all aspects concerned with preparing for routine or emergency operations, minimizing risk to the patient and preventing complications. Here also, it is essential to establish a stable cardiovascular system for the provision of an adequate oxygen supply to all tissues. PULSION's new PulsioFlex® Monitoring platform is directed precisely towards this market. With the integrated ProAQT® technology, it is possible to detect hemodynamic irregularities at an early stage and initiate the appropriate treatment. Since it can be flexibly assembled it is also possible to market the equipment as an individual monitor for use with the PULSION CeVOX and LiMON technologies.

PiCCO-Technology

PiCCO is PULSION's monitoring technology flagship. It enables doctors and medical practitioners to monitor the cardiovascular system of critically ill intensive care patients and to manage the selected therapy. In contrast to its competitors, PULSION is able to provide an especially comprehensive picture of the patient with PiCCO. An analogy with the car helps to illustrate the difference. Instead of only measuring the speed (in medical terms: cardiac output – the volume of blood pumped by the blood 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 (contractibility and cardiac power), the wind and frictional resistance (vascular tone) and the fuel supply to the engine (cardiac preload). The additional information not only shows 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 reason 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.

ProAQT®-Technology

PULSION's ProAQT® technology is a simplified version of the PiCCO technology. It is not equipped to provide answers to the complex problems posed in the field of intensive care medicine but is definitely useful in perioperative medicine. It is a technology which can be used for at-risk patients and during high-risk surgery for the prevention or early warning of a reduction in oxygen supply and in preparation for appropriate measures to be taken. It is a minimally invasive technology which can be installed by nursing staff with access via a radial catheter.

CeVOX-Technology

CeVOX technology is designed to monitor oxygen balance on a continuous basis (ratio of oxygen supply to oxygen demand). It enables inadequate oxygen supply - which could result in severe complications – to be detected at an early stage. CeVOX therefore serves as an early warning system, enabling the appropriate counter-measures to be carried out in good time.

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 function disorders 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 liver transplants.

StepWISE® – Intelligent Patient Monitoring

StepWISE®, PULSION's latest brand, epitomises PULSION's patient monitoring philosophy and amalgamates all of the monitoring technologies. The aim is to provide all hospital patients needing hemodynamic monitoring with a suitable methodology to answer the relevant clinical questions relating to their condition.

Markets and competition

Worldwide, up to three million intensive care patients and up to 15 million surgical patients 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 and Cheetah Medical and other manufacturers. PULSION has been able to remain the market leader in the area of intensive care medicine, particularly in Europe. Edwards Lifesciences introduced a new intensive care monitoring platform (EV1000 with VolumeView) in October 2010 and will therefore be stepping up its activities in this area.
Edwards Lifesciences is still recording strong growth in the operative sector and is the market leader in this field. PULSION also wishes to participate in this market and is joining in the race with its PulsioFlex®/ProAQT® product combination. In the meantime LiDCO and Deltex also focus primarily on the perioperative 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 PiCCO$_2$ and will be reinforced with PulsioFlex®. Additional technologies and improvements as well as new parameters will be added to the product range in the years 2011 and beyond to provide further benefits for patients and practitioner. 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 global players for integrated patient monitoring with the aim of broadening the installed base by integrating PULSION monitoring technologies into other systems (see also section “Business partners”). In 2010 cooperation arrangements were entered into with Mindray who thus became a further partner for distributing PiCCO and CeVOX Technologies.

Research and development

Intensive research and development work performed in 2008 and 2009 have laid the foundation for the introduction of new technologies and products in 2010 and 2011. 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. The PulsioFlex® platform for perioperative monitoring was presented at international congresses and aroused interest throughout the industry.

Production

As part of the strategic review undertaken at the beginning of 2009, the new Management Board decided to restructure the new production location and focus on core areas of expertise. All injection molding facilities (machines, tools, granulation etc.) as well as all related purchasing and production processes were transferred to the Czech Republic. Clean room final assembly, quality assurance and delivery to customers remained unchanged at the new production location.

Marketing

PULSION is represented in 56 different countries. The basis for this high level of market presence comes from nine subsidiaries and distributors with worldwide operations. PULSION has traditionally been strong in Central and Western Europe with its subsidiaries or joint ventures. PULSION Poland was founded in mid-2010. The joint venture PULSION UK also became a 100% subsidiary during the year under report. Close cooperation with sales partners in Eastern Europe and Asia ensures that the markets in these areas are well serviced.

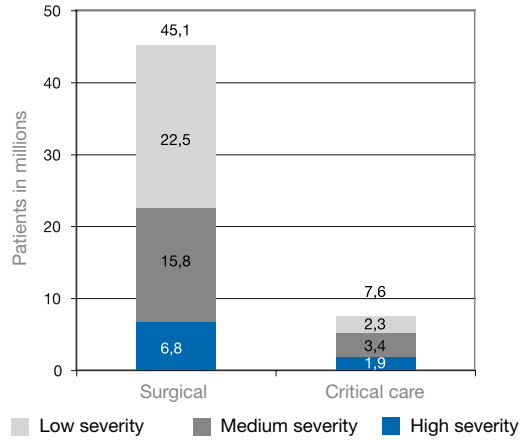
Since 2009, the sales team has focused on explaining the medical benefits of PULSION products. This aspect has been stressed further in 2010. A targeted change in the sales team structure and the greater emphasis on training helped to make this succeed. As a result, the sales team can apply the arguments 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

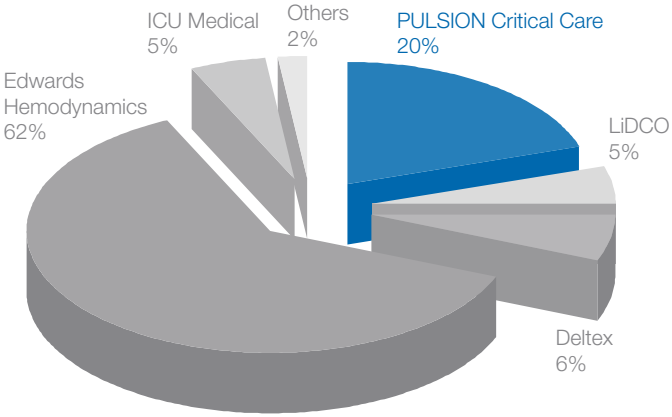
Strategic cooperation arrangements with numerous business partners active in the field of integrated patient monitoring, such as Philips Healthcare, Dräger Medical, Philips Dixtal and GE Healthcare, were cemented more firmly during the past year. The main highlight in 2010 was the signing of the agreement for the integration of PiCCO und CeVOX with Mindray. Further progress was also made with the integration of PiCCO Technology into GE monitoring equipment; the resulting products will become available in 2012. The integration of further technologies with major providers of monitoring equipment remains a fundamental objective for PULSION.

Surgical and critical care patients per year



Quelle: Based on Rubenfeld, NEJM 2005

Market shares of
Advanced hemodynamic monitoring sector 2010

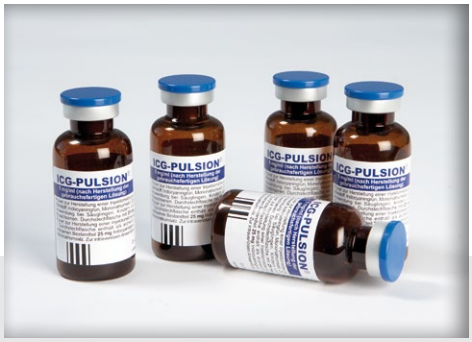


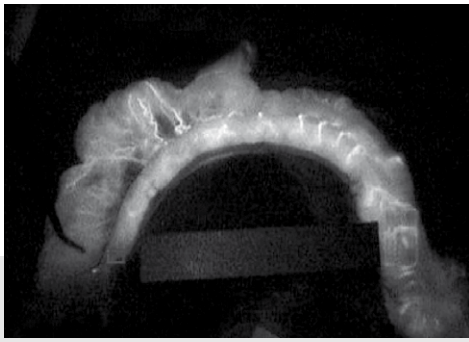
Quelle: Based on annual reports of the relevant companies and PULSION market research

The Perfusion Business Unit:

Promising imaging technologies ...

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 own PDE solution. Medics chose to use ICG-PULSION not only because it involves no radiation, but also because of the extremely detailed depiction of structures that this imaging system can provide.





The Perfusion business unit is central to taking full advantage of the enormous market potential offered by the medical 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 in the field of ophthalmology and, most recently, for rheumatology diagnostics 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 of 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. Ophthalmic physicians use the dye to identify pathological changes in the vascular bed at the fundus of the eye. 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 surgical application mentioned above involving 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 on the operating table or at the bedside.

Amongst other benefits, this technology brings with it substantial cost advantages e.g. the use of PDE can reduce the necessity for repeat abdominal operations by 50% or more.

Markets and competition

The markets on which ICG-PULSION is sold are developing heterogeneously, reflecting the great diversity in 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) has stabilized. The market for surgical applications is growing. The method is, however, slowly becoming standard in other fields, in particular neurosurgery. Strategic cooperation arrangements in place between PULSION and companies acitive in the field of modern imaging methods are providing momentum. 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.

Research and development

In addition to research into the use of indocyanine green for diagnostic purposes, research is also being carried out into using it for therapeutic purposes. Research cooperations are in place with various universities, institutes and companies.

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 widely 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 reasons. In addition to ICG-PULSION, PULSION also sells other disposable products for its solutions, in particular PDE, including sterile sheaths and disposable fluorescence standards. The latter are also used for surgical microscopes.

Production

PULSION is responsible for the production of ICG-PULSION in cooperation with various suppliers.

Marketing

PULSION has exclusive rights (approvals) to market ICG PULSION in nine European countries. Applications have also been submitted for Spain and Russia. In the USA PULSION has one competitor active in this area. PULSION holds the marketing rights for PDE in Europe. A direct sales channel is currently being set up for Germany. Distribution partners cover Italy, France, Great Britain and Switzerland. Expansion of the sales network is seen as one of the main tasks to be tackled in 2011.

January

Preview of the new monitoring platform PulsioFlex® at Europe's largest critical care congress in Brussels

February

Foundation of PULSION subsidiary in Poland

March

Award as one of the TOP100 innovators within the German medium-sized businesses

April

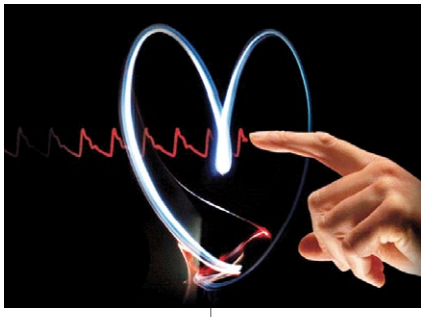
Conclusion of license agreement with Mindray for integration of PiCCO and CeVOX technologies into Mindray products

May

June

World Bank tender won in Romania

Contact for the integration of a non-invasive technology into PULSION's PulsioFlex® platform



PULSION UK becomes a 100% subsidiary

July August September October November December

20-year anniversary of PULSION Medical Systems AG celebrated

Presentation of the StepWISE® philosophy with the new products PulsioFlex® und ProAQT®

Monitoring platform PulsioFlex® receives CE-approval

Events and Activities in 2010:

Further steps taken

2010 was a year in which some key decisions were taken at PULSION. Alongside efforts in the areas of research and product development, one of the most significant aspects of the year was cooperation with strategic partners.

» *2010: First signs of success after restructure and further acceleration*

Preview of the new monitoring platform PulsioFlex® at Europe's largest critical care congress in Brussels

PULSION attracted a great deal of attention with the announcement of, and the first prototypes for, a new flexible monitoring platform called „PulsioFlex®". The whole idea of the equipment platform impresses because of the many varied ways that monitoring can be adapted to the specific needs of the patient, the situation and the user. The device can also be marketed as a stand-alone monitor for just a single monitoring technology.

Conclusion of license agreement with Mindray for integration of PiCCO and CeVOX technologies

The contract for the integration of the PiCCO and CeVOX technology into Mindray's own multi-parameter patient monitoring systems will give another boost to the expansion of PiCCO technology around the world. Mindray's market position in China and Asia is a significant factor.

Foundation of PULSION subsidiary in Poland

One of the main objectives for 2010 was to broaden PULSION's sales activities on an international scale. The founding of the direct sales organization PULSION Poland was a step taken towards achieving this. It is intended to set up further subsidiaries in 2011 and thereafter.

Award as one of the TOP100 innovators amongst German medium-sized companies

The fact that since 2006 the company has repeatedly been awarded the TOP100 Innovator title for German medium-sized companies is proof that PULSION is a convincing inno-

vator. The aim is using this energy to bring unique customer-friendly products onto the market.

World Bank tender won

PiCCO technology's significance in the field of critical care medicine in Europe is undisputed. After three years of hard work, thanks to the efforts of PULSION's sales department, a patient monitoring tender put out by the World Bank was successfully gained.

Contract for the integration of a non-invasive technology into PULSION's PulsioFlex® platform

The agreement to add the technology as a port for non-invasive hemodynamic monitoring onto the new PulsioFlex® platform places PULSION in an even better position for the future to offer monitoring which caters for each individual situation and patient.

PULSION UK becomes a 100% subsidiary

PULSION acquires the shares of the joint venture partner, KIMAL, Ltd. UK, and transforms the sales company in the UK into a wholly-owned subsidiary.

20-year anniversary of PULSION Medical Systems AG celebrated

20 years of PULSION. Over a period of two decades, the medtech company which arose as a spin-off from the Technical University Munich has become an internationally recognized medium-sized company. PULSION is established as second in the world in the core area of hemodynamic monitoring and the achievements of PiCCO technology in particular will be recorded in the history of critical care medicine.

Presentation of the StepWISE® philosophy with the new products, PulsioFlex® und ProAQT®

At the annual conference of the European Society for Intensive Care Medicine (ESICM) in Barcelona PULSION presented two new products – the ProAQT® technology for minimally invasive monitoring for use in the field of perioperative medicine, and the PulsioFlex® monitoring platform – which both belong to the combined philosophy/concept of StepWISE® – which aims to provide patient monitoring systems which fulfil the needs of many different types of critically ill patients.

Monitoring platform PulsioFlex® receives CE approval

European approval for this new monitoring platform is the first step into a new era for PULSION equipment. PulsioFlex® puts the StepWISE® concept into practice and is characterised both by its flexibility (modules can be added to) and its intuitive handling (multi-touch screen, commands by gesture).

PULSION in the US market:

Positive Trend

The USA accounts for almost 40% of the world market for medical technical products and solutions, making it an extremely important region for PULSION. Revenues generated here rose by 45% compared to the previous year. However revenues in critical care stagnated in 2010.

US market: optimization measures deliver results in short space of time

Hemodynamic monitoring in the United States is characterized by a number of specific factors. In the past, this sector 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 Duo Vigileo/FloTrac product 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 monitoring and 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 costs 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.

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 here.

PULSION has continued to focus its activities regionally, predominantly on the East Coast and the mid-West, where many large-scale and important hospitals and university clinics are concentrated in a relatively small area.

In addition, target groups were newly defined as part of this coordinated approach. PULSION has also been able to gain a number of renowned universities as PiCCO customers. Several of the clinics acting as reference centers are amongst the USA's top 20 institutions.

Although revenues stagnated in the core area of Critical Care area in 2010, revenues generated with the diagnostic dye, indocyanine green, more than tripled in 2010 compared to 2009 thanks to the good groundwork carried out in the two previous years.

$PiCCO_2$ – US Version

PULSION Stock

PULSION Medical Systems AG stock performed well during the financial year 2010. After an increase of 34 % in 2009, the price of PULSION stock climbed again in 2010 from EUR 2.87 (closing market price 2009, xetra) to EUR 4.40 (closing market price 2010, xetra), an increase of 53% over the year. The performance of PULSION stock compares extremely well against other selected benchmarks such as the Prime Standard Pharma and Healthcare sector index which recorded an increase of 12.18% and the S-Dax which also performed very strongly and recorded an increase of 45.78%.

This strong performance over the course of the year is clear evidence that the company and its Management Board have regained at least partially the trust of the capital market; that trust had certainly been compromised substantially during the financial year 2009 because of the disagreements which arose between the Supervisory Board, some members of the Board of Management and the main shareholder.

The picture is less satisfactory if the price of PULSION stock is looked at over a longer period. Over the last five years (from December 31, 2005 to December 31, 2010) the stock price fell by 17.1%. Thus, the stock has performed underproportionally compared to the selected 2 benchmark indices.

Communication with investors

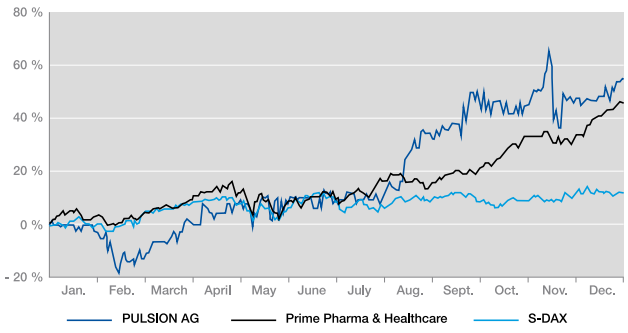
In 2010 the shareholders and the general public were provided with 6 press releases and 9 ad-hoc reports on current events and developments. PULSION also gave presentations on the company at the German Stock Exchange Shareholders' Forum and at one other event for investors.

Key data on PULSION stock at December 31, 2010

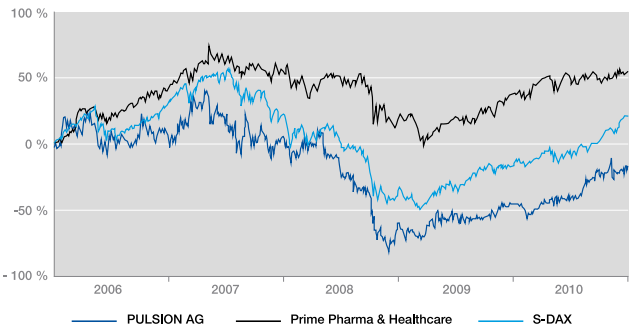
ISIN-Code:	DE 0005487904 (548790)
Stock market abbreviation:	PUS
Stock market segment:	Prime Standard
Sector index:	Prime Pharma and Healthcare Performance Index
Bearer shares:	9,577,302 *)
Closing price 2009 (Xetra, EUR):	2.87
Closing price 2010 (Xetra, EUR):	4.40
High (52 weeks, Xetra, EUR):	4.73
Low (52 weeks, Xetra, EUR):	2.37
Market capitalization (end 2010 Xetra, EUR):	EUR 42,1401 million
Earnings per share (diluted, EUR):	0.30
Issued share capital (EUR):	9,577,302
Transparency level:	Prime Standard
Market segment:	Regulated market

*) thereof own shares 588.839

One-year-course of the share price



Five-year-course of the share price



Employees

As in the previous year, we would like to express our sincere thanks to our employees for another year of good work: without their loyal service we would never have been able to achieve the results that we have been able to report for the year.

Overall employee fluctuation was kept to a reasonable level. However, fluction of 19% within the field sales force is far to high.

Regular assessment and fine-tuning of processes within the company helped once again to keep all areas effectively covered during the year under report.

As in recent years, we have continued our strategy of encouraging employees to develop their skill sets, thus not only providing the motivation for further achievements, but also helping the company to make progress. We will continue to invest in the education and training of its staff in the future, in order to raise PULSION's reputation as an attractive employer on the market.

Corporate Governance Report

The German Corporate Governance Code (Code) was adopted to instil confidence in the corporate governance of German listed companies. The intention of the Code is to make rules on corporate governance and to monitor the 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. They promote the trust of international and national investors, customers, employees and the general public in the management and supervision and are a key factor for sustainable corporate success. 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

Management and supervisory boards of companies listed in Germany are required by law (§161 German Stock Corporation Act) to report once a year on whether the recommendations issued by the "German Government Corporate Governance Code Commission" have been and are being complied with. The Management and Supervisory Boards' Declaration of Compliance dated January 11, 2011 was made available on the PULSION Group website at www.pulsion.com in accordance with § 161 AktG.

Joint Declaration of the Management Board and the Supervisory Board of PULSION Medical Systems AG dated January 31, 2011 on the German Corporate Governance Code pursuant to § 161 AktG.

The Management Board and the Supervisory Board of PULSION Medical Systems AG hereby declare the following regarding the recommendations of the "Government Commission on the German Corporate Governance Code" (until July 2, 2010 in the version published in the Electronic Federal Gazette on August 5, 2009, since July 2, 2010 in the version published on that date in the Electronic Federal Gazette and hereafter referred to as Corporate Governance Code):

Since the issue of the last declaration in December 2009, PULSION Medical Systems AG has complied with the Corporate Governance Code, with the exception of the following recommendations:

1. Management Board to be comprised of several persons

Contrary to Section 4.2.1 of the Corporate Governance Code, 2009 the Management Board comprised only one person during the period from November 23, 2009 to January 4, 2010. Since then, the Management Board has comprised two persons and has had a Chairman with effect from September 2010; as a result the Company now complies with the Code.

2. Management Board variable compensation elements to be based on multi-year assessment

Contrary to Section 4.2.3 of the Corporate Governance Code, the variable compensation of one member of the Management Board for the financial year 2010 was only based on corporate performance targets for the financial year 2010.

From 2011 onwards a multi-year calculation basis for one member of the Management Board has been agreed for. It is planned that a similar calculation basis will be agreed for the other member from 2011 onwards in conjunction with bonus agreements.

3. No committees set up within the Supervisory Board

The Company's Supervisory Board comprises three members. Since this is the minimum number for the Supervisory Board to be quorate, no committees have been set up (Sections 5.3.1 to 5.3.3 of the Corporate Governance Code).

4. Specific targets for the composition of the Supervisory Board

Over the course of the financial year 2011, the Supervisory

Board will examine whether specific targets for the composition of the Supervisory Board pursuant to Section 5.4.1 of the Corporate Governance Code should be specified and, depending on the outcome of that examination, will specify targets accordingly.

PULSION Medical Systems AG will comply in future with the recommendations of the Corporate Governance Code. Only the recommendations stated above in points 2, 3 and 4 will not be applied or will not be applied temporarily.

Munich, January 31, 2011

PULSION Medical Systems AG

The Supervisory Board The Management Board

Shareholders and Annual General Meeting

Shareholders exercise their rights prior to and at the Annual General Meeting in accordance with the rules specified in the Company's statutes and caste 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 authorised 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 as well as documents relating to proposed resolutions are published in accordance with the German Stock Corporation Act and are made available in the 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 on a regular basis and 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. As a result of the size of the Supervisory Board, no committees have been 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. No members of the Supervisory Board more than a total of three mandates on non-PULSION Group supervisory boards of listed companies or in other bodies with comparable requirements. The names of the members of the Supervisory Board are listed on page 125 of the Annual Report 2010.

Management Board

The Management Board of PULSION AG manages the business and runs the Company's affairs. Its activities and decisions are directed at furthering the business interests of the Company, having given due consideration to the interests of shareholders, employees and other stakeholders and with the ultimate objective of generating sustainable added value. 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 Management Board currently comprises two persons, of whom one is the Chairman. The names of the members of the Management Board are listed on pages 124 to 125 of the Annual Report 2010.

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 54 to 60.

Compliance
The Board of Management is responsible for ensuring that all provisions of national and international law and internal regulations of PULSION AG are complied with by all PULSION Group entities.

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.

Every year at the Annual General Meeting, the Chairman of the Supervisory Board reports to shareholders 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 persons and analysed 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 2010

Members of the Management and Supervisory Boards and certain other senior management staff of PULSION AG as well as related parties of the persons concerned are required pursuant to §15a WpHG to give notice to the Company of the acquisition and disposal of shares of PULSION AG stock. The requirement only applies if the value of the transactions involving a member of a representative body of the Company and with related parties exceeds an amount of at least EUR 5,000 in a single calendar year. During the financial year 2010, no notice of transactions pursuant to §15a WpHG was given to PULSION AG.

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 and key management personnel and parties related to them.

	Number of shares Dec. 31, 2010
Management Board	
Patricio Lacalle	50,000
Patricio Lacalle	(share options) 50,000
Christoph R. Manegold	20
Christoph R. Manegold	(share options) 15,000
Hans-Hubert Schmitt	0
Supervisory Board	
Dr. Burkhard Wittek *	3,923,279
Jürgen Lauer	0
Frank Fischer **	607,231

* Based on Shareholder Pooling Agreement
** Directly and indirectly via his role as member of the Management Board of Shareholder Value Management AG and Shareholder Value Beteiligungen AG.

FORUM European Smallcaps GmbH and other shareholders have set up a shareholders' pool and gave notice that they held 3,923,279 shares in the Company at December 31, 2010. Based on a shareholder agreement, the shares are attributable jointly to pool participants pursuant to § 30 (2) sentence 1 of the German Securities Transitional Act (WpÜG). At December 31, 2010 Frank Fischer, together with close family members, holds 56,611 of the Company's shares. In total, 607,231 shares are attributable directly and indirectly via Mr. Fischer's activities as management board member of Shareholder Value Management AG and Shareholder Value Beteiligungen AG.

Financial reporting and external audit

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 six-month financial report and two quarterly reports.

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, 2010

10

At Berkshire, full reporting means giving you the information that we would wish you to give to us if your positions were reversed.

Warren Buffett

Report of the Supervisory Board

Dear customers, shareholders and colleagues,

Our Company has made good progress overall in the past year. The undersigned would like to draw attention in particular to the following:

- The 12% increase in sales revenue. Even excluding a large-scale tender transaction, growth 8% was well up on the years 2008 and 2009. One of principal factors behind this performance was the Back-to-the Roots (BTR) restructuring program, which has enabled PULSION to significantly raise the quality of its sales approach.

- A renewed increase in the **EBIT margin to a new high level of 14.5%.**

- A further improvement in free cash flow to EUR 4.3 million, representing an impressive **EBIT / free cash flow conversion rate of 95%.**

For those readers who would prefer to find the same kind of harsh self criticism as seen in the previous year's reports, we would like to refer to section 3 of this report – there are still enough obstacles to overcome, some of them large ones. There is no danger of the Supervisory Board sitting back and resting on its laurels.

This report therefore must pass on information to you as an owner in the way cited by Warren Buffett in the introduction: as co-owner who has not taken part in a shareholders' meeting for a year. Above all, this requires absolute openness, transparency with regard to decisions which directly affect owners' interests and a balanced presentation of information.

This "dialogue between the supervisory board as the shareholders representatives and shareholders" is after all the nucleus which lies at the heart of all corporate governance – a nucleus which unfortunately goes somewhat out of sight amidst the plethora of small details and regulations. In addition to carrying out this dialogue, we are

also obliged to fulfil the formal requirements of an annual report and corporate governance.

In the Annual Report 2009, the Supervisory Board expressed the hope that the changes made in PULSION AG's Supervisory and Management Boards at the end of 2009 would create the foundation for lasting and trusting cooperation between the two boards.

This hope has, for the most part, been fulfilled. The Supervisory Board is given frank and honest opinions; informal discussions regularly take place in between formal meetings in the course of which difficult problems are resolved and decisions taken on a professional basis, applying combined knowledge and skills of the members of both boards.

Put another way: the work of the Supervisory Board was enjoyable in 2010 thanks on the one hand to the open and direct discussions between the two boards and also reflecting the fact that this cooperation is beginning to bear fruits for the business. This more than made up for the reduction in actual compensation paid since the last Annual General Meeting (I hope that my colleagues will equally be convinced of this…).

1. Report on the activities of the Supervisory Board in 2010

1.1 Focus of the Supervisory Board's deliberations

The new Supervisory Board which took up office in November 2009 concentrated its activities in 2010 on the medium and long-term development of the business. Amongst other issues, the Supervisory Board meetings dealt the following topics on a number of occasions:

a) **Sales management:** How can PULSION increase the per capita productivity of its sales department? How can we make the nature of our sales approach even more professional? How can the gap be bridged between per capita productivity in Germany and the European subsidiaries?
b) **Regional Corporate Development:** How can PULSION quickly strengthen its presence in emerging countries?

c) **USA:** When will we reach the break-even point? Can the company expect to achieve an adequate return in future for losses made in the past? When and how can PULSION ensure a presence throughout the whole of the USA?

d) **Innovation management:** How can PULSION increase the proportion sales attributable to new products?

e) **HR development:** How can we improve the qualification profile of the company's employees?

f) **Edwards' introduction of a PiCCO clone onto the market:** How serious is this threat? What is the best way for PULSION to defend and extend its market leadership?

We also continued to **monitor short-term earnings trends** derived primarily with the aid of the Group's sophisticated budgeting and financial reporting systems.

Formal topics remained somewhat in the background. Our legal advisors regularly remind us that these topics must also be given due attention.

1.2 Assessment of statements made in the Supervisory Board in the Annual report for 2009

In Section 4 of its report in the previous year, the Supervisory Board specified the focus of its forthcoming work in 2010 and stated its goals. These were:

a) Placing the emphasis on cash flow and returns to shareholders
b) Raising the level of professionalism of the sales process and stepping up the international nature of the business
c) Rigorous pursuit of the "PULSION 100/70/20" project

Report of the Supervisory Board

1.2.1 Placing the emphasis on cash flow and on rates of return for the shareholder

As reported above, PULSION has achieved new high levels for cash flow and for conversion of EBIT into cash flow. The cash generated was used to finance a share buy-back October/November 2010, allowing some 6% of the Company's issued share capital to be repurchased and EUR 2.5 million to be returned to shareholders.

Without any shadow of a doubt, the Company's performance in the area of cash glow generation deserves the mark "very good".

1.2.2 Raising the level of professionalism of sales process and stepping up international reach

The increase in revenue allows one to draw the conclusion that PULSION's sales process has improved. This is a reflection above all of the skills and expertise of the field sales force. In other areas of the sales process, however, there is still much room for improvement, for example in the area of campaign management.

As far as international expansion is concerned, the only progress to be reported is the foundation of the new sales company in Poland. Setting up a selling company in one of the emerging markets requires a great deal of upfront preparation and probably more internal resources than planned.

For that reason, we would only give the mark **"satisfactory"** for this point.

1.2.3 Continued rigorous pursuit of the "PULSION 100/70/20" project

The Management Board goes into this topic in the Management Report, see page 05 of the Annual Report. Sales forecasts were translated for the first time into a set of individual measures and thus made more relevant for operations.

The EBIT margin moved only modestly in the direction of the target market of 20%. All of the companies with which we are most comparable improved their EBIT margin in 2010 and were able in some cases to generate margins of well in excess of 20%.

Bearing this in mind, Company's performance with respect to the PULSION 100/70/20 project also only receives the mark **"satisfactory".**

1.3 Due process

During the financial year 2010, 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, 12 meetings were held, of which 5 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, the undersigned and his colleagues were also in regular contact with the Management Board at other times to discuss major issues and forthcoming decisions. In total, the undersigned spent three days with the sales field force in order to gain a first-hand impression of the market.

Outside Supervisory Board meetings, Mr Lauer took part in some 7 joint meetings with the Management Board, auditors and tax advisors and was able to define some significantly value-enhancing changes in conjunction with projects.

2. Corporate Governance

2.1 Fundamental premise of corporate governance and composition of the Supervisory Board

As representatives of the largest shareholder and in his capacity as Chairman of the Supervisory Board, the undersigned is of the opinion that the fundamental premise of corporate governance – in the final analysis unified thinking by owners and Management Board and avoidance of principal/agent problems – has the best chance of being translated into practise when the owners play a strong role in the Supervisory Board and take a pro-active approach to the governance of the Company. This also includes input from the independent members of the Supervisory Board and Management Board, bringing an element of diversity into the discussion. This is particularly relevant for the "Mittelstand" to which PULSION belongs.

Two members of PULSION AG's Supervisory Board account for more than 50% of the voting rights. Mr Lauer, in his role as independent member, adds the necessary financial and accounting expertise to the Supervisory Board as well as making extremely useful contributions thanks to his experience in the operations of significantly larger entities. **With this combination, we believe that the company meets the fundamental premise of corporate governance.**

2.2 Compliance with the Corporate Governance Code

PULSION's approach to **the Corporate Governance Code** can be summarized as follows:

a) all **recommendations** in the relevant version of the Code should be complied with unless there are significant objections in specific cases;

b) **suggestions** should be checked in each separate case for their suitability.

For a list of these divergences and the reasons for them, we refer to the Declaration of Compliance dated January 11, 2011 published on the PULSION website (www.pulsion.com).

3. Focus of the Supervisory Board in 2011

In 2011, the Supervisory Board will engage in dialogue with the Management Board in particular on the following issues.

3.1 Internationalization

Since 2006, there has been an understanding between the Supervisory and Management Board that **1 - 2 new joint ventures should be established in growth markets every year** with a view to developing these into stand-alone sales organizations in the medium term. Not a single joint venture has been established since then.

A breakthrough in this area has to come in 2011. For it to happen, it is essential that the prerequisites for success – joint venture resources, a good understanding of potential markets and partners, logistics – are put in place at an early stage. Two projects are underway at the time of writing. It should therefore be possible to achieve the above-stated goal for the first time.

3.2 Rigorous pursuit of the PULSION 100/70/20 project

This key project will also remain at the top of the Supervisory Board's agenda until the stated goal is achieved.

The first specific measures in conjunction with this project were taken back in 2009. The Management Board provides further information in this report. In the Supervisory Board's opinion, there is a justified hope that PULSION will make a step in the right direction in 2011 towards achieving its revenues and, in particular, its EBIT margin targets.

Report of the Supervisory Board

3.3 Closing the innovation gap

New to the list of the three most important projects is the objective to close the innovation gap. The success of this objective is measured in terms of the proportion of revenue attributable to new products: The **proportion of revenue attributable to products which are under 5 years old was only in the region of 17% in 2010.** The Supervisory Board believes this is much too low for a research-based medical-technology company.

The Supervisory Board will therefore hold intensive discussions with the Management Board in 2011 with a view to determining how this proportion can be increased. This will include – based on an appropriate analysis of the reasons for the current situation – a review of the innovation process through to product launch, project management as well as the option of acquisitions.

4. Changes in composition of representative bodies

There were two changes in the Management Board of PULSION AG in 2010:

a) Hans-Hubert Schmitt left the board with effect from September 30, 2010, after previously being responsible for the areas Sales and Finances. Credit is therefore due to him for PULSION's accelerated growth in 2010. Still more important was probably his contribution to the creation of a climate of openness and intellectual honesty within the company. It was very much thanks to him that the dialogue between the two boards improved during his period of office. The Supervisory Board would like to thank Mr Schmitt for his hugely successful work.

b) Patricio Lacalle was appointed as Chairman of the Management Board with effect from September 1, 2010. Mr Lacalle joins the Company as a newcomer to the sector. The Supervisory Board sees his strengths primarily in the area of sales, combined with a good commercial understanding in all decisions to be taken. After a series of discussions with many candidates, the Supervisory Board came to the conclusion that these abilities are precisely those which had previously been missing in the company and had thus hampered efforts to translate PULSION's innovations into global revenues and earnings power.

In the four months of service to date, the high expectations of the Supervisory Board have been confirmed.

5. Audit of the separate 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

discussed in detail at the Supervisory Board meeting held on March 22, 2011, 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 22, 2011, 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.

6. Risk management

The Supervisory Board again addressed the issue of PULSION's risk management system during the financial year 2010. 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.

For further information with regard to risks, reference is made to the Risk Report included as part of the notes to the financial statements.

7. Approval of the Dependent Company Report

In accordance with § 312 AktG, it was necessary again for PUSION AG to draw up a Dependent Company Report. 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.

8. Thanks to shareholders and employees

The Supervisory Board would like to thank PULSION's shareholders for the trust they have placed in it. The Company is in a position for the first time since 2006 to report on a generally positive performance in its Annual Report for 2010. The Company's share price increased during the year under report from EUR 2.87 to EUR 4.40, thus easily outperforming the index as a whole.

We would also like to thank all employees for their commitment in 2010 without which the improvement in earnings would not have been possible.

Munich, March 22, 2011

Dr. Burkhard Wittek
Chairman of the Supervisory Board

Group Management Report

A Review of the Financial Year

Summary

- Sales revenue up by 12% (excluding exchange rate impact and one large-scale order by 8%)
- Gross margin percentage slightly down on previous year, influenced by large-scale order and one-time write-down on inventories and impairment losses
- EBIT rose by EUR 2.2 million (+91%) from EUR 2.4 million in 2009 to EUR 4.6 million in 2010 despite one-time expenses
- European approval (CE label) received for the new, second monitor platform PulsioFlex® used for minimal invasive monitoring
- New country registrations concluded for PiCCO$_2$ in Japan, Taiwan, China, Columbia and Iran.

Group revenues for the financial year 2010 totalled EUR 31.5 million and were therefore significantly higher than the previous year's figure of EUR 28.1 million. Profit before interest and taxes (EBIT) for the year under report rose by EUR 2.2 million (+91%) from EUR 2.4 million in 2009 to EUR 4.6 million in 2010. The EBIT margin went up from 8.5% to 14.5%. Group net profit after minority interests improved from EUR 0.5 million in 2009 to EUR 2.9 million in 2010. Earnings per share increased from 5 cents to 30 cents per share.

Revenues of the Critical Care business unit, with its core product PiCCO, rose by 11% from EUR 24.6 million to EUR 27.2 million, while revenue of the Perfusion business unit grew by 23% from EUR 3.5 million to EUR 4.3 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 gross margin in 2010 was 64% (2009: 66%), brought down by the one-time impact of write-downs on inventories and impairment losses.

Overall, the EBIT forecast given in the third quarter 2010 was exceeded, with the Group reporting a figure of EUR 4.2 million for the year.

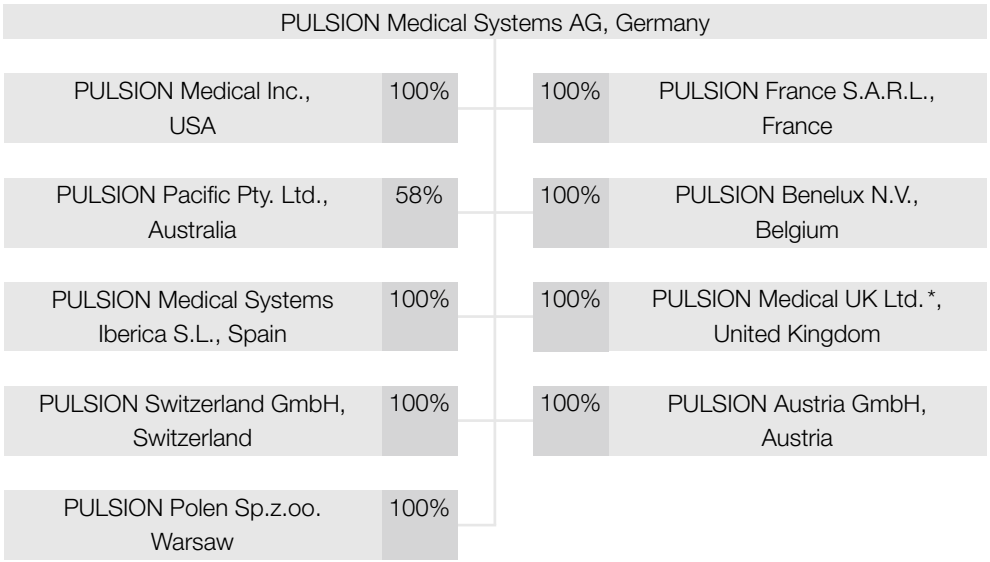
The cash flow from operating activities increased compared to the previous year by EUR 2.5 million to EUR 6.5 million. As a result of the share buy-back, EUR 2.5 million of cash is tied up.

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 expired in 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. 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:



* 51% until September 23, 2010

In accordance with the agreement certified by public notary on June 15, 2010 a further wholly-owned subsidiary was founded in Poland with its registered office in Warsaw. PULSION Polen Sp.z.oo is a limited liability company.

In accordance with the agreement dated September 24, 2010, 49% of the shares of PULSION Medical UK Ltd. were purchased by and transferred to PULSION Medical Systems AG. As a result, the Group does not report any minority interests at December 31, 2010.

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.

Financial Report

General and sector business environment

Contrary to expectations, the global economy grew significantly more strongly in 2010 than originally feared, mostly thanks to a tangible recovery in global markets in the second half of the year. Nonetheless, the effects of the financial crisis which had broken out back in 2007 could still be felt on the world markets. After recording in 2009 the biggest slump in gross domestic product (GDP) since 1946, the US economy grew only very modestly in 2010. Economic output increased by 2.7%, but only after a drop of 2.6% in 2009 and zero growth in 2008, ending up in 2010 just 0.1% higher than economic output in 2007. Germany registered a GDP growth of 3.6% (source: German Federal Bureau of Statistics), the highest growth rate since 1991 – admittedly after a slump of 4.7% in 2009. The OECD forecasts a growth rate of 2.5% for Germany in 2011 (source: OECD - Germany - Economic Outlook 88 Country Summary). Against this background, the German medical-technology sector recorded particularly strong growth in 2010.

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 aging process in industrial nations. The risk of a negative impact on PULSION due to cutbacks in countries in which healthcare depends on governmental subsidies cannot, however, be entirely ruled out over the coming years. Long-term cost-cutting measures in the national health system introduced by the British government to the tune of 20 billion pounds sterling have already had an initial impact and will continue to do so up to 2014. The impact of health care reform in the USA being driven by President Obama remains uncertain.

Organization

Within its marketing department PULSION continued to focus on 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, originally started up in 2008, was continued and expanded in 2010. Employees are able to deepen their understanding of products and applications by participating in intensive training programs.

With effect from January 4, 2010, the Supervisory Board appointed Hans Hubert Schmitt to the Management Board as interim CFO. Patricio Lacalle was appointed to the position of Chairman of the Management Board with effect from September 1, 2010. Mr Schmitt subsequently completed his interim role and left the board on September 30, 2010. Since that date, the Company's Management Board has comprised two members.

Revenues

Revenues rose by 12% in the financial year 2010 to EUR 31.5 million (2009: EUR 28.1 million). 63% of sales revenue related to disposable products sold by the Critical Care business unit, 25% to the sale of monitors and 12% to the sale of ICG-PULSION and other disposable products by the Perfusion business unit.

Business Units

In the Critical Care business unit, revenues from the sale of monitors (PiCCO, CeVOX, LiMON) increased by 14% from EUR 6.8 million to EUR 7.8 million, with the installed base rising by 10% to almost 6,900 monitors. Most of the increase in sales revenue was attributable to tender contracts. Furthermore, the number of PiCCO modules placed on the market via PULSION's strategic sales partners (Philips Medical Systems and Dräger Medical), increased by approximately 2,500 units to approximately 18,000 modules, some 16% more than at the end of the previous year.

Sales of critical care disposable products – primarily catheter kits and probes – went up by 9% from EUR 18.1 million in 2009 to EUR 19.8 million in 2010. Similarly, the sales volume of PiCCO catheters – an important product for PULSION – was increased by 10% to approximately 115,000 units. This increase was achieved in 2010 following successful implementation of a new sales strategy and more intensive marketing activities for disposable products.

Revenues by product:

in EUR million		2010	2009	Change in %
Monitors	Critical Care	7.4	6.5	14%
	Perfusion	0.4	0.4	0%
Disposables	Critical Care	19.8	18.1	9%
	Perfusion	3.9	3.1	26%
Total	Critical Care	27.2	24.6	11%
Total	Perfusion	4.3	3.5	23%
Total		**31.5**	**28.1**	**12%**

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 grew by 23% to EUR 4.3 million. This was partly due to the changed order pattern of a major customer, but also to some extent reflects better market penetration, particularly in the USA. 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 85% of total sales (EUR 26.9 million) were generated. This represented an increase of 8% compared to the previous year. Business in Germany also grew by 8%. Increases in sales in Switzerland (up by more than 30%), Belgium and France (both up by more than 17%, and Spain (+10%) contributed at above-average rates to growth. The benefits being generated by the new sales structure, better qualified staff and the focus on managing sales on the basis of potential rewards are already clear to see. By contrast, sales revenues in Austria and the UK were 7% and 4% down respectively.

Within Europe, Germany, Austria and Switzerland (the so-called "DACH" countries) remained the best-selling region with revenues up 9% to EUR 14.0 million.

Revenues by region:

KEUR	2010	2009	Change in %
DACH*	14.0	12.9	9%
Europe (excluding DACH)	12.9	12.0	8%
USA	1.6	1.0	60%
Australia-Pacific	0.5	0.6	-17%
Other	2.5	1.6	56%
Total	**31.5**	**28.1**	**12%**

* Germany, Austria, Switzerland

Business in the USA is making increasingly good progress. Revenues in this region grew by 60% to EUR 1.6 million. Revenues generated by the sales platform Australia fell by 17% from EUR 0.6 million in 2009 to EUR 0.5 million in 2010.

Revenues outside Europe (Other) rose by 56% from EUR 1.6 million to EUR 2.5 million. This performance was affected by the tender contract won in China.

Sales via distributors grew at an above-average rate of 20%, driven by tender contracts. 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 12.8% increase and the subsidiaries reported a 10.5% increase.

Earnings performance

The gross profit increased by EUR 1.5 million to EUR 20.1 million, with the gross margin slipping from 66% in 2009 to 64% in 2010. The operating result was adversely affected by the increased level of amortization on intangible assets and the one-time effect of write-downs on inventories. Impairment losses amounting to EUR 0.5 million recognized on intangible assets are also 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.

Profit before interest and taxes (EBIT) jumped from EUR 2.4 million in 2009 to EUR 4.6 million in 2010 (+91%). The EBIT margin improved from 8.5% to 14.5%. After a decrease of 7% in 2009, net operational expenses (including other operating income and expenses) were reduced by a further 4% in 2010 to EUR 15.6 million, corresponding to 50% of revenues (2009: 58%). This reflects targeted cost savings in conjunction with the cost reduction program initiated at the end of 2008 as well as good progress made in optimizing processes. In addition, one-time expenses for severance pay were reduced in 2010.

Spending on research and development in 2010 was increased by EUR 0.2 million after capitalization to EUR 2.4 million, corresponding to 7.7% of revenues.

As a result of the higher operating profit, the group net profit (attributable to shareholders of PULSION Medical Systems AG) increased to EUR 2.9 million (2009: EUR 0.5 million) despite the higher income tax expense. Earnings per share before minority interests (diluted) increased therefore to EUR 0.30 (2009: EUR 0.05).

Net assets and financial position

Financial performance indicators

At EUR 25.7 million, the group balance sheet total remained roughly at the previous year's level.

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

Performance indicator	Basis of computation	Unit	2010	2009	Change
Days of Sales outstanding	Trade accounts receivable x 360 days / Group revenues	Days	60	71	-15%
Inventory turnover	Cost of sales / Average level of inventories		2.1	2.0	5%
First grade liquidity	Cash funds x 100 / Current liabilities	%	84	75	12%
Equity ratio	Equity / Balance sheet total	%	64	66	-3%
Non-current asset coverage	Equity / Non-current assets		1.7	1.8	-6%
Cash and cash equivalents*	Cash on hand and at bank and available-for-sale financial assets	EUR m	4.9	4.7	4%
Net working capital	Current assets less cash and cash equivalents less current liabilities	EUR m	5.6	5.3	6%

* including pledged cash of EUR 0.1 million (2009: EUR 0.1 million)

On the assets side of the balance sheet, non-current assets remained at EUR 9.5 million, roughly at their previous year's level. Intangible assets went up by EUR 0.3 million to EUR 4.2 million, mainly reflecting increased spending on new and further product development and approvals, while property, plant and equipment decreased by EUR 0.2 million.

Current assets, at EUR 16.3 million, also remained at the previous year's level. Within that figure, trade accounts receivable were reduced by EUR 0.3 million despite the sharp rise in revenues. As a result, the period between billing and payment (DSO) was reduced by 11 days (from 71 to 60 days).

Inventories went up by EUR 0.3 million, mainly as a result of the timing of receipts of raw materials in December. Cash and cash equivalents edged up by EUR 0.1 million compared to the end of the previous year. At December 31, 2010, EUR 0.1 million (2009: EUR 0.1 million) of cash and cash equivalents held in bank accounts were pledged. The pledge relates to guarantees for the Spanish subsidiary.

On the equity and liabilities side of the balance sheet, liabilities increased by EUR 0.4 million from EUR 8.8 million at the end of 2009 to EUR 9.2 million at December 31, 2010 (+5%). Deferred tax liabilities (net of deferred tax assets) went up by EUR 1.2 million to EUR 2.7 million. Non-current liabilities to banks were reduced by EUR 0.3 million to EUR 0.4 million in line with schedule. 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. Overall, the cash ratio improved from 75% at the end of 2009 to 84% at December 31, 2010.

Equity decreased in 2010 by EUR 0.5 million from EUR 17.0 million to stand at EUR 16.6 million at the balance sheet date. The equity ratio decreased from 66% to 64%.

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 2.5 million in the previous year to EUR 6.5 million in 2010.

The cash outflow for investing activities in 2010 totalled EUR 2.2 million and therefore increased by EUR 0.5 million (+29%) compared to the previous year, mainly reflecting increased expenditure on intangible assets.

The cash outflow for financing activities in 2010 went up by EUR 3.6 million to EUR 4.2 million. The main factors for this were the share buy-back (EUR 2.5 million), the acquisition of the remaining shares in the UK subsidiary (EUR 0.8 million) and the foundation of the Polish subsidiary (EUR 0.1 million) as well as the scheduled repayment of bank and lease liabilities.

Overall therefore, PULSION's liquidity (including pledged cash at bank of EUR 0.1 million in accordance with IAS 7) climbed from EUR 4.7 million at the end of the previous year to EUR 4.8 million at December 31, 2010 (+3%).

Non-financial performance indicators

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

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 Company's success. A flexible remuneration system and purposeful further training of staff helps to reduce know-how drift and retain skills within the Company (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 Company's system is regularly tested by internal audit and certified by external organizations.

Capital expenditure

Total capital expenditure in 2010 amounted to EUR 2.9 million (2009: EUR 1.9 million).

Capital expenditure related to the following:

- EUR 0.9 million was invested in monitors.
- EUR 1.3 million was invested in intangible assets including
  – EUR 1.1 million on product development
  – EUR 0.2 million for patents and approvals.
- EUR 0.7 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 9% (2009: 7%).

Internationalization – USA

The US market accounts for some 40% of the global market for hemodynamic 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.

After the restructuring measures taken in the previous year, the focus in 2010 in the USA was on stabilizing the sales organization and directing all energies on sales regions on the East Coast. By the end of the financial year, experienced and clinically trained staff had been recruited for all sales regions. The strategy of focusing on the product and on key customers within the territory, put in place in 2009, was continued over the course of 2010. Revenue rose by approximately 50% whilst costs were reduced. The marketing approach is designed to fit in with the very specific structure of the health care system in the USA.

Purchasing, production, logistics

PULSION's core areas of expertise are product development, the regulatory control of key processes and its marketing, and not primarily in injection molding and/or the mass production of plastic articles.

As part of the strategic review undertaken at the beginning of 2009, the new Management Board decided to restructure the new production location and focus on core areas of expertise. All injection molding facilities (machines, tools, granulation etc.) as well as all related purchasing and production processes were transferred to the Czech Republic. Clean room final assembly, quality assurance and delivery to customers remained unchanged at the new production location.

These changes in production will enable unit cost of the new generation of TD-catheters – PULSION's main disposable product -- to be reduced for the first time. The benefits for purchasing and gross margin will become noticeable in the second half of 2011 and subsequent years. In parallel, PULSION pushed ahead with measures to transfer other labor-intensive production

steps for CeVOX and CiMON probes to Hungary. All of the sub-contracts selected to carry out the work have the necessary experience in manufacturing the products concerned, comply with relevant international quality standards and are monitored very closely, so as to ensure the uninterrupted supply of components and/or sub-assemblies. The related staff reduction was achieved by not extending contract and temporary staffing arrangements. The recruitment of staff for injection molding, as planned in 2009, was not carried out.

Human resources

PULSION is keeping to the strategy embraced in the previous year 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 company, 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 Group EBIT.

The Company employed a worldwide workforce (including those employed on a low wage-earning basis) of 126 people at the end of the year (2009: 139), 9% less than one year earlier. Personnel expenses decreased by 14%, mainly as a result of the expense for severance pay recorded in the financial year 2009.

Environmental care and quality management

PULSION's quality management system was again certified by Dekra Certification GmbH in 2010 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 Company's Science, Research and Development (R&D) and Intellectual Property (IP) departments are the mainstays of PULSION's business strategy and together represent a prerequisite for PULSION's aim to integrate product improvements continuously and open up new product areas and/or lines of business.

At the end of the second quarter 2010, the MED department was merged into the SCIENCE unit. The combined unit now bears the title "Innovation Management" and is headed by a medic. Any previous losses of efficiency within the organization have therefore been eliminated. The key tasks of the unit are now defined as follows:

- establishing proof of concept for innovative ideas
- evaluation of interesting non-PULSION technologies with potential to generate synergy benefits
- IP management (patents, etc.)
- focus groups: management within PULSION MAB
- looking after studies (validation studies, outcome studies)

The innovation structure described received the TOP 100 seal of quality during the second quarter. PULSION has therefore been given the honour of being selected as one of the hundred most innovative medium-sized companies in Germany. Our innovative processes and the TOP management of innovation were particularly highlighted (Lothar Späth TOP 100 - The 100 Most Innovative Companies in the Mittelstand, Redline Verlag).

The DEVELOPMENT section, i.e. the "D" component of our R&D activities, has succeeded in 2010 gaining further OEM partners who wish to integrate the PULSION technologies, PiCCO and CeVOX, into their monitoring systems. This includes Mindray Medical International Limited.

A further highlight during the first half of the year was the presentation of the new product lines "PulsioFlex®" and "ProAQT®" at the 30th ISICEM in Brussels, one of the world's largest symposiums for Intensive Care and Emergency Medicine.

PulsioFlex® is, alongside PiCCO$_2$®, a further, smaller-scale PULSION monitoring platform which can be used in intensive care wards, patient monitoring wards as well as other hospital areas, such as A&E units or OP theaters. The highly flexible design of this platform will enable current and future technologies to be combined without problems. PulsioFlex® can also be marketed as a compact stand-alone device to be used in conjunction with one of PULSION's well-known monitoring technologies, thus completely replacing CeVOX and LiMON monitors.

The second half of the year was dominated by activities related to obtaining approval for the new PulsioFlex® monitoring platform. After all EMV and safety tests had been passed, the CE label was issued by DEKRA Certification GmbH (the "Notified Body" responsible for PULSION) and the system added to the Appendix II Certificate. Sales in the EU region commenced in December.

The proportion of revenues generated by products which are less than 5 years old was 17% in 2010. This is much too low for a medium-sized med-tech company. It is therefore very important in strategic terms that the pipeline of new products is strengthened in such a way that the proportion increases in the medium term to at least 25%.

Together with other capital expenditure, the expense of EUR 2.4 million incurred in 2010 was EUR 0.2 million higher than in the previous year.

Patents and approvals

Industrial property rights and approvals

At the end of 2010, PULSION has 157 national patents (2009: 179) at its disposal in various countries. This comprised 122 patents held by PULSION and 35 patent rights licensed to PULSION. In addition, PULSION is currently in the process of applying for a further 285 patents and designs (2009: 325) in 90 ongoing proceedings. The patents and patent applications relate to 53 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.

PULSION also holds 43 trade mark applications and registrations (2009: 29) internationally to protect 15 brand names.

PULSION's portfolio of protected intellectual property rights has and will continue to undergo a careful review process aimed at avoiding unnecessary fees to maintain or pursue intellectual property rights that have little or no business significance. This includes on the one hand older intellectual property rights relating to inventions which have become obsolete in the meantime as a result of new technological developments. As a research-based company, PULSION also registers some highly innovative technologies to protect priority rights, but at such an early stage that it is not always possible to know whether they are of market relevance. During each new patent application proceeding and before annual fees for granted patents are paid, the expected and current economic importance is assessed on an ongoing basis.

The announcement made in the 4th quarter 2010 by Edwards Lifesciences Corp. („Edwards") – a major competitor and the market leader in other product segments – that it intends to enter the market with a product line for making transpulmonary measurements of physiologically relevant volumes can in fact be taken as confirmation that PULSION did indeed start along the right track back in 1990. The patent protection for PULSION's thermodilution algorithm had served as an effective barrier to market entry for almost 17 years. Edwards believes it can now overcome that barrier after buying in a new algorithm from PULSION's founder Dr. med. Dr. med. habil. U.J. Pfeiffer, who left the company in 2005. PULSION is constantly working on the further development of its products, coupled with regular registration of industrial property rights aimed at maintaining and extending PULSION's technological lead. Based on our current understanding of the situation, Edwards' entry to the market does not pose a threat to the sale of disposable products for PULSION's installed base of equipment.

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, 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. 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 and 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 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 are 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.

Workshops are held at least once every six-month period under the leadership of the Risk Manager. The results are incorporated in PULSION's standardised 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 monthly and quarterly analyses/ reports with comparisons to prior year, forecasted or estimated 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 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 analysed 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 a 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 appropriating 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 medical technology 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 of the Group 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.

Based on our current understanding of the situation, Edwards' entry to the market does not pose a threat to the sale of disposable products for PULSION's installed base of equipment. PULSION is sharply focused on defending and extending its market leadership.

Financial markets risk

The financial and global economic crisis did not have any significant impact on the med-tech 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 the Company has a good rating, so that capital could be raised if required. PULSION AG's level of debt was reduced in line with schedule in 2010. Based on forecasts, other than investment in product development and improvements, no major items 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 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 PULSION 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 2010.

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 quality management system, based on international standards and norms, 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 2010.

Product approvals

Very strict approval regulations – which can differ from country to country – apply in the MedTech and pharmaceutical sectors (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 and expanded, enabling process product approvals to be carried through faster and more effectively.

Production and purchasing risks

During the second half of 2010, PULSION began to restructure its production facilities in Feldkirchen near Munich to which the Company had moved production in spring 2008. Labor-intensive and injection-mold production processes were transferred to Eastern Europe (component prefabrication of CeVOX and CiMON probes to Hungary; injection-mold processes for catheter components to the Czech Republic). It did not make good business sense to leave these production processes in Feldkirchen based on the volumes for disposable currently required. Extensive due-diligence measures undertaken before the transfer production and tight monitoring of the sub-contractor processes ensures early identification of any problems that might arise along the logistics chain.

PULSION continues to hold sufficient inventories of key parts and materials to give itself time to organize an alternative supplier or to apply the „fall-back" option of own production, should the current supplier not be able to deliver.

Financing risks

PULSION has an equity ratio of 64% at December 31, 2010. Unpledged cash and cash equivalents of EUR 4.8 million and current trade accounts receivable of EUR 5.3 million also provide financial flexibility. The cash flow from operating activities in 2010 amounted to EUR 6.5 million. From a current perspective, the financing and liquidity situation of the Company 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 Company counters bad debt risk with a tight receivables management system and provides for such risk in the form of specific and general allowances where necessary. 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. During the financial year 2010, one option and one forward currency contract were concluded to hedge USD and GBP exchange rate fluctuations. Both of these contracts had expired by the end of the year.

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 endeavours 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. No incidences of loss of data or system breakdowns were registered within the Group's inventory control systems in 2010. Maintenance contracts also help to minimize the risk of system breakdown.

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 31 December 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

Dr. med. Dr. med. habil. 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. The first hearing of evidence took place on November 10, 2010 and is to be continued at a further hearing on March 23, 2011. Based on the assessment of attorneys representing PULSION 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.

The French subsidiary has been sued by an ex-director whose appointment was revoked in the past. A provision for the lawsuit was recognized in 2009 and retained at the end of 2010 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 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 the Group 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 hemodynamic monitoring" (cardiovascular system) and the monitoring of vital organ functions.
  Improving and expanding the product range represents the Company's main potential. The detailed short- and medium-term product development plan for the years ahead has been approved. The new PulsioFlex® product platform was successfully presented and obtained its CE label in 2010. Further innovations will be displayed at the specialist trade fair in Brussels in March 2011. Marketing will commence in the second half of 2011 and in 2012.
- 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 international experts in the fields of anaesthetics and critical care medicine.

- A strong international presence through Group subsidiaries in France, Spain, Belgium, Switzerland and Austria, the USA and Australia, combined with a comprehensive distributor network. In June, the new subsidiary was founded in Poland and in September, PULSION Medical UK became a wholly-owned subsidiary after the remainder of the share were acquired from the former joint venture partner. Plans are underway to expand market presence by establishing a new subsidiary in a growth region in 2011. Negotiations for a new joint venture are also at an advanced stage.
  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. Significant progress was, however, made in 2010. The objective for the coming year remains to sharpen the focus of selling and marketing activities by taking a more potential-oriented approach to sales and ensuring continuous training within 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. No tangible results were achieved in 2010 in this respect. As a result, PULSION will increase personnel resources available in this area in 2011 on a targeted basis.

- Strong licensing partners in the form of Philips Healthcare, Dräger Medical, and GE Healthcare. The results of cooperation arrangements with Mindray, announced in spring 2010, were presented at the Medica trade fair in November 2010. With this move, PULSION has gained a further important partner to market its products, in particular on the Asian market.
- 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:

- Improving the results of loss-making subsidiaries
- Increasing field sales force productivity (annual revenues/sales employee)
- Expansion of export business, primarily by setting up new joint ventures and founding subsidiaries in countries with good potential (e.g. BRIC)
- Improvement and expansion of the product range
- Development of the Perfusion business unit by additional approvals and new types of imaging systems.

Outlook

Based on the assumption that there will be no major deterioration in 2011 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
- Market launch of the PulsioFlex® platform together with the ProAQT® minimal invasive sensor, as presented in 2010
- 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 cost structure and continuation of projects aimed at reducing operating costs
- Further sales revenue growth in the USA and France, at similar rates to those achieved in 2010

The Management Board forecasts that revenues will rise in 2011 at least by 8% and that EBIT Margin will improve to 16-19%. Further improvements are being targeted for 2012 with a view to achieving the middle- and longterm 100/70/20 target (revenue/gross margin /EBIT).

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, 2010 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: FORUM European Smallcaps GmbH and other shareholders, which represent a shareholder pool, gave notice to the Company as at December 31, 2010 that they hold 35.42% of the issued share capital of PULSION Medical Systems AG, which, based on a shareholders agreements, are attributable jointly to pool participants pursuant to § 30 (2) sentence 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 EUR 481,000 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.

Authorization of Management Board to buy back shares

In accordance with the shareholders' resolution taken at the Annual General Meeting on May 8, 2010, the Company was authorized in accordance with § 71 (1) no. 8 AktG to acquire up to 10% of its then share capital as treasury shares. The authorization runs for 5 years and expires on May 17, 2015.

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 comprise 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 2010, PULSION again based its approach to corporate governance of the principles set out in the German Corporate Governance Code (version dated May 26, 2010). Divergences from the recommendations of the German Corporate Governance Code are described in detail in the Declaration of Compliance issued by the Management Board and Supervisory Board on January 31, 2011 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. 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 Board of Management and the Supervisory Board

The common objective of the Management and Supervisory Board is corporate governance based on long-term approach to value creation. The two boards work together closely in the interests of the enterprise. The Management Board manages the Company and runs its affairs. 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 Company.

Extensive disclosures on corporate governance practises 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 Company. 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. During the year under report, members of the Management Board were granted 50,000 PULSION share options.

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 are also reimbursed expenses and the liability insurance premiums.

The fixed remuneration (basic remuneration) amounts to EUR 10,000.00 for a member, EUR 15,000.00 for the Deputy Chairman and EUR 20,000.00 for the Chairman. 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 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 an additional remuneration for the financial year equivalent to 100% of the basic remuneration.

Full details of the remuneration of the Supervisory Board for the financial year 2010, analyzed by individual, are provided in the notes to the consolidated financial statements.

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

Subsequent Events

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

Forward-looking Assertions

These consolidated financial statements contain 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 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 21, 2011
PULSION Medical Systems AG

Patricio Lacalle
Chairman

Christoph R. Manegold

Consolidated Balance Sheet

of PULSION Medical Systems AG at December 31, 2010

ASSETS		Note	Dec. 31, 2010 KEUR	Dec. 31, 2009 KEUR
Non-current assets	Intangible assets	12, 13	4,244	3,975
	Property, plant, equipment	14	5,041	5,246
	Investment property	16	182	198
	Other receivables		17	0
	Total non-current assets		**9,484**	**9,419**
Current assets	Inventories	17	5,497	5,164
	Trade accounts receivable	18	5,268	5,582
	Other current assets	19	634	833
	Cash and cash equivalents *	20	4,851	4,749
	Total current assets		**16,250**	**16,328**
	Total assets		**25,734**	**25,747**

* including fixed term deposits of EUR 0.06 Mio. (Dec. 31, 2009: EUR 0.1) pledged as security.

EQUITY AND LIABLILITIES		Note	Dec. 31, 2010 KEUR	Dec. 31, 2009 KEUR
Equity	Share capital	21, 22	9,577	9,577
	Additional paid-in capital		1,466	1,416
	Statutory reserve		1	1
	Treasury shares		(2,532)	0
	Other reserves		(858)	(421)
	Accumulated profit/deficit		8,905	6,052
	Minority interests	11	1	356
	Total equity		**16,560**	**16,981**
Non-current liabilities	Provisions	23	210	205
	Liabilities to banks	24, 25	414	704
	Other liabilities	24, 27	69	76
	Deferred taxes	10	2,674	1,461
	Total Non-current liabilities		**3,367**	**2,446**
Current liabilities	Provisions	23	403	910
	Liabilities to banks	24, 25	290	924
	Trade accounts payables	26	2,039	1,513
	Lease liabilities	24	0	69
	Taxes payables	10	293	110
	Other liabilities	24, 27	2,782	2,794
	Total current liabilities		**5,807**	**6,320**
	Total current liabilities		**25,734**	**25,747**

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, 2010

	Note	2010 KEUR	2009 KEUR
Sales	5	31,492	28,141
Cost of sales	6	(11,407)	(9,526)
Gross profit		**20,085**	**18,615**
Selling and marketing expenses	9	(9,747)	(10,149)
Research and development expenses	9	(2,427)	(2,229)
General and administrative expenses	9	(3,956)	(4,505)
Other operating expenses	7, 8	(90)	(38)
Other operating income	7, 8	639	687
Operating profit		**4,504**	**2,383**
Exchange losses		(53)	(52)
Exchange gains		124	61
Profit before interests and taxes (EBIT)		**4,575**	**2,392**
Interest expenses	7	(78)	(144)
Interest income	7	31	32
Profit before taxes (EBT)		**4,528**	**2,280**
Income taxes	10	(1,734)	(1,718)
Group net profit / loss (before minority interests)		**2,794**	**562**
of which attributable to shareholders of the group parent company		2,853	465
of which attributable to minority interests	11	(59)	97
Earnings per share			
Undiluted - ordinary operations after taxes (in EUR)	31	0.30	0.05
Diluted - ordinary operations after taxes (in EUR)		0.30	0.05
Average number of shares in circulation (undiluted)		9,528,232	9,577,302
Average number of shares in circulation (diluted)		9,528,232	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, 2010

IFRS	2010 KEUR	2009 KEUR
Group net profit / loss (before minority interests)	2,794	562
Income and expenses directly recognised in equity	(268)	138
Total comprehensive income / loss for the period	**2,526**	**700**
of which attributable to minority interests	(59)	114
of which attributable to owners of the parent company	2,853	586
Total comprehensive income / loss for the period	**2,794**	**700**

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, 2010

	Note	2010 KEUR	2009 KEUR
Cashflow from current activities			
	Group net profit / loss after monority interests	2,853	465
	Minority interests	(59)	97
	Dividends	(138)	(39)
	Amortization and depreciation of intangible assets and property, plant and equipment	1,855	1,822
	Interests received	22	32
	Interests paid	(85)	(146)
	Income taxes received	65	25
	Income taxes paid	(371)	(505)
	Changes in other assets and liabilities	573	2,238
	Changes in deferred taxes	1,213	7
	Changes in tax receivables/ tax liabilities	184	14
	Changes in provisions	(501)	14
	Other non-cash income and expenses	414	672
	Cashflow from current activities	**6,024**	4,697
Cashflow from operating activities	Changes in receivables	332	(54)
	Changes in inventories	(334)	(673)
	Changes in trade accounts payables	500	7
	Changes in net current assets	**498**	**(720)**
	Cashflow from operating activities	**6,523**	**3,977**
Cashflow from investing activities	Purchase of intangible assets	(1,414)	(1,075)
	Purchase of property, plant and equipment (without monitors)	(622)	(566)
	Purchase of monitors	(877)	(702)
	Proceeds from disposal of property	721	647
	Cashflow from investing activities	**(2,192)**	**(1,696)**
	Free Cash Flow	**4,331**	**2,281**

	Note	2010 KEUR	2009 KEUR
Cash Flow from financing activities	Payments of formation by cash subscription Poland	(98)	0
	Purchase of minority interests	(780)	0
	Proceeds from raising current and non-current loans	0	1
	Repayments of bank borrowings	(704)	(390)
	Repayments of financial liabilities	0	(26)
	Acquisiton treasury shares	(2,532)	0
	Repayments of finance lease	(69)	(217)
	Cash Flow from financing activities	**(4,184)**	**(632)**
Cash funds at the End of the Period	Decrease / increase in cash funds	147	1,649
	Cash funds at the beginning of the period	4,644	2,995
	Cash funds at the End of the Period	**4,791**	**4,644**

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, 2010

	Subscribed captal	
	Shares	**KEUR**
Balances at January 1, 2009	**9,577,302**	**9,577**
Exchange differences*		0
Group net loss		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 directly recognised in the equity		**0**
Total		**0**
Balance at December 31,2009	**9,577,302**	**9,577**
Balances at January 1, 2010	**9,577,302**	**9,577**
Exchange differences	0	0
Group net profit	0	0
Total result for the period	**0**	**0**
Dividends	0	0
Employee share options programs	0	0
Withdrawal of capital reserve	0	0
Allocation statutory reserve	0	0
Release minority interest	0	0
Acquisition minority interest	0	0
Share repurchase program	0	0
Total items directly recognised in the equity	**0**	**0**
Total	**0**	**0**
Balances at December 31, 2010	**9,577,302**	**9,577**

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

Additional paid-in capital	Statutory reserve	Own shares	Accumulated deficit / profit	Other reserves	Minority interests	Total
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
20,596	**0**	**0**	**-13,671**	**-542**	**280**	**16,240**
0	0	0	0	121	17	138
0	0	0	465	0	97	562
0	**0**	0	**465**	**121**	**114**	**700**
0	0	0	0	0	-39	-39
80	0	0	0	0	0	80
-19,259	0	0	19,259	0	0	0
0	1	0	0	0	0	1
-19,179	**1**	**0**	**19,259**	**0**	**-39**	**42**
-19,179	**1**	**0**	**19,724**	**121**	**75**	**742**
1,416	**1**	**0**	**6,052**	**-421**	**356**	**16,981**
1,416	**0**	**0**	**6,052**	**-421**	**356**	**16,981**
0	0	0	0	-328	60	-268
0	0	0	2,853	0	-59	2,794
0	**0**	**0**	**2,853**	**-328**	**1**	**2,526**
0	0	0	0	0	-138	-138
50	0	0	0	0	0	50
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	218	-218	0
0	0	0	0	-327	0	-327
0	0	-2,532	0	0	0	-2,532
50	**0**	**-2,532**	**0**	**-109**	**-356**	**-2,947**
50	**0**	**-2,532**	**2,853**	**-437**	**-355**	**-421**
1,466	**1**	**-2,532**	**8,905**	**-858**	**1**	**16,560**

Analysis of Changes in Fixed Assets

of PULSION Medical Systems AG at December 31, 2010

Analysis of Changes in Fixed Assets at December 31, 2010

	Historical cost			
	Jan. 1, 2010 KEUR	Translation differences KEUR	Additions KEUR	Reclassifications KEUR
Intangible assets				
Purchased intangible assets	747	2	184	0
Internally generated intangible assets	5,174	0	1,230	0
	5,921	**2**	**1,314**	**0**
Property, plant and equipment				
Technical equipment, plant and machinery	1,546	0	469	114
Other equipment, furniture and fittings	8,151	158	1,030	0
Finance leases	412	0	0	-114
	10,109	**158**	**1,499**	**0**
Investment property	379	0	0	0
	16,409	**160**	**2,913**	**0**

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**

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

			Accumulated amortization, depreciation and impairment losses						Carrying amounts	
Disposals	Dec. 31, 2010	Jan. 1, 2010	Translation differences	Additions	Reclassifi-cations	Disposals	Dec. 31, 2010	Dec. 31, 2010	Dec. 31, 2009
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
95	838	509	0	71	0	6	574	264	238
541	5,862	1,437	0	689	0	243	1,883	3,980	3,737
636	**6,700**	**1,946**	**0**	**760**	**0**	**249**	**2,457**	**4,244**	**3,975**
70	2,059	619	0	142	16	24	753	1,306	927
1,771	7,567	3,979	150	937	0	1,233	3,832	3,735	4,172
298	0	265	0	0	-16	250	0	0	147
2,139	**9,626**	**4,863**	**150**	**1,079**	**0**	**1,507**	**4,585**	**5,041**	**5,246**
0	379	181	0	16	0	0	197	182	198
2,775	**16,705**	**6,990**	**150**	**1,855**	**0**	**1,756**	**7,239**	**9,467**	**9,419**

			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**

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 and since June 2001, the Company has been listed on the Prime Standard of the Frankfurt Stock Exchange. The PULSION Group develops, manufactures and sells systems worldwide to monitor, diagnose and manage the physical parameters of seriously ill and intensive care patients in hospitals. PULSION also produces and markets intravenous diagnostics and specific sterile disposable items used to monitor patients.

The PULSION Group employed 126 (2009: 139) people worldwide as of December 31, 2010, of whom 93 (2009: 102) worked at PULSION AG's headquarters in Munich and the production location in Feldkirchen.

These consolidated financial statements were released by the Management Board on March 21, 2011 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 Boards (IASB) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed for use in the European Union. Foreign operations have been included using uniform group accounting policies. All amounts are stated in thousands of Euro (KEUR) unless otherwise stated. Amounts are rounded in accordance with normal commercial practise. This can result in rounding differences.
For the purposes of preparing the IFRS consolidated financial statements, all International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs) of the International Financial Reporting Interpretations Committee/ Standing Interpretations Committee (IFRIC/SIC), which were mandatory for the financial year 2010, were applied. The consolidated financial statements comply with IFRS.

International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) applied mandatorily for the first time [IAS 8.28]

All of the Standards and Interpretations discussed below were applied by PULSION AG in the year under report. This involved the following pronouncements:

The revised **IAS 27, „Consolidated and Separate Financial Statements"**, requires the mandatory application of the "economic entity approach" when control is gained or retained after a purchase or sale of shares. Under this approach, such minority transactions must be treated as transactions with equity owners and recognized directly in equity. A gain or loss must be recognized in profit or loss when sales of shares result in loss of control. If control is retained after the sale of shares, the remaining shares are required to be measured at their fair value.

The difference between the previous carrying amount of the remaining shares and their fair value must be recognized in the income statement as part of the profit or gain on sale and disclosed separately in the notes to the financial statements along with the new fair value of the remaining shares. In the case of a step acquisition and the first-time gaining of control or in the case of a sale of shares, the Standard requires that the shares already held and the shares retained must be measured at their fair value. Minority interests that become negative due to incurred losses must be recognized at their negative amounts.

The revised version of **IFRS 3, „Business Combinations"**, contains rules relating to the scope of application, purchase price components, the treatment of minority interests, goodwill as well as the scope of assets, liabilities and contingent liabilities to be recognized. The Standard also sets out requirements for accounting for losses brought forward and the classification of contracts of the acquired entity. The revised Standard retains the use of the acquisition method for business combinations, but results in significant changes in the way that acquisition costs are determined. One example of this is that the adjustment to acquisition costs in the event that the purchase price agreement is dependent on future events, irrespective of the likelihood of the event occurring, must be taken into account at its fair value when determining the purchase price at acquisition date. Subsequent changes in the fair value of purchase price components classified at liabilities must be accounted for prospectively through profit or loss.

The new versions of IAS 27 and IFRS 3, which were published in the official EU journal after endorsement by the EU on June 12, 2009, have been applied for the first time with effect from January 1, 2010. Depending on the nature and magnitude of future transactions, the scale of the impact on the net assets, financial and earnings position of PULSION AG cannot presently be predicted.

The amendments to **IAS 39, „Financial Instruments: Recognition and Measurement – Permissible Hedged Items in Conjunction with Hedge Relationships"**, clarifies which underlying items can be hedged in conjunction with hedge accounting. It specifies that it is not normally possible to create an effective hedge of one-sided risks by the use of an option as a whole (i.e. innate value and fair value), thus impacting application of the "hypothetical derivative" method.

The amendments published in the official EU journal after endorsement by the EU on September 16, 2009 are effective for annual periods beginning on or after July 1, 2009, whereby it is mandatory to apply the amendments retrospectively to prior year periods. Application of the amendment did not have any impact on the net assets, financial and earnings position of PULSION AG in the year under report.

The amendment to **IFRS 2 and IFRIC 11, „Group Cash-settled and Share-based payment transactions"**, was approved after enquiries to the IASB about cases in which the reporting entity receives goods or services, for which, however, the parent company or another group company and not the reporting company itself is required to settle the obligation. As a result of the amendment to IFRS 2, the requirements of IFRIC 8, „Scope of IFRS 2", and IFRIC 11, „IFRS 2 - Group and Treasury Share Transactions", were integrated into the Standard.

The amendments to IFRS 2 published in the official EU journal after endorsement by the EU on March 24, 2010 are effective for annual periods beginning on or after January 1, 2010. They are required to be applied retrospectively in accordance with the requirements of IFRS 2. The amendments are not relevant for PULSION's consolidated financial statements.

The Standard **„IFRS for Small and Medium Entities"** („IFRS for SME") pursues the objective of allowing small and medium entities to apply simplified and reduced-scale accounting rules as opposed to the existing „Full IFRS". The new Standard came into force immediately after its publication on July 9, 2009 and does not require to be endorsed by the EU since the requirements it contains do not apply to capital market-orientated entities. The Standard is not relevant for PULSION AG.

As part of the **„Annual Improvement Project 2009"** amendments were published to existing IFRSs and Interpretations. These relate to ten IFRSs and two Interpretations as well as the related bases for conclusions. Most of the amendments are mandatory for retrospective application in annual periods beginning on or after January 1, 2010. The amendments relate to the Standards IFRS 5, „Non-current Assets Held for Sale and Discontinued Operations", IFRS 8, „Operating Segments", IAS 1, „Presentation of Financial Statements", IAS 7, „Statement of Cash Flows", IAS 17, „Leases", IAS 36, „Impairment of assets" and IAS 39, „Financial Instruments: Recognition and Measurement". Some of the amendments were already mandatory for annual periods beginning on or after July 1, 2009. This was the case for the amendments relating to IFRS 2, „Share-based Payment", IAS 38, „Intangible Assets", IFRIC 9, „Reassessment of Embedded Derivatives", and IFRIC 16, „Hedges of a Net Investment in a Foreign Operation".

Other amendments were approved relating to IFRS 1, „First-time Adoption of IFRS", IFRS 3, „Business Combinations", IFRS 5, „Non-current Assets and Groups of Assets Held for Sale and Discontinued Operations", IFRS 7, „Financial Instruments: Disclosures", IAS 1, „Presentation of Financial Statements", IAS 8, „Accounting Policies, Changes in Accounting Estimates and Errors", IAS 27, „Consolidated and Separate Financial Statements", IAS 28, „Investments in Associates", IAS 34, „Interim Financial Reporting", IAS 40, „Investment Property" and IFRIC 13, „Customer Loyalty Programs".

The amendments published in the official EU journal after endorsement by the EU on March 24, 2010 did not have any impact on the net assets, financial and earnings position of PULSION AG in the year under report.

Since its publication in 2003, IFRS 1, „First-time Adoption of International Financial Reporting Standards" has been subject to various changes for newly published and amended standards, as a result of which the Standard became more and more complex. With the amendment dated November 25, 2009 the IASB decided to restructure IFRS 1 in order to improve understandability and to enable future amendments to be integrated into it more easily. A further amendment to IFRS 1 was approved on June 23, 2010 allowing IFRS first-time adopters certain exemptions under specific circumstances when converting to IFRS. The amendments, which were endorsed by the EU on November 26, 2009 and published in the official EU journal on June 24, 2010, are not relevant for PULSION AG.

IFRIC 12 "Service Concession Arrangements" was published in November 2006. This Interpretation stipulates the requirements for accounting for arrangements under which public sector organisations engage private sector companies to carry out public sector tasks. The private company in this situation uses infrastructure provided by the public sector. The private company is responsible for the construction, operation and maintenance of such infrastructure. The Interpretation was published in the EU official journal on March 26, 2009, after endorsement, and is mandatory for annual periods beginning on or after March 30, 2009. The transitional rules also require that the Interpretation is applied retrospectively to transactions after July 1, 2009. This Interpretation did not have any impact on the consolidated financial statements of PULSION AG.

IFRIC 15 "Agreements for the Construction of Real Estate" was published in July 2008. The Interpretation sets out the requirements for accounting for sales of real estate in situations where a contract is signed with the purchaser before construction work has been completed. IFRIC 15 defines the criteria according to which the accounting treatment should be based on IAS 11 "Construction Contracts" or IAS 18 "Revenue". Depending on the outcome, this determines the timing of recognition of revenue arising from the construction activities. It also specifies which disclosures are required to be made in the notes to the consolidated financial statements. After endorsement by the EU, IFRIC 15 was published in the EU official journal on March 26, 2009. It is mandatory for annual periods beginning on or after December 31, 2009. This Interpretation did not have any impact on the consolidated financial statements of PULSION AG.

IFRIC 16, "Hedges of a Net Investment in a Foreign Operation", was also published in July 2008. This Interpretation addresses issues relating to the hedging of a foreign operation. It specifies what can be treated as a risk when a net investment in a foreign operation is hedged, where the hedging instrument used to reduce the risk may be held within the group and the accounting treatment when a foreign operation is disposed. After endorsement by the EU, IFRIC 16 was published in the EU official journal on June 5, 2009. It is mandatory for annual periods beginning on or after July 1, 2009. This Interpretation did not have any impact on the consolidated financial statements of PULSION AG.

IFRIC 17, "Distributions of Non-cash Assets to Owners", addresses the accounting treatment of non-cash distributions to non-group parties for the purposes of measuring the amount of the non-cash dividend and the obligation to make a non-cash distribution as well as the treatment of any remaining difference. After endorsement by the EU, IFRIC 17 was published in the EU official journal on November 27, 2009. It is mandatory for annual periods beginning on or after November 1, 2009. This Interpretation did not have any impact on the consolidated financial statements of PULSION AG.

IFRIC 18, "Transfers of Assets from Customers", was published in January 2009. IFRIC 18 is applied when an entity receives cash or non-cash assets in order to manufacture or acquire an asset that is required to be used to give customers access to a network, service or goods. After endorsement by the EU, IFRIC 18 was published in the EU official journal on December 1,

2009. It is mandatory for annual periods beginning on or after November 1, 2009.

This Interpretation did not have any impact on the consolidated financial statements of PULSION AG.

Published International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) not yet required to be applied [IAS 8.30 f.]

In November 2009, the IASB approved the new version of **IAS 24, „Related Party Disclosures".** Amongst other things, the Standard clarifies and simplifies the definition of a „related party" and provides a partial exemption from the disclosure requirements for government-related entities. The underlying principle of reporting on transactions with related parties is unchanged.

After endorsement by the EU, IAS 24 was published in the EU official journal on July 20, 2010. The new IAS 24 is mandatory for annual periods beginning on or after January 1, 2011, whereby prior year disclosures for 2010 are required to be adjusted retrospectively. Since only disclosures in the notes are involved, the new IAS 24 will not have any impact on the net assets, financial and earnings position of PULSION AG. The potential impact on disclosures is currently being reviewed.

The amendment to **IAS 32, „Classification of Rights Issues"** was published in October 2009. Rights issues, options or option warrants for a fixed number of shares in a currency other than an entity's functional currency were previously required to be accounted for as financial liabilities, since the fixed-for-fixed criterion contained in IAS 32.16(b)(ii) was not fulfilled due to exchange rate fluctuations. IAS 32 has been amended so that rights issues, options or option warrants for a fixed number of shares in return for a fixed amount of any currency are required to be accounted for as equity instruments if such rights are issued pro rata to all of an entity's existing shareholders. After endorsement by the EU, the amended IAS 32 was published in the EU official journal on December 24, 2009. It is mandatory for retrospective application for annual periods beginning on or after February 1, 2010. PULSION AG will apply the new rules from January 1, 2011 onwards.

The amendment to **IFRS 1 „Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters"** provides exemptions from IFRS 7 disclosures to first-time adopters of IFRS. The purpose of the amendment is to ensure that first-time adopters also benefit from the transitional rules contained in amended IFRS 7. After endorsement by the EU, the amendment to IFRS 1 was published in the EU official journal on July 1, 2010. The amendment, which is not relevant for PULSION AG, is mandatory for annual periods beginning on or after July 1, 2010.

As part of the **Annual Improvement Project 2010**, a further annual collection of amendments to IFRS was published in May 2010. The Annual Collection of Amendments includes editorial revisions and smaller changes to six IFRS and one Interpretation. The amendments relate to IFRS 1 „First-time Adoption of IFRS", IFRS 3, „Business Combinations", IFRS 7, „Financial Instruments: Disclosures", IAS 1, „Presentation of Financial Statements", IAS 27, „Consolidated and Separate Financial Statements", IAS 34, „Interim Financial Reporting" and IFRIC 13 „Cus-

tomer Loyalty Programs". The amendments, which are mandatory for annual periods beginning on or after July 1, 2010 and January 1, 2011, will not – from today's perspective – have any impact on the net assets, financial and earnings position of PULSION AG.

The amendment to **IFRS 7 „Financial Instruments: Disclosures – Transfers of Financial Assets"** relates to the extension of disclosure requirements for transactions entered into for the purposes of transferring financial assets, where certain rights and duties remain with the transferring entity or which are assumed in conjunction with the transaction. The disclosures are intended to show the relationships between the transfer of financial assets and corresponding financial liabilities. The transferring entity is required to make substantial disclosures regarding the rights and duties attached to the transaction. The amendment has not yet been endorsed by the EU. The amendments are mandatory for annual periods beginning on or after July 1, 2011. The potential impact for PULSION AG is currently being reviewed.

The IASB approved **IFRS 9, „Financial Instruments: Classification and Measurement of Financial Assets"** in November 2009. The new Standard sets out the classification and measurement requirements for financial assets and completes – under the title „Classification and Measurement"– the first of three phases, at the end of which the IAS 39, „Financial Instruments: Recognition and Measurement" is to be fully replaced. The phases II („Amortised Cost and Impairment") and III („Hedge Accounting") had not been approved by the date of preparation of the consolidated financial statements. The amendment has not yet been endorsed by the EU. The new requirements are mandatory for annual periods beginning on or after January 1, 2013. The impact of IFRS 9 on the net assets, financial and earnings position of PULSION AG is currently being reviewed.

In addition to the IFRS 9 rules issued in November 2009, the IASB also published **IFRS 9, „Financial Instruments: Classification and Measurement of Financial Liabilities"** on October 28, 2010. Financial liabilities can still be allocated to the measurement categories „amortised cost" or „fair value". Under the new rules, an entity that has opted for the fair-value-option to measure its financial liabilities is required to recognize fair value changes caused by changes in the entity's own credit risk directly in equity via other comprehensive income and not, as was previously the case, through the income statement. It is permitted to deviate from this rule if it results in a measurement mismatch in the income statement. The new rule has not yet been endorsed by the EU. The new requirements are mandatory for annual periods beginning on or after January 1, 2013. The impact of IFRS 9 on the net assets, financial and earnings position of PULSION AG is currently being reviewed.

On December 20, 2010, the IASB published two small **amendments to IFRS 1, Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters**. The first amendment replaces the references to the fixed adoption date „January 1, 2004" by the „date of adoption of IFRS". The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period where the entity's functional currency has been subject to severe hyperinflation. The amendments have not yet been

endorsed by the EU. They are mandatory for annual periods beginning on or after July 1, 2011, but are not relevant for PULSION AG.

The amendment to **IAS 12, „Deferred Tax: Recovery of Underlying Assets“**, also published on December 20, 2010, provides for a mandatory exception to the principle pursuant to IAS 12.51 that the measurement of deferred tax should reflect the tax consequences of the „expected manner of recovery“ of the underlying asset (or liability). This change is particularly important for countries in which the use and sale of assets are taxed differently. Contrary to the Draft Standard issued in September 2010, the exception now only extends to investment properties measured at fair value, but not to intangible assets or property, plant and equipment. The amendment has not yet been endorsed by the EU. The amendments are mandatory for annual periods beginning on or after January 1, 2012. The impact of the amendment on the net assets, financial and earnings position of PULSION AG is currently being reviewed.

In November 2009, the IASB issued amendments to **IFRIC 14 „Prepayments of a Minimum Funding Requirement“**. The amendments are of relevance if an entity has minimum funding obligations in conjunction with existing pension plans and prepayments are made towards those obligations. The amendment to the Interpretation enables recognition of an asset if the conditions are met for the prepayments to generate economic benefits.

The amendments to IFRIC 14, which have been endorsed by the EU and were published in the official EU journal on July 20, 2010, are mandatory for annual periods beginning on or after January 1, 2011. The impact on the net assets, financial and earnings position of PULSION AG is currently being reviewed.

IFRIC 19 „Extinguishing Financial Liabilities with Equity Instruments“ was issued in November 2009 and addresses the accounting consequence when an entity renegotiates the conditions of a financial liability with a creditor and that creditor receives shares or other equity instruments in the entity which extinguish or partially extinguish the financial liability.

IFRIC 19, which has been endorsed by the EU and was published in the official EU journal on July 24, 2010, is mandatory for annual periods beginning on or after July 1, 2010. The impact on the net assets, financial and earnings position of PULSION AG is currently being reviewed.

PULSION AG has not applied early any of the new or amended pronouncements described above.

3. Group reporting entity and consolidated 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	99,96%
PULSION Medical Inc., Dallas, Texas	USA	October 1, 1999	100%
PULSION Medical UK Limited, Hounslow	United Kingdom	07. August 1998	100% (**)
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%
PULSION Polen Sp.z.oo., Warsaw	Poland	June 15, 2010	100%

(*) Date of foundation corresponds to date of first-time consolidation.
(**) 51% until September 23, 2010

In accordance with the agreement certified by public notary on June 15, 2010, the subsidiary PULSION Poland Sp. z.oo., with its registered office in Warsaw, was founded and became a consolidated group company with effect from June 30, 2010. The share capital of PULSION Poland Sp. z.oo. is PLN 390,000, divided into 7,800 shares with a nominal value of PLN 50, all of which are held by PULSION Medical Systems AG.
In accordance with the agreement dated September 24, 2010, PULSION AG acquired 4,900 shares and hence 49% of the share capital of PULSION Medical UK Limited from the previous owner, KIMAL PLC, Uxbridge (UK), for a consideration of £ 668,000 (KEUR 780) and since then holds 100% of the shares. In accordance with IAS 27, the transaction was accounted for in accordance with the economic-entity method as a result of which KEUR 327 was offset directly against minority interest.

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, 2010	Closing rate at Dec. 31, 2009	Average rate 2010	Average rate 2009
USD	0.7546	0.69770	0.75488	0.71916
GBP	1.1675	1.1113	1.16605	1.12297
AUD	0.7669	0.62310	0.69354	0.56644
PLN	0.2523	–	0.25103	–
CHF	0.8023	0.67230	0.72469	0.66245

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 varying 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 costs 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. 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. 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 available for carryforward at the level of subsidiaries with a history of loss-making. Although the tax losses do not lapse – with the exception of the USA, where the tax losses elapse after 20 years – they cannot be offset against taxable income of other group entities. Similarly, the 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 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.

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 costs are measured using the standard cost method. Borrowing costs are not capitalized since PULSION does not have any qualifying assets. Write-downs are recognized in the case of inventory and market risks, including write-downs for slow-moving inventories based on inventory turnover periods and past experience, measured separately for production material/components and finished products.

Property, plant and equipment: Property, plant and equipment are stated at acquisition/manufacturing cost less accumulated depreciation. Acquisition/ construction cost includes all costs directly attributable to an acquisition. Subsequent costs are only 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
Monitors accounted for as fixed assets	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 and recoverable sales proceeds, in each case discounted using an appropriate risk-adjusted interest rate. 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: There were no active sales-and-leaseback transactions in place at December 31, 2010.

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 tangible assets and measured at amortized cost. The agreement runs for 48 months.

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

Free-of-charge usage: equipment is made available to customers free of charge on condition that they agree to purchase minimum volumes of disposable products. Ownership of the equipment remains with the Company. The equipment is depreciated over 90 months and 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 also therefore capitalized within property, plant and equipment and depreciated over a period of 90 months.

Rental agreements: Under this arrangement, equipment is loaned out to customers and a monthly rental invoice is 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 property, plant and equipment and depreciated over a period of 90 months.

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 otherwise used operationally.

As the lessor under finance leases: Rental agreement with purchase option: all contracts recorded as such in previous years either expired in 2010 or have become normal rental arrangements. The following applied for the financial year 2009: These contracts usually had a term of 3 years and contained a purchase option (the criteria for a finance lease are not met). Sales revenue was recognized on the basis of the relevant monthly billing. Legal ownership of the equipment remained with the Company until the purchase option was exercised. This equipment was also therefore capitalized within property, plant and equipment.

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 it 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 in the future. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable profit in the years in which the temporary differences are expected to reverse.

Employment benefits: In conjunction with legal provisions, employees are given the opportunity to participate in a company pension plan. This plan does not involve any obligations for PULSION. The Group has no other pension obligations. Employees' remuneration comprises a fixed and a variable component. Bonus payments are agreed individually and disbursed in the following financial year.

Employee share participation program/share 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: Segment reporting is carried out in accordance with IFRS 8 on the basis of a management approach. 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 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:

	2010 KEUR	2009 KEUR
Equipment	7,827	6,857
Disposables	19,779	18,142
Indication/diagnosis	3,886	3,142
	31,492	**28,141**

Equipment sales include all revenues related to equipment manufactured and sold by the Group. Equipment sales comprise primarily revenues generated by sales and, to a minor extent, license and rental income as well as equipment usage fees and repair services.

6. Cost of sales and personnel expense

Cost of sales primarily comprises the cost of raw materials and supplies used KEUR 6,962; (2009: KEUR 5,571) and of bought-in goods and services KEUR 827 (2009: KEUR 945).

Depreciation, amortization and write-downs totalling KEUR 2,000 (2009: KEUR 1,730) are included. Depreciation of KEUR 600 (2009: KEUR 758) was recognized on monitors and amortization of KEUR 441 (2009: KEUR 439) on intangible assets. Write-downs of KEUR 529 (2009: KEUR 84) recognized on intangible assets and KEUR 430 (2009: KEUR 229) recognized on current assets are presented in cost of sales.

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

	2010 KEUR	2009 KEUR
Wages and salaries	7,862	9,269
Statutory social security	1,297	1,313
Expense for stock options	50	80
	9,209	**10,662**

Wages and salaries include personnel recruitment costs of KEUR 132 in 2010 (2009: KEUR 128). Personnel expenses include pension expense of KEUR 21 (2009: KEUR 48).

The Group had 126 and 139 employees on average in 2010 and 2009, respectively. The average employee figure for 2010 included 5 people employed on a low wage-earning basis (2009: 7).

7. Income and expenses from financial assets

Profits of KEUR 43 (2009: KEUR 149) were recognized on sale-and-lease-back agreements which were in place during 2010 but which had fully expired by the balance sheet date. Interest expense includes KEUR 67 (2009: KEUR 104) relating to liabilities to banks and KEUR 2 (2009: KEUR 13) for lease liabilities. Interest income on lease receivables amounted to KEUR 3 (2009: KEUR 6) and interest earned on bank balances totalled KEUR 28 (2009: KEUR 26).

8. Other operating income and expenses

Other operating income includes income from the derecognition of other liabilities amounting to KEUR 289 (2009: KEUR 215), income from the private use of company vehicles amounting to KEUR 126 (2009: KEUR 141) and rental income of KEUR 24 (2009: KEUR 25). Other operating income also includes a government grant of KEUR 71 (2009: KEUR 39), for which an application was submitted in 2010 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 years 2009 and 2010. Further grants will only be paid after approval and audit of the relevant project phases. Other operating expenses also include foreign sales tax and other fees totalling KEUR 47 (2009: KEUR 29).

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

	2010 KEUR	2009 KEUR
Income taxes	521	649
(of which relating to prior periods)	(78)	[40]
Deferred tax expense	1,213	1,305
Deferred tax income	0	(236)
Total tax expense	**1,734**	**1,718**

The amount reported as current tax expense relates to German corporation tax, solidarity surcharge, German trade municipal tax, deductible foreign withholding taxes and foreign income taxes of the non-German group entities as computed under relevant national tax rules. Tax liabilities at December 31, 2010 amounted to KEUR 294 (2009: KEUR 110).

Deferred taxes at December 31, 2010 were computed for the German company on the basis of a corporation tax rate of 15.0% (December 31, 2009: 15%). In addition, a solidarity surcharge of 5.5% on corporation tax (December 31, 2009: 5.5%) and an effective municipal trade tax rate of approximately 15.97% (December 31, 2009: 16.5%) were taken into

account. Including the solidarity surcharge and municipal trade tax, an overall tax rate of 32% (December 31, 2009: 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 4,837 (2009: KEUR 5,767) on unused tax losses of KEUR 13,675 (2009: 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 32% (2009: 33%) for corporation tax, solidarity surcharge and municipal trade tax – and the actual tax expense:

	2010 KEUR	2009 KEUR
Group profit before taxes	4,528	2,280
Expected tax expense	1,449	752
Effect of changes in tax rates	(26)	0
Tax-exempt income	0	(13)
Tax expense/income – prior years	(78)	40
Differences to group tax rate	(42)	(23)
Foreign withholding taxes	26	15
Non-deductible expenses, adjustments for tax rules	122	193
Change in recoverability of deferred tax assets	168	781
Other consolidation procedures	89	(5)
Utilization of tax losses	0	11
Recognition of deferred tax asset on unused tax losses	0	0
Other	26	(33)
	1,734	**1,718**

Deferred tax assets and liabilities relate to the following items:

	Dec. 31, 2010		Dec. 31, 2009	
	KEUR	KEUR	KEUR	KEUR
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Intangible assets	66	1,463	92	1,233
Property, plant and equipment	200	34	236	44
Inventories	157	0	144	0
Receivables and other current assets	0	1	0	38
Liabilities	32	17	66	0
Consolidation procedures	0	1,853	897	1,853
Accumulated deficit	239	0	272	0
	694	3,368	1,707	3,168
Offset of deferred tax assets and liabilities	-694	-694	-1,707	-1,707
Total	**0**	**2,674**	**0**	**1,461**

It is forecasted that, of the KEUR 2,674 (2009: KEUR 1,461) reported as deferred tax assets at December 31, 2010, deferred tax assets amounting to KEUR 396 (2009: KEUR 1,313) and deferred tax liabilities amounting to KEUR 194 (2009: KEUR 235) will be utilized within one year.

11. Minority interests

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, 2010 comprised:

	Historical cost	Accumulated amortization and impairment losses	Carrying amount
	KEUR	KEUR	KEUR
Approvals	2,442	918	1,524
Patents	996	264	732
Distribution rights	178	178	0
Product development	2,524	701	1,824
Software	548	396	152
Goodwill	12	0	12
Total	**6,700**	**2,457**	**4,244**

Intangible assets at December 31, 2009 comprised:

	Historical cost	Accumulated amortization and impairment losses	Carrying amount
	KEUR	KEUR	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**

	Remaining amortization period	
	from	up to
Approvals	2 months	9 years
Patents	5.5 years	20 years
Product development	1.5 years	5 years
Software	1 month	5.5 years

Borrowing costs totalling KEUR 60 (2009: KEUR 37) were capitalized in intangible assets in 2010 on the basis of an interest rate of 6.14% (2009: 6.37%). The total amount of borrowing costs recognized as an asset at the end of the reporting period was KEUR 157 (2009: KEUR 98). Amortization and impairment loss expense for the financial year 2010 amounted to KEUR 760 (2009: KEUR 592). Impairment losses were recognized on intangible assets relating to the following products where periodic impairment tests indentified that the assets will not generate significant amounts of revenue; CeVOX (KEUR 195), LiMON (KEUR 129), CiMON (KEUR 151) and Elcam (KEUR 1). The impairment losses related to patents (KEUR 78), hardware development (KEUR 337) and software development (KEUR 61). The impairment losses were recognized in the income statement (cost of sales). Intangible assets include advance payments totalling KEUR 100 (2009: KEUR 0).

13. Goodwill

	Dec. 31, 2010 KEUR	Dec. 31, 2009 KEUR
Cost	12	12
Accumulated impairment losses	0	0
Carrying amount at year-end	**12**	**12**

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

No impairment losses were recognized in 2010 on property, plant and equipment to reduce their carrying amount to fair value (2009: KEUR 33). The depreciation expense for the financial year 2010 amounted to KEUR 1,079 (2009: KEUR 1,213).

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. Monitors are reported on the line "Other equipment, plant and business equipment". The carrying amount of monitors at December 31, 2010 was EUR 2.1 million.

15. Lease liabilities / asset carrying amounts

There were no lease liabilities at December 31, 2010. Income totalling KEUR 43 was recorded during the financial year 2010.

KEUR				Dec. 31, 2010
	Total	< 1 year	1-5 years	> 5 years
Minimum lease payments December 31, 2010	0	0	0	0
Interest expense for lease liabilities as at the balance sheet date	0	0	0	0
Present value of minimum lease payments at Dec. 31, 2010	**0**	**0**	**0**	**0**

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**

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

	Dec. 31, 2010 KEUR	Dec. 31, 2009 KEUR
Medical and other equipment	0	412
Accumulated decpreciation	0	265
Finance leases	**0**	**147**

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

16. Investment property

Rental income from investment property amounted to KEUR 22 in 2010 (2009: KEUR 25). Costs directly related to investment property amounted to KEUR 9 (2009: KEUR 8). The fair value of real estate presented as investment property corresponds roughly to the carrying amount. At the balance sheet date, mortgages on property totalled KEUR 417 (2009: KEUR 417).

17. Inventories

Inventories comprise:

	Dec. 31, 2010 KEUR	Dec. 31, 2009 KEUR
Raw materials and supplies	3,195	2,938
Work in progress	336	231
Finished goods and goods for resale	1,966	1,995
	5,497	**5,164**

Write-downs on inventories were as follows:

	Dec. 31, 2010 KEUR			Dec. 31, 2009 KEUR		
Raw materials and supplies	3,195			2,983		
Gross amount of which subject to write-down	0			45		
Write-downs		0	3,195		-45	2,938
Work in progress	336	0	336	231	0	231
Finished Goods	2,418			2,033		
Gross amount value adjustment	452			38		
Value adjustment		-452	1,966		-38	1,995
			5,497			**5,164**

The net impact of write-downs in 2010 was recognized as an expense within cost of sales and amounted to KEUR 756 (2009: KEUR 229). The increase in value adjustment compared to 2009 is mainly due to a modified process in the reach analysis and the corresponding determination of the value adjustment.

18. Trade accounts receivable

	December 31, 2010 KEUR	December 31, 2009 KEUR
Trade accounts receivable	5,277	5,599
(of which non-current)	[0]	[0]
Less: allowances	9	17
Trade accounts receivable	**5,268**	**5,582**

Impairment allowances developed as follows:

	December 31, 2010 KEUR	December 31, 2009 KEUR
Allowances at January 1	17	13
Allocated	0	6
Utilized	0	-1
Reversed	-8	-1
Allowances at December 31	**9**	**17**

The impairment allowances include specific allowances amounting to KEUR 9 (2009: KEUR 11). 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 2 (2009: KEUR 3) were derecognized since the receivables cannot be recovered.

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 no concentration of receivables for individual customers.

Specific impairment allowances were not recognized on trade accounts receivable amounting to KEUR 2,031 (2009: KEUR 2,537) 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	Total	of which neither subject to impairment loss nor overdue at the year-end	of which not subject to impairment loss and overdue at the year-end in the following time windows				of which subject to impairment loss and overdue at the year-end
December 31, 2010			1 - 30 days	30 - 60 days	60 - 90 days	> 90 days	
Trade accounts receivable	**5,277**	3,245	835	362	190	644	1
December 31, 2009							
Trade accounts receivable	**5,599**	3,056	933	545	285	774	6

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.

Residual receivables due under expired lease contracts comprised the following at the end of the financial year 2010:

KEUR	Dec. 31, 2010			
	Total	**< 1 year**	**1-5 years**	**> 5 years**
Minimum lease payments at Dec. 31, 2010	4	4	0	0
Interest income contained in lease receivables at balance sheet date	0	0	0	0
Present value of minimum lease payments at Dec. 31, 2010	**4**	**4**	**0**	**0**

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**

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

19. Other current assets

This item comprises the following:

	December 31, 2010 KEUR	December 31, 2009 KEUR
Deferred expenses	332	408
Advance payments to suppliers	114	164
Receivables from German Tax Office – value added tax	5	111
	451	683
Other	183	150
Total	**634**	**833**

20. Cash and cash equivalents / cash funds

Cash funds reported in the cash flow statement comprise:

	December 31, 2010 KEUR	December 31, 2009 KEUR
Cash and cash equivalents	4,851	4,749
Cash pledged as collateral	-60	-105
	4,791	**4,644**

21. Equity

The composition of and changes in shareholders' equity are shown in the Consolidated Statement of Changes in Equity.

The holders of shares of common stock are entitled to one vote per share and to dividends as declared.

At December 31, 2010, 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. An amount of EUR 26,500 can still be exercised out of Conditional Capital III.

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. As a result of the acquisition of treasury shares, the average number of shares in circulation was 9,528,232.

Other reserves relate primarily to translation differences.

Additional disclosures relating to capital management: Equity capital decreased during the financial year 2010 by 2.5%, mainly as the result of the acquisition of a reserve for treasury shares with a debit carrying amount of KEUR 2,532 relating to a share buy-back program. The equity ratio at December 31, 2010 fell as a result to 64% (December 31, 2009: 66%), whereas the return on equity improved to 16.9% (December 31, 2009: 2.5%) and the return on total capital increased to 10.9% (December 31, 2009: 1.9%). The improvement in returns on equity resulted mainly from the higher net group profit, which in turn was partly due to increased sales revenue and partly to further decreases in operating costs compared to the previous year. The objective of capital management is to ensure the Group's solvency and improve the capital structure.

Performance indicator	Basis of computation	Dec. 31, 2010	Dec. 31, 2009
Equity ratio	Equity / balance sheet total	64 %	66%
Return on equity	Group profit / average equity	16.9%	2,9%
Return on total capital	Group profit / average total capital	10.9%	1.9%

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

	KEUR
Balance at January 1, 2010	1,416
Transfer from fair value measurement of share options	50
Transfer out of additional paid-in capital	0
Balance at December 31, 2010	**1,466**

Acquisition of treasury shares with a debit carrying amount of KEUR 2,532.

PULSION AG's Management Board resolved on November 17, 2010, on the basis of the resolution taken at the Annual General Meeting on May 18, 2010, and with the approval of the Company's Supervisory Board, to buy back own shares in conjunction with a voluntary public share buy-back offer. The shares were acquired with the intention of withdrawing the bought-back from circulation, either in full or partially, or re-issuing them to service share options awarded or not yet awarded on the basis of the shareholders' authorization given at the Company's Annual General Meeting on June 27, 2002 or June 22, 2006.

As notified in the Electronic Federal Gazette on November 19, 2010, a total of 588,839 shares were offered to the Company for buy-back prior to the expiry of the offer on December 10, 2010 and accordingly acquired by the Company. The purchase price consideration amounted to KEUR 2,532.

Minority interests

In accordance with the agreement dated September 24, 2010, PULSION AG acquired 4,900 shares and hence 49% of the share capital of PULSION Medical UK Limited from the previous owner, KIMAL PLC, Uxbridge (UK), for a consideration of £ 668,000 (KEUR 780) and therefore now holds 100% of the shares. As a result, no minority interests are reported in equity. Accordingly minority interests are reported in equity at December 31st 2010 only for PULSION Pacific.

22. Incentive compensation plans

The Group has two stock option plans (the 2003 and 2006 Stock Option Plans) which serve as incentives to tie in employees and management to the Group on a long-term basis. Settlement is in the form of the issue of equity instruments.

Details regarding the structure of the plans:

The exercise price of a stock option is generally equal to 125% of the fair market value of the Company's common stock on the grant date. The terms of the stock options are for five years (Stock Option Plan 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 2010 was EUR 3.43.

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

	December 31, 2010		December 31, 2009	
	Options	Weighted average exercise price (EUR)	Options	Weighted average exercise price (EUR)
Outstanding at the beginning of the year	221,000	5.15	175,000	6.27
Granted during the year	50,000	5.08	84,000	2.86
Exercised during the year	0	0.00	0	0.00
Exercised during the year / forfeited *	49,500	5.25	38,000	5.23
Outstanding at the end of the year	221,500	5.11	221,000	5.15
Thereof Management Board	65,000	5.75	25.000	6.45
Exercisable at the end of the year	97,500	6.84	91,500	6.03
Thereof Management Board	15.000	7.99	17,500	5.78

* Of which 30.000 are available for re-issue.

The following table summarizes information about options outstanding at December 31, 2010:

		Options outstanding		Options exercisable	
Exercise price	Number outstanding	Weighted average remaining	Weighted average exercise price	Number exercisable	Weighted average exercise price
EUR	Units	Years	EUR	Units	EUR
7 - 8	71,000	4.51	7.64	71,000	7.64
5 - 7	50,000	7.05	5.17	10,000	5.63
4 - 5	16,500	1.65	4.13	16,500	4.13
2 - 3	74,000	6.73	2.86	0	0.00
	221,500	**5.73**	**5.11**	**97,500**	**6.84**

At December 31, 2010 and December 31, 2009, conditional capital was available to meet subscription rights exercised in conjunction with incentive compensation plans. At December 31, 2010, 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:

	2010	2009
Risk-free interest rate	1.24%	2.22%
Dividend income	0%	0%
Volatility	60.61%	56.63%
Exercise price (EUR)	5.08	2.86
Terms of option rights	8 years	8 years

In accordance with IFRS 2 B25(b), volatility was determined for options granted in 2010 on the basis of an estimated average term of under 4 years on the basis of the past volatility of the market price of PULSION stock during the period from October 2, 2006 to November 30, 2010. The Group has elected to apply the earliest exercise date as its exercise strategy. The weighted-average fair value of options granted during 2010 was EUR 1.43. In 2009, it had been EUR 0.76.

23. Provisions

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

	Jan.1, 2010	Utilized	Reversed	Interest unwound	Allocated	Dec.31,2010
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Warranties	162	0	0	0	0	162
Other contractual obligations	122	0	0	7	0	129
Pending losses on onerous contracts	20	0	20	0	0	0
Legal disputes	785	529	56	0	122	322
Other	26	0	26	0	0	0
	1,115	**529**	**102**	**7**	**122**	**613**

In accordance with IAS 37, a provision is recognized when it is probable that an outflow of resources will be necessary to settle the obligation and a reliably estimate can be made of the amount of the obligation. Provisions were recognized primarily for warranties, in particular for monitors, based on past experience (KEUR 162) and for other contractual obligations (KEUR 129: December 31, 2009: KEUR 122). With the exception of a partial amount of KEUR 210 (2009: 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.

24. Financial liabilities

	Current		Non-current	
	Dec. 31, 2010 KEUR	Dec. 31, 2009 KEUR	Dec. 31, 2010 KEUR	Dec. 31, 2009 KEUR
Unsecured financial liabilities at amortized cost				
Current account balances	0	0	0	0
Bank loans	0	0	0	0
Financial debt	0	0	0	0
Lease liabilities	0	69	0	0
Other	2,782	2,794	69	76
Secured financial liabilities at amortized cost				
Current account balances	0	1	0	0
Bank loans	290	923	414	704
Financial debt	0	0	0	0
Lease liabilities	0	0	0	0
Other	0	0	0	0
	3,072	**3,787**	**483**	**780**

25. Liabilities to banks

The liabilities disclosed at December 31, 2010 were subject to the following terms and conditions:

Liabilities to banks	Type	Maturity	Interest rate %	Dec. 31, 2010 KEUR	Current KEUR	Non-Current KEUR
WestLB AG, Düsseldorf	Loan	09/2013	5.4	104	40	64
WestLB AG, Düsseldorf	Loan	07/ 2012	6.32	600	250	350
Total				**704**	**290**	**414**

The following collateral has been given to secure liabilities to banks totalling KEUR 704: At the balance sheet date, mortgages on property totalled KEUR 417 (2009: KEUR 417). In addition, cash at bank totalling KEUR 60 (2009: KEUR 105) was pledged as collateral. Assignment as collateral has also been agreed for purchased equipment totalling KEUR 720 (including value added tax). Asset collateral pledges of KEUR 417 (2009: KEUR 417) were also in place at December 31, 2010.

At December 31, 2010, the Group had unused credit lines of KEUR 493 (2009: KEUR 498).

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

Bank	Type	Maturity	Interest rate	Dec. 31, 2009	Current	Non-current
			%	KEUR	KEUR	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	Current account	06/2010	2.5	1	1	0
Total				**1,628**	**924**	**704**

The maturities of loans are as follows:

	KEUR
2011	290
2012	390
2013	24
after 2014	0
	704

Interest expenses in 2010 include KEUR 67 (2009: KEUR 104) for liabilities to banks.

26. Trade accounts payable

Trade accounts payable at the balance sheet date amounted to KEUR 2,039 (2009: KEUR 1,513).

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.

27. Other liabilities

Other liabilities comprise:

	Dec. 31, 2010	Dec. 31, 2009
Current other liabilities	**KEUR**	**KEUR**
Audit of company / group financial statements	145	120
Advanced payments from suppliers	0	69
License fees	40	25
Deferred Income	390	84
(of which finance lease from SALB)	0	(25)
Personnel-related obligations	1,163	1,126
Outstanding invoices	460	822
Other	584	548
	2,782	**2,794**
Non-current other liabilities		
Retention of business documentation	53	53
Other	16	23
	69	**76**
Total other liabilities	**2,851**	**2,870**

Personnel-related obligations comprise mainly holiday and bonus entitlements.

28. Other financial obligations

Obligations from:	2011 KEUR	2012 KEUR	2013 KEUR	2014 KEUR	after 2015 KEUR	Total KEUR
Rental contracts	668	164	21	0	0	853
Vehicle leases	326	162	87	6	0	581
Other service contracts	81	47	45	7	0	180
Supplier framework agreements	3,020	760	419	0	0	4,199
Purchase agreements	1,916	1,505	1,206	1,445	17	6,089
Total	**6,011**	**2,638**	**1,778**	**1,458**	**17**	**11,902**

The item „Open purchase orders“ includes framework agreements amounting to KEUR 2,516. In combination with minimum quantity purchase agreements amounting to KEUR 6,089, it is possible to ensure that production planning is kept in line with sales forecasts and to avoid unexpected price increases thanks to agreed fixed prices. At the same time, the risk of surplus inventories is reduced.

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

	2010 KEUR	2009 KEUR
Up to 1 year	1,017	963
Later than 1 year up to five years	472	1,032
Later than 5 years	0	0
	1,489	**1,995**

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 1,282 (2009: KEUR 1,224) was recognized in the income statement for operating leases.

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, 2010, contingent liabilities totalled KEUR 60 (2009: KEUR 149) for rental guarantees and KUSD 2 (2009: KUSD 2) for a performance guarantee.

29. 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.

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

The classes of assets and liabilities (all attributable to the category "loans and receivables") were as follows at December 31, 2010:

	Carrying amount	Amount relevant for IFRS 7 purposes	Amortized cost	Fair Value Recognized directly in equity	Fair Value Recognized through income statement	Fair Value
	KEUR	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**
Cash and cash equivalents	4,851	4,851	4,851	–	–	4,851
Trade accounts receivable	5,268	5,268	5,268	–	–	5,268
Other assets	847	–	–	–	–	–
Trade accounts payable	2,039	2,039	2,039	–	–	2,039
Liabilities to banks	704	704	704	–	–	704
Financial debt	0	0	0	–	–	0
Lease liabilities	0	0	0	–	–	0
Other liabilities	2,859	776	776	–	–	776

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

	Carrying amount	Amount relevant for IFRS 7 purposes	Amortized cost	Fair Value Recognized directly in equity	Fair Value Recognized through income statement	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

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.

30. Legal disputes and claims for damages

Dr. med. Dr. med. habil. 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. The first hearing of evidence took place on November 10, 2010 and is to be continued at a further hearing on March 23, 2011. Based on the assessment of attorneys representing PULSION 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.

The French subsidiary has been sued by an ex-director whose appointment was revoked in the past. A provision for the lawsuit was recognized in 2009 and retained at the end of 2010 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 individually or as a whole.

31. Earnings per share

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

		2010	2009
Weighted average number of shares (undiluted)	**Number**	**9,528,232**	**9,577,302**
Dilutive effect of options	Number	0	0
Weighted average number of shares (diluted)	**Number**	**9,528,232**	**9,577,302**
Group net profit / loss (after minority interests)	KEUR	2,853	465
Earnings per share (undiluted)	**EUR**	**0,30**	**0.05**
Earnings per share (diluted)	**EUR**	**0,30**	**0.05**

The computation of diluted earnings per share does not take account of 97,500 (2009: 137,000) options which have an anti-diluting effect. There was no diluting effect for 2010 due to the fact that the average market price in 2010 was higher than the exercise price of exercisable options.

The decrease in the average numver of shares from 9,577,302 to 9,528,232 was due to the buy-back of PULSION shares in December 2010.

32. 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, 2010 KEUR	Dec. 31, 2009 KEUR
Financial assets		
Measured at fair value through profit or loss	0	0
Loans and receivables (including cash and cash equivalents)	10,119	10,331
Financial assets	0	0
Financial liabilities		
Measured at fair value through profit or loss	0	0
Other financial liabilities measured at amortized cost	5,594	6,080

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, PLN) 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, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
	KEUR	KEUR	KEUR	KEUR
USD	699	448	67	183
AUD	432	437	16	56
GBP	839	1,188	288	314
CHF	426	207	59	37
PLN	85	0	5	0

The following tables show, from a group perspective, the sensitivity to a 10% change in the Euro against other currencies to which the Group 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, 2010	Dec. 31, 2010	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2009	Dec. 31, 2009
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
USD	699	769	70	448	493	45
AUD	432	476	43	437	481	44
GBP	839	923	84	1,188	1,307	119
CHF	426	469	43	207	228	21
PLN	85	93	8	0	0	0
	2,481	**2,729**	**248**	**2,281**	**2,509**	**228**

	Liabilities			Liabilities		
	Carrying amount	Change +10%	Difference	Carrying amount	Change +10%	Difference
	Dec. 31, 2010	Dec. 31, 2010	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2009	Dec. 31, 2009
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
USD	67	74	7	183	202	18
AUD	16	17	2	56	61	6
GBP	288	317	29	314	345	31
CHF	59	65	6	37	40	4
PLN	5	5	0	0	0	0
	435	**479**	**44**	**589**	**648**	**59**

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 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.

December 31, 2010	Due immediately	Due within 3 months	Due within 3 to 12 months	Due within 1 to 5 years	Due after more than 5 years
	KEUR	KEUR	KEUR	KEUR	KEUR
Liabilities to banks subject to variable interest rates	0	0	0	0	0
Liabilities to banks subject to fixed interest rates	0	10	280	414	0
	0	**10**	**280**	**414**	**0**

December 31, 2009	Due immediately	Due within 3 months	Due within 3 to 12 months	Due within 1 to 5 years	Due after more than 5 years
	KEUR	KEUR	KEUR	KEUR	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**

33. 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 have been based with effect from the beginning of 2010 on the "transactional net margin method" (TNMM). The operating segment result before interest and taxes changed accordingly.

Segment information at December 31, 2010 is analyzed as follows:

	Germany	France	Rest of Europe	USA	Australia	Reconciliations	Group
	KEUR	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**
Sales - 3rd parties	19,682	2,672	7,148	1,461	529	0	31,492
thereof equipment	5,713	774	964	273	103	0	7,827
thereof disposables	11,748	1,898	5,255	523	355	0	19,779
thereof indication / diagnosis	2,221	0	929	665	71	0	3,886
Sales - intercompany	7,088	0	0	0	0	-7,088	0
Depreciation and amortization	-1,583	-196	-403	-47	-16	390	-1,855
Impairments	-955	0	0	0	-3	0	-958
Non-cash income and expenses	664	0	0	3	3	-376	294
Operating segment result before interest and taxes	**4,224**	**187**	**410**	**170**	**14**	**-430**	**4,575**
Interest expenses	-76	-233	-227	-413	-158	1,029	-78
Interest income	1,045	0	1	0	4	-1,019	31
Income taxes	-1,665	0	-66	-3	0	0	-1,734
Minority interests						59	59
Group net loss (after Minority interests)							**2,853**
Segment assets	41,931	1,573	5,069	1,151	436	-24,426	25,734
Segment liabilities	7,055	4,344	5,550	7,204	3,527	-18,505	9,175
Segment capital expenditure (without monitors)	2,025	0	9	2	0	0	2,036
Segment capital expenditure monitors	546	268	404	0	0	-341	877

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

	Germany	France	Rest of Europe	USA	Australia	Reconcili-ations	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 - intercompany	6,051	0	0	8	0	-6,060	0
Depreciation and amortization	-1,434	-172	-336	-81	-22	222	-1,822
Impairments	-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 loss (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

As a result of the expansion of the group reporting entity with effect from July 8, 2010, the scope of the existing reportable segments at December 31, 2010 has been extended. In accordance with IFRS 8, the Rest of Europe segment has been expanded for business activities in Poland.

Segment assets comprise primarily property, plant and equipment, intangible assets, inventories, external receivables, receivables from affiliated companies and cash funds used for operational purposes. Segment liabilities comprise primarily trade accounts payable and financial liabilities to affiliated companies and third parties. 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.

34. Representative bodies of PULSION

During the financial year 2010, the Management Board comprised the following:

Patricio Lacalle
Chairman of the Management Board (since September 1, 2010),
responsible for Sales, Marketing, Human Resources, Finance and Administration

Other mandates:
– Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom (since September 24, 2010)
– Gérant of PULSION France S.A.R.L., France (since September 14, 2010)
– Member of the Board of Directors of PULSION Poland Sp.z.oo. (since October 5, 2010

Christoph R. Manegold
with sole right of representation of the board until the appointment of Hans-Hubert Schmitt on January 4, 2010, member of the Management Board, responsible for Research and Development

Other mandates:
– Director of PULSION Medical Inc., USA (since April 30, 2010)
– Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom
– Gérant of PULSION France S.A.R.L, France (until September 14, 2010)
– Member of the Board of Directors of PULSION Benelux N.V., Belgium
– 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 Austria GmbH, Austria
– Member of the Board of Directors of PULSION Switzerland GmbH, Switzerland
– Member of the Board of Directors of PULSION Pacific Pty. Ltd., Australia

Hans-Hubert Schmitt
Chairman of the Management Board, responsible for Finance, Sales and Marketing
(from January 4, 2010 until September 30, 2010).

Further mandates:
– Gérant of PULSION France S.A.R.L., France (from September 14, 2010)
– Member of the Board of Directors of PULSION Poland Sp.z.o.o.
(from June 15, 2010 until October 5, 2010)

During the financial year 2010, the Supervisory Board comprised the following:

Dr. Burkhard Wittek
MBA, Entrepreneur, Chairman

Further mandates:
– Immunodiagnostic System Holdings plc, Boldon Tyne & Wear, UK (non-executive Board Member)
– ION AG, Göttingen (Deputy Chairman of the Supervisory Board)

Jürgen Lauer
Dipl. Betriebswirt, MBA, Deputy Chairman
Director of JüLa Beteiligungs GmbH, Weißenhorn

Further mandates:
– Medica Medizintechnik GmbH, Hochdorf (member of the Advisory Board)
– Singulus Technologies AG, Kahl am Main (member of the Supervisory Board, until March 31, 2010)
– WashTec AG, Augsburg (Deputy Chairman of the Supervisory Board)

Frank Fischer
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.

35. Related parties

The parent company is PULSION Medical Systems AG, based in Munich, Germany. Transactions between PULSION AG and its subsidiaries that are also related parties were eliminated on consolidation. These transactions are not commented on in this note on related parties. Transactions with related parties were charged on the basis of arm's length principles.

A guarantee of KEUR 60 (2009: KEUR 168) has been issued on behalf of the Spanish subsidiary. The Company has also issued comfort letters on behalf of the subsidiary PULSION Pacific Pty. Limited and PULSION Benelux NV as security for the financing of those companies up to December 2010.

PULSION Medical UK Limited has also been given a minimum liquidity guarantee, according to which none of PULSION AG's intercompany receivables from PULSION Medical UK Limited fall due for a period of one year after adoption of the local financial statements to the extent that insolvency consequences would arise as a result of the lack of cash funds.

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 rented out to Christoph R. Manegold, member of the Management Board, by the Company at cost price for operational use.

Compensation report for the Management Board

Management Board remuneration	2010			2009		
	Fixed *	Variable **	Other ***	Fixed *	Variable **	Other ***
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Patricio Lacalle (Member since Sept. 1, 2010)	70	17	0	0	0	0
Christoph R. Manegold	160	40	0	107	37	0
Hans-Hubert Schmitt (Member until Sept. 30, 2010)	215	0	0	0	0	0
Matthias Bohn (Member until Nov. 30, 2009)	0	0	0	216	0	0
Frank Posnanski (Member until Nov. 30, 2009)	0	0	0	158	0	280
Dr. Burkhard Wittek (Chairman until May 14, 2009)	0	0	0	80	0	0

* incl. private use of car, reimbursement of social security contributions and insurance benefits
** estimated entitlement for 2009
*** remuneration earned on the exercise of stock options and redundancy payments

The remuneration shown for Patricio Lacalle relates to the period after appointment to the Management Board. In total, 50,000 share options were granted to Management Board members in 2010. In the previous year, no share options had been granted. The expense for stock options recognized in 2010 on a time-apportioned basis was KEUR 50 (2009: KEUR 18). The total remuneration of the Management Board for 2010 amounted to KEUR 502 (2009: KEUR 878), of

which KEUR 15 for the period before appointment to the board. Out of the provisions recorded for ex-board members at the end of the previous year (KEUR 535), a total of KEUR 529 was actually disbursed in 2010. Out of the provisions recorded at the end of the previous year for variable remuneration, an amount of KEUR 2 was not disbursed in 2010.

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.

Further disclosures with regard to the share-based remuneration of the members of the Management Board for 2010 are presented in Note 23.

Compensation report for the Supervisory Board

The expense recognized for compensation paid to members of the Supervisory Board during the financial year 2010 by way of fixed remuneration totalled KEUR 45 (2009: KEUR 80). No variable remuneration (based on EBIT) was paid for the financial year 2010 (2000: KEUR 0). Amounts paid to the members of the Supervisory Board were as follows:

	Period	2010			2009		
		Fixed	Variable	Others	Fixed	Variable	Others
		KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Dr. Burkhard Wittek	Jan. 1, 2010 - Dec. 31. 2010	20	0	0	2	0	29
Jürgen Lauer	Jan. 1, 2010 - Dec. 31. 2010	15	0	0	2	0	0
Frank Fischer	Jan. 1, 2010 - Dec. 31. 2010	10	0	0	1	0	0
Michael Bourjau	Jan. 1, 2009 - Sep. 15, 2009	0	0	0	28	0	3
Claus F. Vogt	Jan. 1, 2009 - Nov. 16, 2009	0	0	0	27	0	70
Dr. Karsten W. Zimmermann	Jan. 1, 2009 - Nov. 16, 2009	0	0	0	18	0	0
Andreas Frhr. von Schorlemer	Oct. 5, 2009 - Nov. 16, 2009	0	0	0	2	0	0
Total		**45**	**0**	**0**	**80**	**0**	**102**

Other remuneration comprises mainly the reimbursement of costs.

Shareholdings of Management Board and Supervisory Board members

At December 31, 2010 and 2009, PULSION AG Management Board members held the following shares (units) and stock options (number):

Management Board member	December 31, 2010 Shares (Units)	December 31, 2010 Options (Number)	December 31, 2009 Shares (Units)	December 31, 2009 Options (Number)
Patricio Lacalle (since September 1, 2010	50,000	50,000	–	–
Christoph R. Manegold (since June 06, 2009)	20	15,000	20	15.000
Matthias Bohn (until November 30, 2009)	0	0	0	10,000
Total	**50.020**	**65.000**	**20**	**25.000**

Supervisory Board members gave notice to the Company of reportable shareholdings in the Company as at December 31, 2010 as follows:
Based on the conclusion of a shareholders' agreement, Dr. Burkhard Wittek reported at December 31, 2010 that he held 3,923,279 shares which were attributable jointly to pool participants pursuant to § 30 (2) p.1.of the German Securities Transitional Act (WpÜG).

At December 31, 2010 Frank Fischer, together 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.**

36. Auditors' fees

In 2010, an expense of KEUR 115 was recognized for the audit of the Company and Group financial statements and dependant company report pursuant to § 313 AktG. Of this amount KEUR 32 related to the auditors' international organization. In the previous year, fees of KEUR 25 (2009: KEUR 10) were incurred for other services.

37. 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 **http://www.pulsion.com/fileadmin/pulsion_share/Investor/2010_Entsprechenserklaerung.pdf**.

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

We received the following notifications on June 1, 2010:

On 02 January 2009 FIL Holdings Limited exceeded the thresholds of 3% and 5% of the voting rights in PULSION Medical Systems AG, Munich, Germany. On that date, FIL Holdings Limited held 6.95% of the voting rights in PULSION Medical Systems AG arising from 665,607 voting rights. All voting rights in PULSION Medical Systems AG were attributed to FIL Holdings Limited pursuant to sec. 22 para. 1 sent. 1 no. 6 WpHG in connection with sent. 2 WpHG. The voting rights were attributed to FIL Holdings Limited Inter alia from Fidelity Funds SICAV, being a shareholder holding 3% or more of the voting rights in PULSION Medical Systems AG.
In addition, in the name of and on behalf of FIL Holdings Limited, Kent, England we her by notify you retroactively pursuant to section 21 (1) WpHG of the following:
On 20 July 2009 FIL Holdings Limited fell below the threshold of 5% of the voting rights in PULSION Medical Systems AG, Munich, Germany. On that date, FIL Holdings Limited held 4.98% of the voting rights in PULSION Medical Systems AG arising from 477,423 voting rights. All voting rights in PULSION Medical Systems AG were attributed to FIL Holdings Limited pursuant to sec. 22 para. 1 sent. 1 no. 6 WpHG in connection with sent. 2 WpHG. The voting rights were attributed to FIL Holdings Limited Inter alia from Fidelity Funds SICAV, being a shareholder holding 3% or more of the voting rights in PULSION Medical Systems AG.
In addition, in the name of and on behalf of FIL Holdings Limited, Kent, England, we hereby notify you retroactively pursuant to section 21 (1) WpHG of the following:
On 07 September 2009 FIL Holdings Limited fell below the threshold of 3% of the voting rights in PULSION Medical Systems AG, Munich, Germany. On that date, FIL Holdings Limited held 2.86% of the voting rights in PULSION Medical Systems AG arising from 273,437 voting rights. All voting rights in PULSION Medical Systems AG were attributed to FIL Holdings Limited pursuant to sec. 22 para. 1 sent. 1 no. 6 WpHG in connection with sent. 2 WpHG.
In addition, in the name of and on behalf of FIL Limited, Hamilton, Bermuda, we hereby notify you as a correction to our filing dated 21st July 2009 pursuant to section 21 (1) WpHG of the following:
On 20 July 2009 FIL Holdings Limited fell below the threshold of 5% of the voting rights in PULSION Medical Systems AG, Munich, Germany. On that date, FIL Limited held 4.98% of the voting rights in PULSION Medical Systems AG arising from 477,423 voting rights.
All voting rights in PULSION Medical Systems AG were attributed to FIL Limited pursuant to sec. 22 para. 1 sent. 1 no. 6 WpHG. The voting rights were attributed to FIL Limited Inter alia from

Fidelity Funds SICAV, being a shareholder holding 3% or more of the voting rights in PULSION Medical Systems AG.
In addition, in the name of and on behalf of FIL Limited, Hamilton, Bermuda, we hereby notify you as a correction to our filing dated 9th September 2009 pursuant to section 21 (1) WpHG of the following:
On 07 September 2009 FIL Limited fell below the threshold of 3% of the voting rights in PULSION Medical Systems AG, Munich, Germany. On that date, FIL Limited held 2,86% of the voting rights in PULSION Medical Systems AG arising from 273,437 voting rights.
All voting rights in PULSION Medical Systems AG were attributed to FIL Limited pursuant to sec. 22 para. 1 sent. 1 no. 6 WpHG.

Further notifications pursuant to § 21 (1) WpHG

Axxion S.A., Luxemburg, Luxemburg notified us on December 6, 2010 pursuant to § 21 (1) WpHG that its voting rights in PULSION Medical Systems AG, Munich, Germany, ISIN: DE005487904, WKN: 548790 went over the threshold of 3% on November 30, 2010 and amounted to 3.58% at that date (corresponding to 342,524 votes).

PULSION Medical Systems AG, Munich, Germany, ISIN: DE005487904, WKN: 548790 gives notice pursuant to § 21 (1) WpHG that its holdings of treasury (own) shares on December 22, 2010 went over the thresholds of 3% and 5% of the voting rights and amounted to 6.15% at that date (corresponding to 588,839 votes).

39. Profit appropriation

The management board proposes that the group net profit be carried forward to new account.

40. Events after the end of the reporting period

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

Munich, March 21, 2011
PULSION Medical Systems AG

Patricio Lacalle
Chairman

Christoph R. Manegold

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 21, 2011
PULSION Medical Systems AG

Patricio Lacalle
Chairman

Christoph R. Manegold

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, 2010 to December 31, 2010. 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 21, 2011
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefano Mulas
German Public Auditor

ppa. Alexander Fiedler
German Public Auditor

Financial Calendar 2011

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 2011:

Financial report on 1st Quarter	May 12, 2011
Annual General Meeting	May 26, 2011
Financial report on 1st Half-year	August 11, 2011
Financial report on 1st 9 Months	November 14, 2011

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)

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

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