Annual Report 2011

2011

Innovation – Presence – Growth

PULSION
Medical Systems

Key Figures
PULSION 2011

PULSION (Group)		**2011**	Delta	**2010**	**2009**	**2008**	**2007**
		IFRS	in%	IFRS	IFRS	IFRS	IFRS
Revenues	EUR million	**32,9**	**5%**	31,5	28,1	28,0	28,3
Gross profit	EUR million	**22,7**	**13%**	20,1	18,6	18,6	20,5
EBITDA	EUR million	**8,6**	**34%**	6,4	4,2	2,6	6,0
EBIT	EUR million	**6,8**	**48%**	4,6	2,4	0,6	4,1
Consolidated profit/loss	EUR million	**4,7**	**68%**	2,8	0,5	-0,7	2,5
Cash flows used in operating activities	EUR million	**8,5**	**31%**	6,5	4,0	1,0	4,5
Shareholders´Equity *	EUR million	**21,1**	**22,7%**	17,2	17,0	16,2	17,1
Shareholders´Equity percentage *	%	**71%**	**6%**	67%	66%	68%	64%
Total assets *	EUR million	**29,7**	**16%**	25,7	25,7	23,8	26,8
R&D expenses	EUR million	**3,0**	**25%**	2,4	2,2	2,2	2,0
Employees (average)	Amount	**126**	**0%**	126	139	147	141
Revenue per employee	KEUR	**261**	**4%**	250	202	190	200
Installed base - PiCCO® monitors *	Units	**7,500**	**9%**	6,860	6,247	5,743	5,256

* as at December 31st

2011

Content

Patricio Lacalle
CEO

„Our future growth is based on innovation, visible presence on core markets and the commitment of our staff“

Report of the Executive Directors

Dear customers, shareholders and employees,

We can look back today at a good year for PULSION. Revenue and earnings were up on the previous year and we achieved the targets we had set ourselves for cost management.

Sales revenue rose by more than 4.6% compared to the previous year. Adjusted for a one-off contract executed in the previous year and for exchange rate gains /losses, sales revenue grew by 8.6 %. We therefore kept up the pace of growth, even though the expected acceleration failed to materialize. 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. EBIT jumped by EUR 2.2 million (+48 %) from EUR 4.6 million to EUR 6.8 million.

With growth at a similar rate to the previous year, PULSION was able to achieve its targets for profitability (gross margin, EBIT, free cash flow conversion rate). The main task in 2012 will be to raise the growth rate in the short term through improvement sales management and in the medium term through innovations.

We would like to express our gratitude to all employees for their great commitment which has made this result possible. Thanks go on the one hand to those who made their contribution to above-average growth, but also equally to those who helped to provide stability and continuity in tremendously difficult circumstances.

I. A review of the financial year 2011

We report in the following section on the main points of emphasis set for the financial year 2011:

1. Improving the results of loss-making subsidiaries

1.1 Targets for 2011 as stated in the Annual Report 2010:

"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 business unit means that the break-even point should be reached in the USA in 2012".

1.2 Outcome in 2011

We failed to achieve the targets set for France. Growth fell short of expectations and revenue even dropped slightly. One positive aspect was the growth achieved with disposable items, which was not enough, however, to offset the decrease recorded for monitoring business. We will now provide additional support in this area in order to exploit available potential.

In the USA we were able to achieve forecast growth in the Perfusion products, while the Critical Care segment stagnated. We believe that there are two reasons for these developments. First, the sales team in the USA – whichis part of the Critical Care business unit - experienced a high level of staff fluctuation (almost 100 %) and secondly, there was no local head of sales in the region. In December 2011 we appointed a Head of Sales for our East Coast core region and are in the process of building up sales activities again.

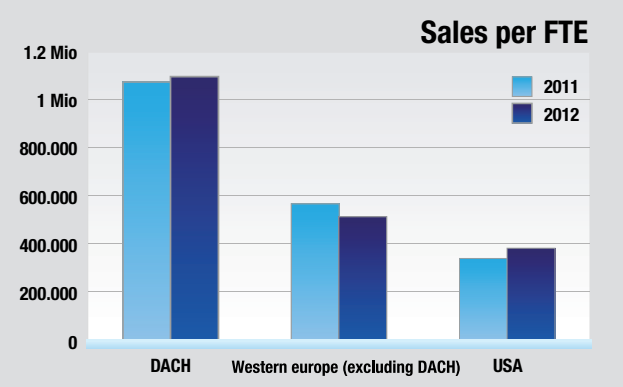
2. Improvement in field sales force productivity

2.1 Targets for 2011 as stated in the Annual Report 2010:

“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 %

2.2 Outcome in 2011

Revenues per sales rep (in full-time-equivalents)



With growth of 5 %, we achieved our target for the DACH region. This performance was achieved thanks to a high degree of continuity and professionalism in the workforce which helped to boost productivity.
In the Western Europe excluding DACH region we were unable to achieve the target set. Some of our sales companies suffered a high degree of staff fluctuation in 2011, while others were unable to match the previous year’s strong performance. Even a growth rate of 17 % achieved in BeNeLux region was unable to raise field sales force productivity across the whole region by more than 7 %.
In purely arithmetical terms, we did meet the target set for the USA. This performance, however, was almost entirely due to the underlying fluctuation of our business in this region, so that, here too, we have to admit that we missed our target. Measures taken to counter these developments have been addressed above.

Team internationalization:
Claudia Kolbeck, Dr. Andreas Schley, Ralph Schäfer (from left to right)

3. Expansion of international business

3.1 Targets for 2011 as stated in the Annual Report 2010:

“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 1 – 2 new distributors.”

3.2 Outcome in 2011

In 2011 we concluded one 51 % subsidiary arrangement in Mexico. Working together with a well-established local medical technology company, we will commence operations on this market at the beginning of 2012 now that products approvals have successfully been put in place. In the case of Brazil, we decided against setting up a joint venture in view of the high level of cost involved in registering a new company and the current limited extent of extended hemodynamic monitoring in this market.

We founded a wholly owned subsidiary in Turkey in the middle of the year 2011.

Three new distribution agreements were signed for South America and the Middle East.

4. Development and market launch of new products

4.1 Targets for 2011 as stated in the Annual Report 2010:

"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 out international sales platform."

4.2 Outcome in 2011

The full market launch of PulsioFlex® - defined as market introduction in countries, in which the CE label is required - was completed, with a delay, in the second half of 2011 and generated a great deal of interest on the market. A 510k clearance application has been filed with the FDA.
The two product approvals targeted for 2011 in the USA were not achieved:
a) The FDA requested additional patient studies for CeVOX®
b) Similarly, no approval was received in the USA for our new PulsioFlex® monitor platform in connection with ProAQT®. We are now targeting the first half of 2013 as the new date for obtaining product approval.
The timing of projects relating to non-invasive monitoring systems and additional parameters also fell behind schedule in 2011. We see the first half of 2012 as an important milestone en route to bringing these projects to their culmination by means of tighter project management.

Team Product development: Thomas Thalmeier, Fabian Kleindienst, Michael Hillen

A project group was set up in 2011 with the remit of identifying and assessing complementary technology companies that PULSION could potentially acquire. Three entities were identified as interesting candidates. In the end, however, none of the projects were presented to the Administrative Board with a positive recommendation to acquire. Additional staff will be taken on in this area in 2012: past experience with internationalization endeavors shows that projects of this nature regularly fall foul of day-to-day operations unless at least 50 % of the time of one employee is focused on corporate development.

5. Perfusion business unit

5.1 Targets for 2011 as stated in the Annual Report 2010:

"Further approvals are expected for 2011, increasing both the number of countries and types of imaging systems in which it is used. This would represent 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."

5.2. Outcome in 2011

The Perfusion business unit grew by 17 % in 2011 and therefore in line with expectations. However, no new approvals were obtained in 2011 either in new regions or with new technologies. Following an increase in staffing resources in this area in the middle of 2011, a further focus has been set on extending approvals for the agent ICG-PULSION® (active ingredient: indocyanine green) to other applications. A corresponding study was started at the end of 2011.

II. Outlook for 2012

A. Focus on management and key projects

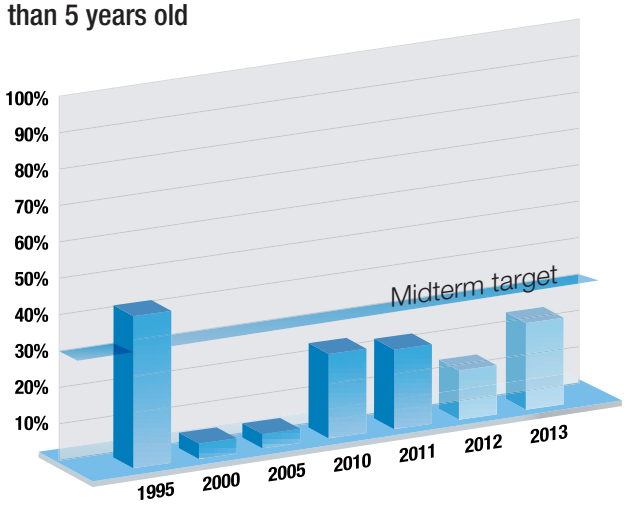
Following on from a strong fourth quarter in 2011, we are able to look ahead to the new financial year with some confidence. We can now fully market our new product platform PulsioFlex®/ProAQT® in countries with EU approval. The Group's sales organisations are in place with suitably trained personnel capable of marketing PULSION's technologies as required. Some key functions were filled in 2011 at the turn of the year which should now ensure that even greater support is delivered to the sales companies.

The Executive Directors will focus in 2012 in particular on following four areas, each aimed at achieving faster growth:

1. Innovation through in-house developments and acquisitions

In terms of the structure of its products, the proportion of revenue generated with products less than five years old is too low, as can be seen in the graph to the right. This reflects weakness in innovation management over the last 5 – 10 years. We have indentified the problem and are now working on increasing that proportion significantly within a medium-term timescale. The proportion of revenue generated with products less than five years old, should, in the medium term be at least 30%, in order to enable us to compensate for diseconomies of scale compared with major US medical technology companies. As an intermediate target, we are targeting in our medium-term forecast to 2013 to achieve an innovation ratio of at least 20% in 2013.

Proportion of revenue generated with products less than 5 years old



We are planning to launch two new products in Europe in 2011 with the CE label:
a) one or more software releases adding a number of new parameters for our PiCCO® technology
b) integration of PiCCO® technology into the PulsioFlex® platform and market introduction in Europe with the CE label.

2. Strengthen sales processes and reduce staff fluctuation in the field sales force

The recipe for success – potential-orientated sales management and communicating the medical benefits than can be gained from our products – is still not being implemented and sustained on a consistent basis throughout the Group. We have set ourselves the task of improving cooperation between the sales companies and head quarters with a view to accelerating growth and achieving double-digit growth in our companies in Spain, the UK, France and the USA.

Heads of sales companies (from left to right): Angel Salcedo, USA; Pieter Vergaert, Belgium; Diane Morris, UK; Ricardo de la Pena, Spain; Michael Barilla, USA; Axel Chotteau, France

A second key target is to reduce employee fluctuation in the field sales force from its current high level. New management structures have been introduced in countries with the highest fluctuation rates and the entities concerned will receive greater levels of support across all functions. Local heads of sales will therefore have the wherewithal to lead their teams to success. The plan is to reduce employee fluctuation in the field sales force from its recent level of 35 % to below 25 % in 2012.
The employee fluctuation rate is calculated on the basis of the average number of employees during the past 12 months - to the end of the reporting period - and the number of employees leaving the Group during that period (BDA formula). fluctuation rate = departures/average number of employees x 100). Temporary staff and apprentices are not included for the purposes of calculating the employee fluctuation rate.

	Number of staff	Employee leaving	Employee fluctuation rate
Field sales Force	40	14	35.0 %
Other Areas	80	15	18.8 %
Total	120	29	24.2 %

3. Expansion of Perfusion business unit

In the field of perfusion imaging diagnostics, our task is to establish a more focused position in a number of targeted areas of application, namely
- ophthalmology
- plastic surgery
- visceral surgery
- neurosurgery

primarily by documenting and communicating the medical and commercial benefits that can be achieved in each of these areas of application. We intend to select a specific sales approach to this during the first half of 2012.

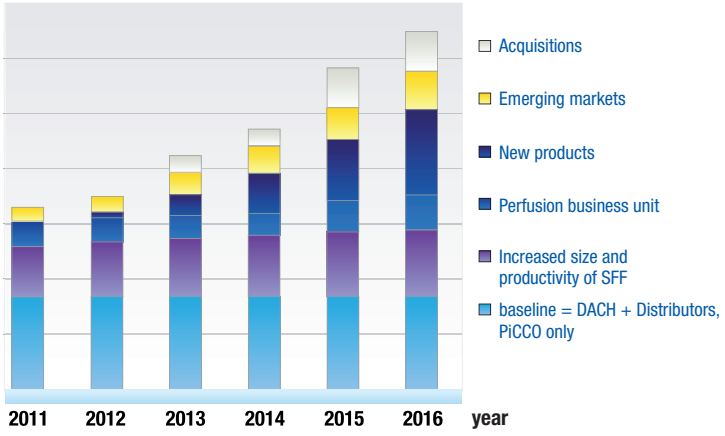
4. International growth

The various business alliances established in 2011 must now be moved on to the marketing phase. In 2012, we intend to set up at least one new joint venture and sign at least two new distribution agreements.

B. Medium-term forecast

In addition to the positive impact of key growth initiatives in 2012, we also expect to benefit from acquisitions from 2013 onwards. Under the working title P5 (Pulsion in 5 Years), teams have been allocated to some 20 individual projects, with all employees pulling together to achieve the targets and milestones set.

Medium-term forecast



The PULSION Group
An overview

PULSION Medical Systems SE 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 Technische Universität 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 leading manufacturers of integrated patient monitoring systems. 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 high 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 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 imaging business unit deals with the visualization of blood perfusion in tissues and organs. As an example of this, it enables pathological changes in blood vessels to be made visible. 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®. Once it has been injected into the bloodstream it becomes fluorescent. An optical imaging system makes the blood 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, the agent 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 as well as in visceral and plastic surgery.. PULSION currently holds drug approval exclusively in nine European countries. The company has permission to market ICG-PULSION® in the USA, where PULSION is one of two providers.

An upward trend!

After posting double-digit growth in 2010, PULSION was only able to achieve growth of 4.6% in 2011. Excluding one major one-time order in 2010 and exchange rate effects in both reporting periods, revenues on an adjusted basis grew by 8.6% in both 2010 and 2011.

We continued in 2011 to press on with the improvement measures and changes resolved in previous years and with the new product initiative started back in 2008.

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.

Monitoring catheters, measurement probes, sensors or the agent ICG-PULSION®: these disposable items need to be regularly replenished by customers and – since they 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.

PULSION's position in the market

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

As a specialist company selling med-tech products 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 large-sized monitor manufacturers have already incorporated PULSION's technologies into their patient monitoring systems, thereby expanding the available equipment base at an above average rate. PULSION benefits on the one hand from the revenue generated by the license arrangement, and on the other 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 cooperation arrangements are also of interest to start-up and development companies. Such companies generally do not have easy access to the market or the sales and marketing resources to position their own innovative products. By contrast, global players have strong sales and marketing departments but rely on the regular introduction of new products. It is also generally true to say that they cannot be innovative in all areas. This is precisely where PULSION comes in: promising products are established on the early markets, mainly using a medical-based marketing approach. If a substantial market emerges, it then becomes the joint goal to integrate the product into the product platform of one of the global players.

01

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 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. Exactly the right amount of information can be prepared depending on requirements. 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 can be used in intensive medical care in conjunction with the treatment of critically ill patients, is very well positioned. 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 oxygen supply within the body (CeVOX® Technology), real-time cardiac and circulatory measurements, the existence of any pulmonary complications (PiCCO® Technology) as well as liver function and 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. PULSIONs new PulsioFlex® monitoring platform is geared 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. From 2012 onwards, all of the Critical Care business unit's technologies will be available for use with PulsioFlex®, enabling the use of monitoring platforms for all technologies.

PiCCO® technology

PiCCO® is the flagship amongst PULSION's various monitoring technologies. 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 frequency), 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

ProAQT® technology is a simplified version of 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 remains the market leader in the area of intensive care medicine, particularly in Europe. Edwards Lifesciences presented its new monitoring platform (EV1000 with VolumeView) in October 2010 for use in operating rooms and intensive care units. The introduction of this new monitoring platform on markets only had a modest impact in 2011, a result that is not unusual in the first year after market launch.

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 joined the race with its PulsioFlex®/ProAQT® product combination. In the meantime, LiDCO and Deltex are also focussing primarily on the perioperative market and have had to deal with a number of delays. Initial market interest has been highly satisfactory, even though it will take until 2012 to judge the actual level of success.

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 carried positively further with PulsioFlex®.

Additional technologies and improvements as well as new parameters will be added to the product range in 2012 and beyond to provide further benefits for patients and practitioners. This means that the number of areas of application for which PULSION monitoring solutions can be used will increase. A further focus will be on expanding cooperation arrangements with global players in the area of integrated patient monitoring with the aim of broadening the installed base by integrating PULSION monitoring technologies into other systems (see also section "Business partners").

Research and development

Research and development work performed in recent years laid the foundation for the introduction of new technologies and products in 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.

Production

Now that plastic processing activities have been outsourced, cooperation with our production partners has been intensified. Clean room final assembly, quality assurance and delivery to customers remained unchanged at the new production location. We were successfully audited by the American regulatory agency, FDA.

Marketing

PULSION is represented in 56 different countries. The basis for this high level of market presence comes from nine subsidiaries on the one hand and distributors with worldwide operations on the other. PULSION has traditionally been very strong in Central and Western Europe and Poland with its subsidiaries or joint ventures. Pulsion Mexico was founded in April together with a joint venture partner. PULSION Turkey was founded in mid-2011. Close cooperation with sales partners in Eastern Europe and Asia ensures that the markets in these areas are well serviced.

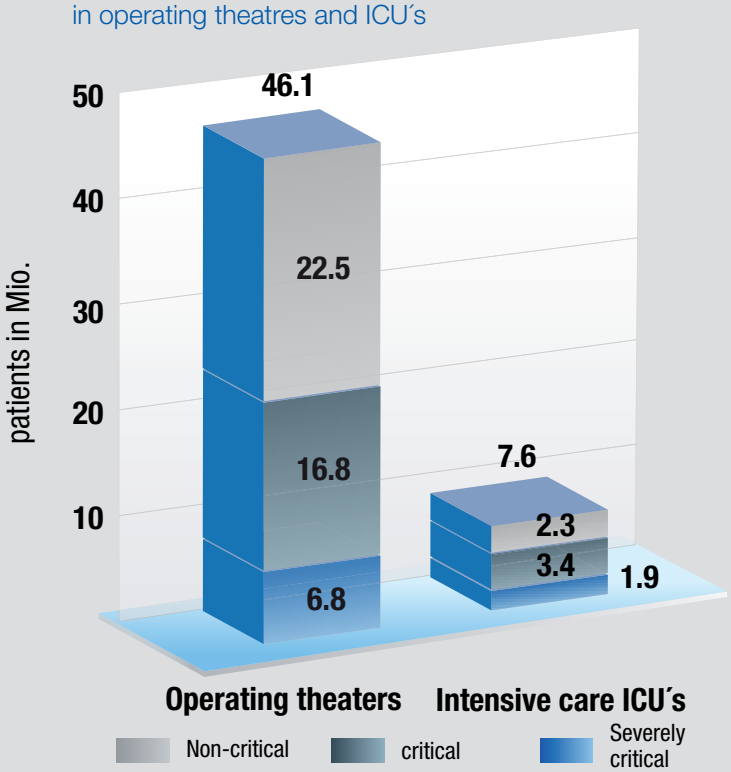
The sales network is focusing its efforts on evaluating customer potential and areas of expertise in order to communicate medical benefits on a more targeted basis. In order to achieve the best marketing results, an appropriate combination of medical and classical marketing elements are applied.

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.

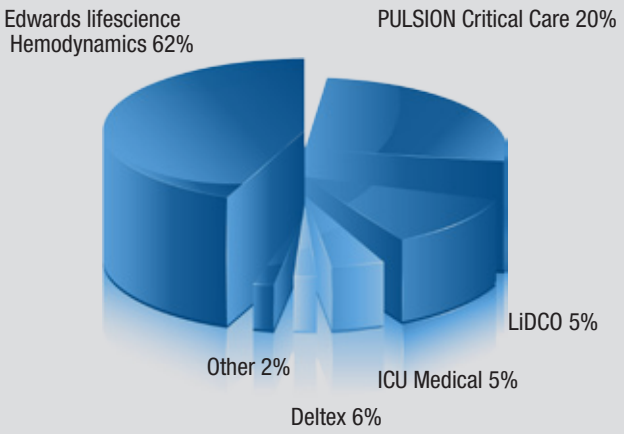
Business partners

Strategic cooperation arrangements with numerous business partners in the area of integrated patient monitoring, such as wie Philips Healthcare, Dräger Medical Dixtal and GE Healthcare, were cemented more firmly during the past year. The integration of further technologies with major providers of monitoring equipment remains a fundamental objective for PULSION.

Number of patients treated per annum in operating theatres and ICU´s



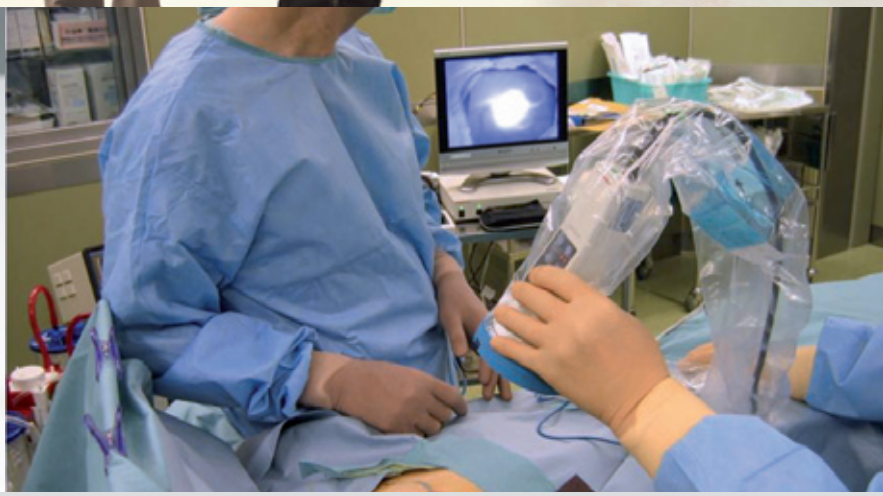
Market for external hemodynamic monitoring 2011



02

The Perfusion business unit:
highly 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 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 agent, 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 ICG-PULSION®. As well the opportunities identified in the areas of abdominal, breast cancer, neurosurgery 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. The agent indocyanine green fluoresces when stimulated by light of specific wavelengths. ICG-PULSION® is injected directly into the circulatory system and allows superficial vessels to be visualized when used in an imaging system. 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 agent at the fundus of the eye.

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 agent'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 become established. The market for surgical applications is growing. The method is, however, slowly becoming standard in other fields, in particular neurosurgery. Momentum is also coming from PULSION's strategic cooperation with equipment manufacturers for imaging diagnostics. 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

Research and development activities Perfusion business unit are currently focussed on new applications in the area of diagnostics.

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.

Production

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

Marketing

PULSION has approvals to market ICG-PULSION® in nine European countries. Further approvals have been applied for, including Russia. In the USA, PULSION is one of two approved providers. PULSION holds the marketing rights for PDE in Europe. Distribution partners cover Italy, France, the United Kingdom and Switzerland.

Review of Year

Launch of PulsioFlex®

01

Launch of ProAQT®-Sensor

06

January | February | March | April | May | June

02

mindray

Launch of PiCCO® Mindray Moduls

05

Foundation of PULSION Mexico

2011

PULSION Medical System AG becomes PULSION Medical System SE

07

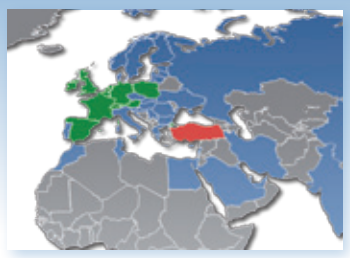
PULSION
Medical Systems

FDA approval PulsioFlex® (CeVOX® stand alone)

11

July | August | September | October | November | December

09



Foundation of PULSION Turkey

12

Start of clinical trial:
Determination of the sensitivity of ICG fluorescence technique for the detection of sentinel Lymph Nodes in breast cancer- in cooperation with the University of Tübingne under the direction of Prof. Dr. Diethelm Wallwiener

Events and activities in 2011: Strategy implemented with determination

PULSION achieved a number of interim targets in 2011. In parallel with the launch of ProAQT® technology in the perioperative area, particular importance was attached to the continued process of internationalization.

2011: Using tried and tested methods to introduce new products and make inroads onto markets in new geographical areas.

Trendmonitoring ProAQT® receives CE approval

Now that it has European approval for ProAQT® technology, PULSION has entered the field of perioperative hemodynamic monitoring. The advantage it has over other technologies currently available on the market is that it enables doctors to calibrate the start value.

Foundation of PULSION Mexico with a local company, with PULSION holding a 51% stake.

After Brazil, Mexico is South America's second largest market for medical technology. The new company markets PULSION products via the local shareholder's existing sales channels.

Product launch of ProAQT® with PulsioFlex®

The new ProAQT® Trendmonitoring technology has achieved European certification and will now launched the market in conjunction wit the new PulsioFlex® monitor platform. As expected, customers are showing considerable interest. Based on the fact that sales cycles in the medical technology field generally last between 12 and 18 months, 2012 is expected to be a successful year for sales.

PULSION subsidiary founded in Turkey

Turkey is a country with strong economic growth and a large population. Since it has a strong bias towards Europe and is easy to reach, it makes sense to have our own presence there.

PULSION in the US market: Positive trend

Team USA: Angel Salcedo Director, Sales
Michael Barilla, Country Manager

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 of the Critical Care business unit stagnated fort the second year in succession.

US market: optimization measures deliver results in a 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 spread the use its product duo “Vigileo/FloTrac” in the operating theatre 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 cost in the event of such complications. Studies have shown for a long time, however, that the complication rate is similar to that for other standard procedures.

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.

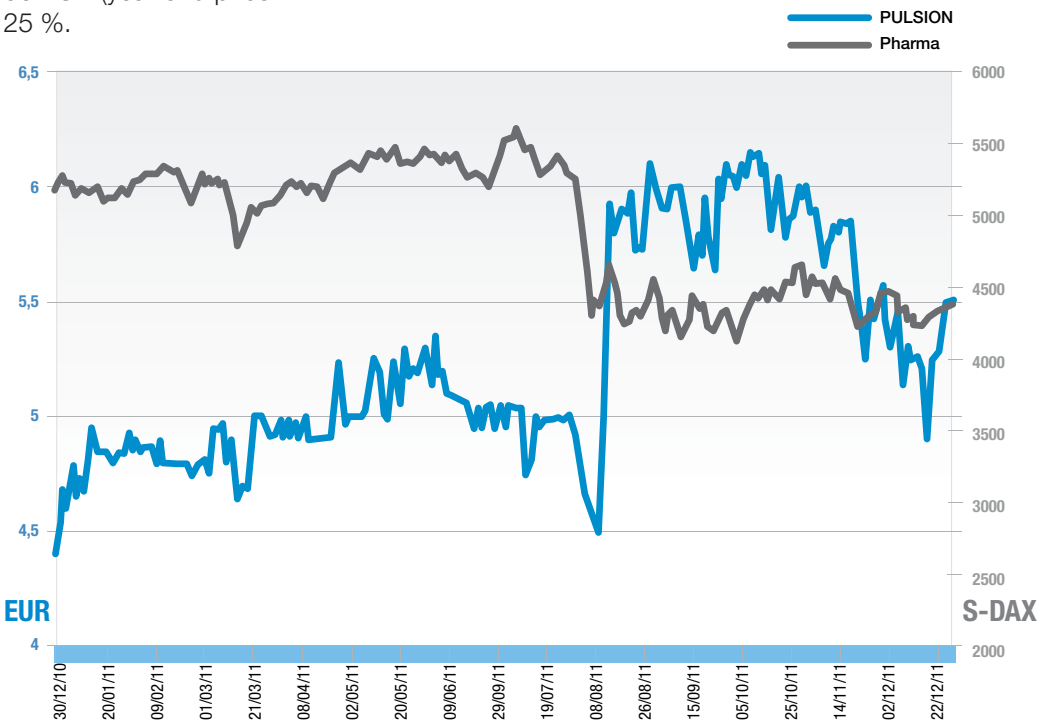
PULSION continued to focus on specific regions, in particular on the East Coast and the Mid-West, where many large-scale and important hospitals and university clinics are concentrated in a relatively small area. Several of the clinics acting as reference centers are amongst the USA’s top 20 institutions. PiCCO® technology is very much a “niche” product in the USA.

Although revenues stagnated in the core area of Critical Care area in 2011, revenues generated with the agent ICG-PULSION® continued to rise. The sales team in the USA experienced a very high level of staff turnover in 2011. Measures were taken at the end of the year to rebuild the team under new management.

PULSION stock

The market price of PULSION Medical Systems SE continued the positive trend seen in the years 2009 and 2010, rising in value in 2011 from EUR 4.40 (year-end price 2010, Xetra) to EUR 5.50 EUR (year-end price 2011, Xetra), an increase of 25 %.

By comparison, the sector index, the Prime Standard Pharma and Healthcare climbed by 8.13% while the S-Dax fell by 14.5 %.



Key data on PULSION stock at December 31, 2011

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 2010 (Xetra, EUR):	4.40 *)
Closing price 2011 (Xetra, EUR):	5.50
High (52 weeks, Xetra, EUR):	6.15
Low (52 weeks, Xetra, EUR):	4.49
Market capitalization (end 2011, Xetra, EUR):	52.675 million.
Earnings per share (diluted, EUR):	0.51
Share capital (EUR):	9,577,302
Transparency level:	Prime Standard
Market segment:	Regulated market

*) thereof: 799,048 treasury shares

Investor information

In 2011 the shareholders and the general public were provided with 4 press releases and 3 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.

Employees

PULSION has systematically measured employee fluctuation since the beginning of 2011 in order to gain a better understanding of the background to this problem and to assess the success of measures taken. Employee fluctuation across the whole of the Group was 24 %. Adjusted for the 35 % fluctuation rate in sales and marketing, the rate for the remainder of staff was 19 %.

The most affected countries in the area of sales were England and the USA. The main causes for the high level of employee fluctuation were changes in the management team on the hand and a lack of coordination with supporting functions at the Group's headquarters.

PULSION SE will therefore involve the sales companies more in its ongoing activities and provide greater levels of support by increasing the number of its own staff working in the fields of Clinical Applications and Medical. In addition, local managers will visit headquarters more frequently in order to enable the exchange of experiences and success stories und to put new ideas in to practice as quickly as possible.

The trainee program was started in October – at present with just one person – providing a new tool to enable us to develop employees from within the company. In the coming year we will not only recruit a further trainee, but also be creating a trainee position in the administrative area. We also made further progress in 2011 in our strategy of filling positions from within e. g. in the area of customer service.

One of last year's major issues was the creation of part-time working models for employees returning to work after maternity/paternity leave and for those who, for personal reasons, need to be able to spend more time with their families. We were able to implement these changes successfully and thus prove to our employees that we are a family-friendly company. It has been especially pleasing to see that the working-time models are an enhancement both to working processes and to employee satisfaction.

Corporate Governance Report

Dr. Burkhard Wittek, Chairman of the Administrative Board

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 the monitoring of management within Germany more transparent for national and international investors. The Code is also expressly applicable for companies structured as a Societas Europaea (SE) with a one-tier management system. The principles of good and responsible corporate governance determine the actions of PULSION SE management bodies. 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.

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. This requirement applies to the Company in accordance with Art. 9 (1) c) (ii) SE-VO, §22 SE-AG.
The Declaration of Compliance of the Administrative Board dated December 23, 2011 was made available on the PULSION Group website at www.pulsion.com in accordance with § 161 AktG.

Declaration of the Administrative Board of PULSION Medical Systems SE dated December 23, 2012 on the German Corporate Governance Code pursuant to § 161 AktG:

In accordance with Art. 9 section 1c) (ii) SE-VO, § 22 section 6 SEAG (in conjunction with § 161 AktG), Administrative Board of PULSION Medical Systems SE hereby declares the following regarding the recommendations of the "Government Commission on the German Corporate Governance Code" in the version dated May 26, 2010 published in the Electronic Federal Gazette on July 2, 2010 (hereafter referred to the "Corporate Governance Code"):
Since issuance of the last Declaration of PULSION Medical Systems AG in January 2011 has – taking into account the special aspects of the change in legal form undertaken during the year under report, as explained in point 1. below, and the one-tier system of management applied at the Company – complied with the recommendations of the Corporate Governance Code with the exception of the recommendations referred to in point 2 below.

I. Special aspects of the change in legal form undertaken during the year and the one-tier system of management

In accordance with the resolution taken by shareholders at the Annual General Meeting of Pulsion Medical Systems AG on May 26, 2011, the Company was converted into a Societas Europaea (SE) with the name PULSION Medical Systems SE. The change was registered in the Commercial Register on June 9, 2011. In accordance with Art. 38 b SE-VO, PULSION Medical Systems SE has elected to apply the one-tier system of management. Under this system – and in accordance with Art. 43-45 SE-VO (in conjunction with §20 et seq. SEAG – the responsibility for the management of the SE rests with a single administrative governance, which at PULSION Medical Systems SE, is called the "Administrative Board". The Admin-

istrative Board governs the Company, defines the principles of its activity and supervises their implementation. The Administrative Board appoints Executive Directors who manage the Company's business and represent the company both judicially and extrajudicially.
With effect from the date of conversion on June 9, 2011 and taking into account the actual legal structure of the Company, PULSION Medical Systems SE relates the recommendations contained in the Corporate Governance Code to the Company's Administrative Board where the Code refers to a supervisory board and to the Company's Executive Directors where the Code refers to a management board.

II. Exceptions to recommendations of the Corporate Governance Code:

1. Minimum of two executive directors

Contrary to section 4.2.1 of the Corporate Governance Code, the Company only had one executive director after October 13, 2011. Given the size of the Company and the one-tier system of management in place, the Administrative Board considers that it is acceptable for a short period of time up to December 2011 to do without a second executive director.

A new executive director is currently being sought; the Administrative Board aims to fill the post in the course of 2012.

2. Variable remuneration based on multi-year assessment criteria

The variable remuneration of the Chairman of the Executive Directors comprises two components, the first of which relates to the current year (in this case 2011) and the second of which is based on multi-year assessment criteria.
Contrary to section 4.2.3 of the Corporate Governance Code, the variable remuneration of the other executive director was only related to the year 2011.
The executive director concerned left the Company in 2011. It is planned that the remuneration of the successor will – like the Chairman of Executive Directors – receive a remuneration with two components, one part relating to the current year and the other based on multi-year assessment criteria.

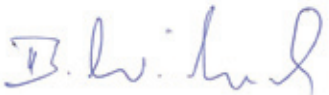
3. No committees

The Supervisory Board (until June 8, 2011) and the Administrative Board (from June 9, 2011) comprises three members. Contrary to sections 5.3.1 to 5.3.3 of the Corporate Governance Code, neither the Supervisory Board nor the Administrative Board (from June 9, 2011 onwards) made/makes use of committees. Since PULSION complies with the requirement of §23 (1) SEAG for a minimum of three members of the Administrative Board, it is considered reasonable not to set up committees for the Supervisory Board/ Administrative Board.

4. Diversity

The present composition of the Administrative Board does not comply with the recommendations of the Corporate Governance Code with respect to diversity pursuant to section 5.4.1 of the Corporate Governance Code. At its meeting on December 23, 2011, the Administrative Board set itself the task of appointing a non-German with broad international management experience to the board.
PULSION Medical Systems SE will comply in future with the recommendations of the Corporate Governance Code. Only the recommendations stated above in points 2 and 3 will not be applied or will not be applied temporarily.

Munich, December 23, 2011



On behalf of the Administrative Board
Dr. Burkhard Wittek

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 SE 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 SE.

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

Administrative Board

The Administrative Board appoints the Executive Directors, governs the Company, defines the principles of its activity and supervises their implementation. In accordance with the Articles of Incorporation, PULSION SE's Administrative Board comprises 3 members. As a result of the size of the Administrative 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 Administrative Board hold more than a total of three mandates on non-PULSION Group administrative boards / supervisory boards of listed companies or in other bodies with comparable requirements. The members of the Administrative Board are shown in note 34 to the consolidated financial statements.

Executive Directors

The Executive Directors of PULSION SE manage the Company's business and represent the Company both judicially and extra-judicially. Their 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. The Executive Directors report regularly, fully and in good time to the Administrative Board on all matters relating to business performance, the implementation of corporate strategies and potential risks. The Company currently has one Executive Director. The Administrative Board is currently seeking to appoint a second Executive Director in the course of 2012. The company´s Executive Directors are shown in note 34 to the consolidated financial statements.

Risk management

In accordance with § 91 (2) Akt.G, the Administrative 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 57-61.

Compliance

The Administrative Board, together with the Company's Executive Directors is responsible for ensuring that all provisions of national and international law and internal regulations of PULSION SE are complied with by all PULSION Group entities.

Cooperation between Administrative Board and Executive Directors

Good corporate governance depends on close and efficient cooperation between the Administrative Board and the Executive Directors. The Administrative Board and the Executive Directors work together closely in the interests of the enterprise. Open discussion is of the utmost importance. The Administrative Board defines the principles of the Company's activities and agrees matters with the Executive Directors, in particular with regard to the strategic direction to be taken by the Company. The Administrative Board is kept informed about the implementation of business strategies, about business performance and forecasts as well as the Group's risk profile and risk management system. Major transactions require the approval of the Administrative Board.

The Chairman of the Administrative Board reports every year to shareholders at the Annual General Meeting on the activities of the Administrative Board. The Chairman also coordinates work within the Administrative Board and chairs its meetings. The Executive Directors fulfil their duties to the Administrative Board by reporting orally and in writing about the Group's current business performance, corporate planning, implementation of the strategic direction and position, including its risk profile and risk management system. On invitation by the Chairman of the Administrative Board, the Executive Directors participate in the meetings of the Administrative Board and report on the various points of agenda and respond to questions posed by the Administrative Board.

Remuneration of the Administrative Board and Executive Directors

The compensation systems for the Administrative Board and Executive Directors are described in the group management report. In addition, amounts of compensation paid to the members of the Administrative Board and to the Executive Directors are disclosed by individual person 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 2011

Members of the Administrative Board and the Executive Directors and certain other senior management staff of PULSION SE 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 SE 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 2011, no notice of transactions pursuant to §15a WpHG was given to PULSION SE.

The details of all securities transactions made by persons required to submit notifications are posted promptly to the PULSION SE 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 members of representative bodies in PULSION Medical Systems SE and key management personnel and parties related to them.

	Number of shares Dec. 31, 2011
Executive Directors	
Patricio Lacalle	50,000
Patricio Lacalle	(share options) 50,000
Christoph R. Manegold *	0
Administrative Board	
Dr. Burkhard Wittek**	4,633,542
Jürgen Lauer	0
Frank Fischer***	607,231

* Christoph R. Manegold left the Company on October 31, 2011.

** Based on a shareholder pooling agreement

*** Directly and indirectly attributable via his activities as management board member at 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 4,633,542 shares in the Company at December 31, 2011. 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). These shares are attributed to Dr. Wittek in his capacity as Managing Director (Geschäftsführer) of FORUM European Smallcaps GmbH.
At December 31, 2011 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 applicable 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 SE 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 Administrative Board. Two share option programs are available to the Executive Directors. Details of these programs are disclosed in the notes to the consolidated financial.

Audit of the financial statements

The separate entity and consolidated financial statements of PULSION SE 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 SE as of December 31, 2011

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

Warren Buffett

Report of the Administrative Board for the Financial Year 2011

Dear customers, shareholders and employees,

Our Company again made good progress overall in the past year.

- The EBIT margin of 20.5 % was a new high and hence better than the target margin of 20 %.

- Free cash flow totalled EUR 5.1 million, giving an EBIT/FCF conversion rate of 76 %, which was again higher than the medium-term target level.

- In contrast to these figures, the 4.6 % rise in revenue reported for 2011 was disappointing. Excluding the effect of a large one-time World Bank tender transaction in 2010 and exchange rate factors, revenue grew on a comparable basis by 8.6 %, still not sufficient in the medium term to withstand the pressure of competition and consolidation in the medical technology sector.

Progress was made in 2011 with a variety of projects which will strengthen PULSION's business in the future. You can read about some of these projects in the Administrative Board's discussion of significant issues.

Although now with different designations, following the change in legal form, the Administrative Board and Executive Directors continued their trusting and pragmatic cooperation during 2011.

As in previous years, the intention of this report is provide information to you – as owner of the Company – in the way cited by Warren Buffett in the introduction: in your capacity as a 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 balanced presentation of information.

1. Report on the activities of the Administrative Board in 2011

1.1 Focus of the Administrative Board's deliberations

The Administrative Board concentrated its activities in 2011 on the medium and long-term development of the business. The following topics were discussed on various occasions at Administrative Board meetings:

a) Innovation management: How can PULSION increase the proportion of sales attributable to new products? What are our weaknesses, where do we need to take action?

b) Business development by region: What strategy are we applying to increase the proportion of sales generated on the world's emerging markets? Which of these projects must we follow through to their realization?

c) Market launch of the Edwards EV 1000: How quickly is Edwards making progress? How can we hold on to our existing customer base? How can we raise the USP value of the PiCCO® system?

d) Market introduction of our second monitoring platform PulsioFlex® in conjunction with the ProAQT®-Catheter: How well is the rollout going? What might be holding up the sales process?

e) HR development: Which new managers should we be recruiting? How do we increase loyalty to the company and reduce employee fluctuation?

f) Perfusion business unit: How can we implement the strategy formulated in 2009 of generating revenue – on the back of our razor/razorblade business model – in new fields of medicine? How do we safeguard our

established ophthalmological business ?

g) USA: How do we stabilize and strengthen our sales team? How do we improve the transfer of know-how from Europe to the USA? How do we increase our regional coverage?

Issues are dealt with roughly in the order of importance. The emphasis has shifted away from acute problems – such sales management and the USA – towards the more long-term issues of business development by region, HR and innovation management. We consider this shift to be a sensible one and hope that it will result in accelerated growth in coming years.

1.2 Assessment of statements made in the previous year's report of the Supervisory Board

In the annual report 2010 the Supervisory Board set out the following planned points of emphasis of its work in 2011 in section 3 of the Supervisory Board report for 2010 :

a) Establishment of 1–2 joint ventures in emerging markets;
b) Rigorous pursuit of the "PULSION 100/70/20" project
c) Creating the prerequisites for closing the innovation gap.

1.2.1 Establishment of 1–2 joint ventures in emerging markets

The task of dealing systematically with the establishment of joint ventures was adrressed and the necessary organizational structure with the recruitment of a manager with effect put in place April 1, 2011. Consequently, 3 projects were identified which were presented to the Administrative Board for their assessment during the course of 2011.

One of those projects – PULSION Medical Systems, Mexico – was realized in June 2011. Working together with a strong local partner, the new subsidiary can call on a direct sales organization comprising 6 field staff with many years' experience of selling products to intensive care units. In the second full year after foundation – i. e. 2013 – we are aiming to sell at least 2,000 catheters and probes.

The Administrative Board also gave its approval to the proposal to set up a direct distribution channel in Turkey. The subsidiary was founded mid-2011 and is expected to generate its first revenues in 2012.

The third project -- to set up a joint venture in a BRIC country -- was deferred to a later date after considering all risks. For the time being, PULSION will enter into this market working together with a highly successful distributor.

We start the year 2012 with a good pipeline.

For that reason, we give the mark "**very good**" for this point.

1.2.2 Rigorous pursuit of the "PULSION 100/70/20" project

This project, first defined in 2006, has three targets:

a) sales revenue of US-$ 100 million
b) a gross margin of 70%
c) an EBIT margin of 20%.

It is essential for PULSION to reach the **revenue target** of US$ 100 million / EUR 65 million in the medium term because medical technology is very much a global business and more critical mass is needed to establish a global presence. With a reported sales revenue growth of only 4.6 % (or 8.6% on a comparable basis) in 2011, we failed to make any substantial progress towards achieving those targets.

The **gross margin**, at 69 %, improved significantly compared to the previous financial year (64 %). This was achieved mainly through progress made on the cost side rather than through selling price increases. Despite this performance, we were still short of our target gross margin of 70 %.

The **EBIT margin** in 2011 was 20.5 %, thus exceeding the target margin of 20 % for the first time. The highest level achieved previously was 14.5 %, making this a significant improvement. The Administrative Board has made sure that the improvement was achieved primarily through revenue growth and by honing in on operational reserves, without in any way cutting back on underlying structures.

We consider that margin levels of 70 % for gross margin and 20 % for EBIT are sustainable and can be maintained in the long term as minimum levels.

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

1.2.3 Creating the prerequisites for closing the innovation gap.

In 2011 the Administrative Board focused on identifying the reasons for PULSION's unsatisfactory performance in the area of innovation; as an intermediate result of our investigations transparency in this area has increased.

A number of individual and organizational changes have been initiated as a result of our findings. In the course of these changes, the Executive Director previously responsible for this area left the company and a successor is currently being sought.

Tangible improvements in the relevant processes are not expected until 2012. Due to long lead times, it is likely to take until 2013 to see improved outputs.

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

1.3 Due process

During the financial year 2011, the Administrative Board carried out all its tasks in accordance with the law, the Company's statutes and its own terms of reference; it assured itself of the proper management of the Company by the Executive Directors, monitored the activities of the Executive Directors on a regular basis and supported them in an advisory capacity.

In all, 9 meetings were held, 6 of which were attended in person and 3 were telephone conferences. The Administrative Board was directly involved in decisions of fundamental importance to the enterprise. Any business transactions requiring approval were examined, discussed and authorized by the Administrative Board.

As Chairman of the Administrative Board, I the undersigned and my colleagues, kept in regular contact with the Executive Directors in addition to scheduled meetings to discuss major issues and forthcoming decisions.

The Administrative Board has set itself the task of deepening its understanding of individual aspects of the organization both from the meetings described above and through ad-hoc contacts. We also wish to take up direct contact with employees and with existing and potential customers in order to obtain an "unfiltered" view of the situation. We have accordingly allocated ourselves the following tasks:

a) I did not manage to achieve this task as planned in 2011 since I did not spend a single day with the sales field staff. In previous years, visits to sales companies and customers always provided useful insights and highlighted potential improvements. I undertake to spend five days with sales companies and customers in 2012, two of which have already been realized.

b) My deputy, Jürgen Lauer, oversees financial reporting, accounting and HR. During 2011, in addition to the meetings of the Administrative Board, he also attended several meetings with the Executive Directors held with the Company's external auditor and tax advisers. He also performed an HR audit.

c) Frank Fischer oversees PULSION's business in the USA. Many changes took place over the course of 2011 and it would make sense to visit the USA at the beginning of 2012 to address the situation there.

It became evident in 2011 that the Administrative Board needs another member to get to grips with innovation management and draw up a first-hand picture of PULSION's activities in this area. We are therefore looking for another member to take on this task, preferably one with an international background.

2. Corporate Governance

2.1 2.1 Actively practised corporate governance

At this stage of the previous year's report, I set out my thoughts on corporate governance and explained the composition of the Supervisory/Administrative Board.

In 2011 it became very clear that one – even the main – aspect of corporate governance is **the way communication and discussions are conducted between the Administrative Board and Executive Directors.**

As reported in the introduction, communication and discussions at PULSION improved in 2011 and moved in the direction of "openness" and "intellectual honesty". **Openness** means that the Administrative Board is comprehensively informed of all developments by the management/Executive Directors, without having to be prompted to do so. **Intellectual honesty** means, above all, that information is passed on "unfiltered". In this context, we have also tried to cultivate **constructive criticism** – making it possible to admit to mistakes in order to learn from them.

I believe that these three characteristics of communication and discussion – **openness, intellectual honesty and the cultivation of constructive criticism** – are absolutely essential for an organization that is willing to learn and wishes eventually to reach the top. This is the joint mission of the Administrative Board and Executive Directors. This approach also helps to defuse the typical corporate governance issue of potential conflict between management and owners.

2.2 Compliance with the Corporate Governance Code

PULSION's approach to the Corporate Governance Code remains unchanged and can be summarized as follows:

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

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

For a list of divergencies and the reasons for them, we refer to the Declaration of Compliance dated December 23, 2011 published on the PULSION website (www.pulsion.com).

3. Focus of the Administrative Board's work in 2012

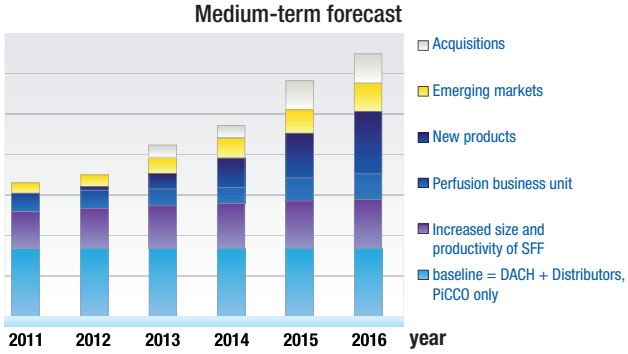
The Administrative Board will seek discussion with the Executive Directors in 2012 on the following main issues:

3.1 Acceleration of revenue growth rate to a minimum of 10 % p.a. – project P5

In 2011, the Administrative Board and CEO reviewed the medium-term forecast again for the years to 2016 and underpinned it with specific measures. The provisional result of the project, which goes by the name "P5" within the company, is that revenue will grow steadily, culminating in the following revenue targets in the year 2016:

a) from organic growth, i.e. without acquisitions: EUR 50–60 million,
b) including acquisitions and adjusted for exchange rate changes: EUR 60–65 million.

The key figures are shown in the diagram on this page.



As can be seen in the diagram, growth comes from five different sources, namely
a) innovations in the field of Critical Care
b) growth in emerging markets
c) expansion of the direct sales organization and improved productivity of the sales field force in Europe, the USA and Japan
d) growth within the Perfusion business unit
e) acquisitions.

Over the course of 2012, the Administrative Board intends to go through the forecasts with a fine tooth comb with a view to confirming whether they are realizable, identifying and eliminating bottlenecks and, above all, improving planning security. Results for the financial years 2010 and 2011 show that current management is able to manage EBIT and cash flows well. The aim now is to achieve the same degree of accuracy for revenue.

3.2 Improvement of innovation management; innovation rate of 20 % in 2013

The largest source of growth in the medium-term forecast through to 2016 is the successful market launch of innovative products, both in our core Critical Care business unit and in the Perfusion.

The Administrative Board and the Executive Directors will therefore place the highest priority on this issue in 2012 and endeavour to create the prerequisites for achieving the targets set. The first signs of progress will be an improved product pipeline. The planned revenue increase from innovations in 2012 is set to come from PULSION's new products, PulsioFlex® and ProAQT®, which were launched in 2011.

We will therefore only be able to make qualitative statements in 2012 on the extent to which we have achieved our targets. As a measurable interim target, the medium-term forecast shows an innovation rate **– i. e. the proportion of products which are up to 5 years old – of 20 %.**

3.3 HR – increasing employee loyalty; reducing employee fluctuation in the field sales force

We will only be able to achieve our medium-term targets if we can substantially reduce the employee

fluctuation rate in the field sales force from its recent level of 35 %. A fluctuation rate of 35 % means that one-third of our customers have to deal with a new contact person from PULSION over the course of a year. This makes it difficult to build up a good business relationship and achieve the level of trust that we strive for in our dealings with customers.

By the same token, it also means that one-third of the PULSION's field sales force has to build up a relationship of trust with their customers. Experience shows that it takes about 12 months to reach the level of revenue taken over and that revenue growth generally only comes in the second year.

We are discussing a range of measures with the Executive Directors with a view to bringing down the employee fluctuation rate significantly. By the end of 2012 we are hoping to achieve an intermediate rate for the field sales force of less than 25 %. **We will comment in the next Annual Report on the progress made towards achieving this aim.**

4. Changes in composition of representative bodies

They were no changes in the composition of PULSION's Supervisory/Administrative Board in 2011.

There was one change at the level of the Executive Directors: Christoph Manegold ceased to be an Executive Director on September 30, 2011. Mr. Manegold had been member of the Management Board since mid-2009 with responsibility for R&D and Operations. The Administrative Board would like to express its thanks to Mr. Manegold for his hard work on behalf of the Company.

We hope that we will be able to present a successor during the first half of the current year.

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 SE, as well as the Company and Group management reports. The auditors described the relevant auditing principles in their Auditors' Report.

They concluded that PULSION SE and its subsidiaries complied with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (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 Administrative Board. The relevant documents were discussed in detail at the Administrative meeting held on March 20, 2012, in the presence of the external auditors.

The Administrative 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 20, 2012, the Administrative Board concurred with the results of the external audit. The annual and consolidated financial statements prepared by the Executive

Directors are thus approved and the annual financial statements adopted in accordance with § 172 AktG (German Stock Corporation Act). The Administrative Board agrees with the management report and the assessment of the enterprise's position and future development presented therein.

6. Risk management

The Administrative Board deliberated on the Company's risk management system again during the financial year 2011. The risk management system was also tested in conjunction with the external audit of the annual financial statements. The Administrative 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 to draw up a Dependent Company Report. The Executive Directors prepared the Dependent Company Report in accordance with § 313 AktG. The report was audited by PricewaterhouseCoopers AG 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 to a conclusion different to the one reached by the Executive Directors.

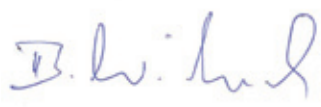
The Administrative Board examined the Report on Relationships with Affiliated Companies (Dependent Company Report) and approved it in accordance with § 324 AktG. The Administrative Board had no objection to the report and the conclusion reached by the Executive Directors.

8. Thanks to our shareholders and employees

The Supervisory Board would like to thank PULSION's shareholders for the trust they have placed in the Administrative Board. The Company has had its two successive record-breaking years. The Company's share price increased during the year under report by 25%, thus easily outperforming the index as a whole.

We would also like to thank all employees for the commitment shown in 2011. They have demonstrated that they can take PULSION to an earnings level with which it can join the "world league" for medium-sized medical technology companies. They have also shown our competitor, Edwards Lifesciences, that PULSION is and remains the gold standard in the field of hemodynamic monitoring. The willingness of our employees to perform will take PULSION on to even greater heights!

Munich, March 21, 2012



Dr. Burkhard Wittek, Chairman of the Administrative Board

Group Management Report

Review of the Financial Year

Summary

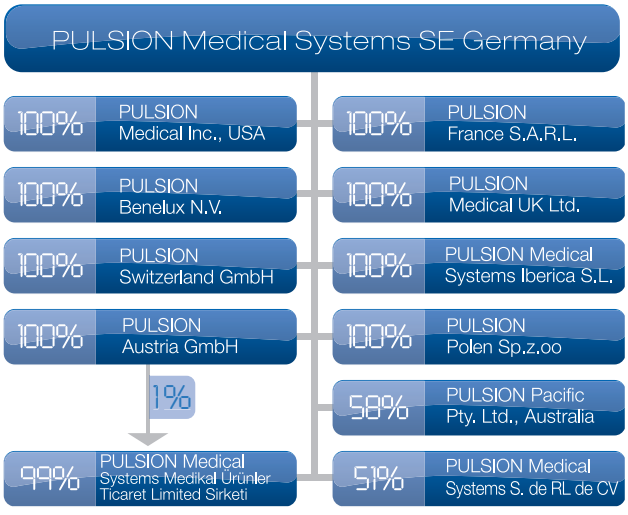
- Sales revenue up by 4.6 % (excluding exchange rate impact and one major order in the previous year: 8.6 %)
- Gross margin percentage higher than in the previous year, when it was influenced by one major order, write-downs on inventories and impairment losses
- EBIT up by EUR 2.2 million (+48 %) from EUR 4.6 million to EUR 6.8 million.
- Foundation of subsidiary companies in Mexico and Turkey.
- PULSION Medical Systems AG becomes PULSION Medical Systems SE
- Market launch of PulsioFlex® and ProAQT®-Sensor

PULSION Group revenues increased from EUR 31.5 million in 2010 to EUR 32.9 million in 2011. Profit before interest and taxes (EBIT) rose by EUR 2.2 million (+48 %) from EUR 4.6 million to EUR 6.8 million and the EBIT margin improved from 14.5 % to 20.5 %. Net profit for the year attributable to the shareholders of PULSION SE rose from EUR 2.8 million to EUR 4.7 million. Earnings per share jumped from EUR 0.30 to EUR 0.51.
Revenues of the Critical Care business unit, with its core product PiCCO®, climbed by 3 % from EUR 27.2 million in 2010 to EUR 27.9 million in 2011 while revenue of the Perfusion business unit grew by 17 % from EUR 4.3 million to EUR 5.0 million. The Perfusion business unit generates most if its revenues with the group's own diagnostic agent, of indocyanine green, which is sold under the name ICG-PULSION®.
The gross margin in 2011 was 69.0 % (2010: 63.8 %). Compared to the previous year, the cash flow from operating activities increased by EUR 2.5 million to EUR 8.5 million. Cash used to buy back own shares amounted to KEUR 882.

In accordance with the resolution taken at the Annual General Meeting on May 26, 2011, PULSION Medical Systems AG was converted in June 2011 into a European Corporation (Societas Europaea) and changed its name to PULSION Medical Systems SE.

Group structure

The PULSION Group comprises PULSION Medical Systems SE, 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:



The foundation of PULSION Medical Systems S. de RL de CV, with its registered office in Mexico City, Mexico, was certified by contract dated April 1, 2011.

PULSION Medical Systems SE holds a 51% interest in this entity, which was entered into the local commercial register on June 1, 2011.
A subsidiary was also founded in Turkey in 2011, with PULSION Medical Systems SE and PULSION Austria GmbH holding 99 % and 1 % of the shares respectively. PULSION Medical Systems Medikal Ürünler Ticaret Limited Sirketi was entered into the commercial register in Istanbul on September 27, 2011.

PULSION Medical Systems SE, Munich also holds a minority interest of 25 % in KI Medical Services Ipari es Kereskedelmi Korlatolt, Felelossegu, Hungary. Liquidation proceedings commenced in 2005 are being delayed because of local audits. Based on the latest information, it is not possible at present to predict when the liquidation will finally be completed. These local audits are not expected to give rise to any obligations for PULSION Medical Systems SE.

Financial Report

General and sector business environment

The global economy continued to perform well in 2011 as expected, driven primarily by strong demand from Asia. Germany was particularly successful in consolidating its position as one of the world's leading export nations.
After another year of above-average growth (+3%) in 2011 – achieved on the back of both investment and consumer spending – expectations for 2012 diverge. The impact of the current financial crisis and the related restrictions on public sector budgets will definitely hold down demand in neighboring countries in Europe. The OECD is therefore only predicting growth of 0.6 % for Germany (source: OECD Economic Outlook No. 90). By contrast, the Business Climate Index published by the IFO Institute in January 2012 indicated once again that business expectations are improving (source: ifo Business Climate Index January 2012).

In the majority of OECD countries, per capita health expenditure grew more quickly than gross national product (GNP) in 2011; the average rate of increase since 2000 has been twice as rapid as growth in GPD in the respective countries (source: OECD – Health at a Glance)
Current predictions for the German medical technology sector also envisage positive developments for the future, driven in particular by rising income and population figures in the developing countries and emerging markets (Brazil, China and India) as well as the demographic ageing process in industrial nations. The risk of a negative impact on PULSION, due to cutbacks in countries where healthcare depends on governmental subsidies cannot, however, be entirely ruled out over the coming years. Macroeconomic developments and public sector spending austerity measures in numerous euro zone countries will be the main factors determining the level of growth in 2012.

Organization

PULSION's corporate strategy is supported by two pillars: innovative strength and selling prowess. Innovative strength was improved in 2011 by the creation of a medical department within the company to provide the strategic link between opinion leaders, sales and development.
The number of clinical application specialists was raised from one to two in order to meet the need for more customer training and coaching and also to support our sales companies. Product management has become more project-based and cross-departmental, allowing market-side ideas and suggestions to be more directly integrated into R&D activities.

The strategy of focussing on sales staff with a medical background continued to pay off in 2011. A training program was developed and initiated in 2011 which also aims to strengthen the selling skills of sales staff. During this program, sales staff receive in-depth selling training in 7 modules. The response from sales staff

has been highly positive and the program has been well received. Plans are now underway to extend the training program to all subsidiaries. This has already been done at two companies. In addition, an electronic training platform will be made available in 2012 to provide ongoing in-depth medical and application-relevant knowledge. Employees can spend time on their own training in an access-protected website, where they have the opportunity to expand and test their skills and expertise.

With effect from October 31, 2011, Christoph Manegold left the Company. He had been the Executive Director responsible for development, production, quality assurance and approvals; this position will be filled as soon as possible, until which time development activities will be managed on an interim basis.

Revenues

In the financial year 2011 revenues rose by 4.6 % to EUR 32.9 million (2010: EUR 31.5 million). This represented a significant slowdown compared to the previous year, when growth of 11.2 % was recorded. Adjusted for exchange rate factors, sales revenue went up by 4.2 %.

When comparing sales revenue on a year-on-year basis, it should be taken into account that the figure for 2010 included sales revenue of EUR 1.2 million relating to a tender transaction which was supported by public sector funds. Excluding this transaction, sales revenue grew by 9.0 % in 2011 (8.6 % adjusted for exchange rate factors).

Sales revenue by business unit

PULSION is organized into two business units:

a) the Critical Care business unit which focuses on systems used for hemodynamic montoring. The Group's main products are PiCCO$_2$® and PulsioFlex® monitors, as well as PiCCO® catheters, CeVOX® and ProAQT® disposables.

b) The Perfusion Imaging business unit which bundles products and systems relating to diagnostics and therapy management of organ and tissue perfusion, in fields such as ophthalmology, surgery and hepatology. The principal products are PDE and the LiMON® module monitors as well as the disposable product, indocyanine green (ICG-PULSION®).

The Critical Care business recorded growth of only 3 % in 2011, compared to 11 % one year earlier. The table shows that the main factor here was the 10% decrease in sales revenue generated with monitor sales. By contrast, Critical Care sales revenue from disposables grew by 7 %, compared with 9 % in the previous year.

As explained earlier, monitor sale revenue in 2010 included a tender transaction subsidized by public sector funds. Excluding this tender transaction, sales revenue from monitor sales in the Critical Care business unit grew by 6 %. This was an improvement over the sales performance in 2010, when sales revenue fell slightly on a comparable basis.

The Perfusion business unit recorded a 17 % increase in sales revenue, with growth driven also by the diagnostic agent ICG PULSION. The distributor in Italy and the subsidiary in the USA contributed greatly towards this increase.

Sales revenue by product

in EUR million		2011	2010	Change in %
Monitors	Critical Care	6,6	7,4	-10%
	Perfusion	0,3	0,4	-31%
Disposables	Critical Care	21,3	19,8	7%
	Perfusion	4,8	3,9	22%
Total	Critical Care	27,9	27,2	3%
Total	Perfusion	5,0	4,3	17%
Total		**32,9**	**31,5**	**4,6%**

Broadly speaking, 2011 saw a further shift in the sales mix towards disposables. As a result of the 10 % increase in revenues from disposables, their percentage share of sales revenue climbed from 75 % in 2010 to 79 % in 2011. The percentage share is likely to continue to rise as PiCCO® technology is integrated into more and more monitoring systems manufactured by partners such as Philips.

By far the most important product family of PULSION is the PiCCO® system, which consists of a monitor and a range of catheters. This product group accounted for approximately 82 % of sales revenue in 2011, compared to 78 % in the previous year.
Sales volume of the main product (PiCCO® catheters) was increased by 8 % to approximately 125,000 units. The installed base of PiCCO® monitors rose by 10 % to approximately 7,500 monitors.

Furthermore, the number of PiCCO® modules placed on the market via PULSION's strategic sales partners (Philips Medical Systems and Dräger Medical), increased by some 2,000 units to approximately 20,500 modules at the end of 2011 (+14 %).

PULSION's second largest product group is ICG, which is marketed by the Perfusion business unit. Revenue from sales of ICG-PULSION® and other disposables grew by 22 % to EUR 4.8 million. This was partly due to the order pattern of European distributors, but also to some extent reflects better market penetration, particularly in the USA.

Sales revenues by region:

Region	2011 KEUR	2010 KEUR	Change 2010 - 2011
DACH*	14,966	13,956	7 %
Western Europa (ex DACH)	11,399	11,044	3 %
Eastern Europe	971	1,940	-50 %
USA	1,592	1,577	1 %
Japan	543	517	5 %
Latin Amerika	155	62	150 %
Asia Pacific (ex Japan)	2,665	1,962	36 %
ROW**	658	434	52 %
Total	**32,949**	**31,492**	**4,6 %**

* Germany, Austria, Switzerland ** Rest of the world

The core region of PULSION's sales activities remains the DACH region (Germany, Austria and Switzerland) which accounted for 45 % of sales revenue in 2011. The penetration rate of our main product PiCCO® is highest by quite a long distance in this region and sales revenue from this product increased by a further 7 %, mostly thanks to our highly experienced and committed sales field force.

Sales revenue in the Western Europe region (excluding DACH) grew by 3 %, above all thanks to the performance of our Benelux subsidiary – which reported a KEUR 284 (+19 %) increase in sales revenue – and our distributor in Italy.

The drop in sales revenue in the Eastern Europe region was due to the effect of the one-time tender transaction in 2010 which increased sales revenue in that year by EUR 1.2 million. Excluding this transaction, sales revenue in the region grew by 31 %.

Sales revenue in the USA stagnated at an unsatisfactorily low level. The sales organization there was first stabilized and then strengthened towards the end of the year following severe staff fluctuation during the first nine months of the year.

Together with our distribution partner, we recorded growth of 5 % in Japan in 2011.

Encouraging growth on the Latin American market, albeit from a low base, is mainly attributable to the cooperation arrangements in place with our partner in Brazil. The new subsidiary in Mexico should generate a significant level of sales revenue from 2012 onwards.

Performance in the Asia-Pacific region (excluding Japan) was dominated by the growth of nearly 36% achieved by our Chinese distributor. By contrast, sales revenue of our own subsidiary in Australia stagnated at a level similar to that of the previous year.

Taking the last three groups in the chart above as an approximation of our performance on emerging markets, we increased the percentage share of sales revenue generated by PULSION in emerging markets in 2011 to 11 %. As an intermediate target, we now wish to raise this to 15 %.

Sales revenue by distribution channel

Distribution Channel	2011 KEUR	2010 KEUR	Change 2010 - 2011
Direct	24,717	23,079	7,1 %
Majority-owned subsidiaries	528	529	-0,2 %
Distributors	7,704	7,884	-2,3 %
Total	**32,949**	**31,492**	**4,6 %**

Our declared aim is to expand our international business in all major and potentially large markets through direct sales. We will achieve this target either through our own sales companies or through joint ventures with local partners.

Direct business comprises our wholly-owned subsidiaries in Europe and the USA. These entities grew at a slightly better-than-average rate of 7.1 % in the year under report. A subsidiary was founded in Turkey in November 2011.

The category “majority-owned subsidiaries” currently comprises the companies in Australia and Mexico (the latter founded in June 2011). Business in these countries stagnated in 2011. The necessary product approvals for Mexico are expected to be received in the early part of 2012, before which no sales revenue will be generated on this market.

Adjusted for the tender transaction in 2010 amounting to EUR 1.2 million, worldwide business generated via distributors grew by 15.3 %. A significant contributing factor for this was the KEUR 600 of sales revenue recorded in China.

Earnings performance

The gross margin improved from 63.8 % in 2010 to 69.0 % in 2011. The previous year’s margin was negatively affected by exceptional factors. If these are excluded, the comparable margin in 2010 was 65.4 %. On this basis, the operating gross margin improved by approximately 3.6 percentage points.

The gross margin improvement was partly due to a more favorable customer and product mix and partly to the reclassification of cost centers out of the production area.

Selling and marketing expenses fell slightly from KEUR 9,747 in 2010 to KEUR 9,632 in 2011. The reduction was achieved by going through all items of marketing expenditure. Over the years, a number of events, particularly in the area of marketing, had degenerated into routines without measurable outcomes. By contrast, the size of the sales field force was more or less unchanged.

Selling and marketing costs as a percentage of revenues in 2011 were 29.2 % compared to 31.0 % one year earlier. We consider a selling cost ratio of just below 30 % is just about right and a desirable target in the medium-term.

At KEUR 3,036, research and development expenses were KEUR 609 or 25 % higher than in 2010 (KEUR 2,427). The increase was mainly due to a more prudent approach to capitalizing development costs: in 2011, the minimum permitted by IFRS was capitalized.

Actual R&D expenditure – adjusted for capitalized R&D costs – developed as follows:

	2011 KEUR	2010 KEUR
R&D expense per income statement	3,036	2,427
Add back amounts capitalized	514	1212
R&D expenditure before amounts capitalized	3,550	3,639

Based on R&D expenditure before amounts capitalized, the R&D ratio (expenditure as a percentage of sales revenue) was 10.8 % in 2011 compared to 11.6 % one year earlier. Our target ratio before capitalization of development costs is 10 %.

General and administrative costs went down from KEUR 3,956 in 2010 to KEUR 3,597 in 2011, giving a cost ratio of 10.9 % (2010: 12.6 %). For this performance, we have to thank all employees who contributed to raising the efficiency of business processes in this area. Our target remains a ratio of below 10 %.

Adjusted for allowances on receivables in Spain amounting to KEUR 313, total operating expenses net (i.e. offset against other operating income) decreased by KEUR 61 from KEUR 15,581 in 2010 to KEUR 15,520 in 2011.

Overall, the Group recorded an operating profit (EBIT) of KEUR 6,761 – an improvement of KEUR 2,186 on the previous year (KEUR 4,575). The EBIT margin for the year 2011 was 20.5 % compared to 14.5 % a year earlier.

Group net profit after minority interests for the year jumped by 60 % from KEUR 2,853 to KEUR 4,569, and therefore rose much faster than EBIT, reflecting a sharp decrease in the effective tax rate. This came about primarily as a result of the fact that almost all subsidiaries have in the meantime become profit-making. In other words, the accounting profit before tax is no longer the same as taxable profit in some subsidiaries and non-offsettable losses in others.

Earnings per share in 2011 amounted to EUR 0.51, up 70 % compared to the previous year's EUR 0.30. This improvement, which was faster than the increase in net profit, was attributable to the fact that share buybacks reduced the number of shares in circulation by approximately 7 %.

Net assets and financial position

Financial performance indicators

The group balance sheet total went up by 16 % from EUR 25.7 million at the end of the previous year to EUR 29.7 million at December 31, 2011.

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

Performance Indicator	Basis of computation	Units	2011	2010	Change
Days of Sales Outstanding	Trade accounts receivable *360 days / Sales	days	65	60	8%
Inventory turnover	Cost of sales / Average level of inventories		1.9	2.1	-7%
	Average level of inventories / Cost of sales	days	189	168	12%
First grade liquidity	Cash funds * 100 / Current liabilities	%	120	84	43%
Equity ratio	Equity / Balance sheet total	%	71	67	6%
Fixed asset coverage	Equity / Fixed assets		2.3	1.8	28%
Cash and cash equivalents*	Cash on hand and at bank	EUR m.	8.8	4.9	80%
NetWorking Capital	Current assets less cash and cash equivalents less current liabilities	EUR m.	5.2	5.6	-7%

On the assets side of the balance sheet, non-current assets totalled EUR 9.3 million and were thus slightly lower than their level of EUR 9.5 million at the end of the previous year. Intangible assets went down by EUR 0.2 million, while property, plant and equipment were almost unchanged at EUR 5.0 million.
Current assets rose sharply (up by EUR 4.2 million), mainly reflecting a EUR 3.9 million increase in liquid funds. Trade accounts receivable increased in 2011 by KEUR 659 to KEUR 5,927 (2010: KEUR 5,268), as a result of which the number of sales days outstanding increased to 68, compared to 60 days at the end of 2010. This deterioration mainly reflects increasingly slow payment in southern Europe, affecting our own sales company in Spain and also distributors in the respective regions.

The Company has reacted to this situation by tightening up its payment reminder system.
Inventories stood at KEUR 5,247 at December 31, 2011, and hence KEUR 251 lower than one year earlier. Inventories on hand at the end of the reporting period corresponded to 189 days of production costs (2010: 168 days). After several years of bringing down the number of days of inventory on hand, 2011 saw an increase in this performance indicator.
On the equity and liabilities side of the balance sheet, liabilities increased overall by EUUR 0.1 million from EUR 8.5 million to EUR 8.6 million. Deferred tax liabilities (net) decreased by EUR 0.9 million to EUR 1.1 million.
Within current liabilities, trade accounts payable decreased during 2011 by a further KEUR 599 to KEUR 1,440. 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 84 % at the end of 2010 to 120 % at December 31, 2011.
Equity increased in 2011 by EUR 3.9 million from EUR 17.2 million to stand at EUR 21.1 million at December 31, 2011. The equity ratio improved from 67 % to 71 %.

Net liquidity

Cash and cash equivalents amounted to KEUR 8,758 at December 31, 2011. Net liquidity – defined as liquid funds less bank, financial and lease liabilities – totalled EUR 8,313 million at December 31, 2011. The equivalent figure at the end of the previous year was KEUR 4,147.

Balance sheet structure

The equity ratio improved from 67% at the end of the previous year to 71 % at December 31, 2011. As with net liquidity, the improved ratio provides a strong basis for generating sustainable earnings.

Financial position

The Group manages cash flow on the basis of the key performance indicator “free cash flow”, i.e., the cash inflow from operating activities less the cash flow resulting from changes in net current assets and the cash outflow for investing activities – but before acquisitions. Cash flows for the periods under report are disclosed in the notes and commented on below.

Cash flows from operating activities before changes in net current assets increased to KEUR 8,463 in 2011 (2010: KEUR 6,024), reflecting the increase in net profit for the year.

By contrast, changes in net current assets resulted in a cash outflow of KEUR 1,783 in 2011, compared with a cash inflow of KEUR 498 in the previous year. The net cash outflow increased significantly during the fourth quarter as a result of the worsening debt crisis in southern and eastern Europe. The measures undertaken to counter these developments have been described above.

Overall, cash flow from operating activities after changes in net current assets went up in 2011 by only KEUR 157 to KEUR 6,680 (2010: KEUR 6,523).

Cash outflows for investing activities totalled KEUR 1,545 in 2011, and were therefore TEUR 647 lower than in the previous year. This decrease was entirely attributable to the lower amount of capitalized R&D costs.

Investment to place monitors – which forms the basis for future sales revenue with disposables – was increased by 19% to KEUR 1,040 (2010: KEUR 877).

Free cash flow increased in 2011 by KEUR 804 to KEUR 5,135 (2010: KEUR 4,331).

The free cash flow conversion rate (EBIT / free cash flow) was 76 % and hence once again better than our internal target of 70 %.
The cash flow from financing activities was influenced to a large degree in 2011 by disbursements to buy back shares (KEUR 882) and repay bank credits (KEUR 290). Overall, the figure reported for 2011 was EUR 3.0 million lower than in the previous year.

Share buybacks

As a second priority, the Company uses available funds to buy back shares if the market share price is lower than its estimated innate value. We believe that the price of PULSION stock throughout 2011 did not reflect its innate value and therefore bought back shares.

In total, 189,472 shares were acquired in 2011 at an acquisition cost of TEUR 953. The share buybacks were executed as follows:

a) on March 24, 2011, the Company made a buy back offer of EUR 5.00 per share and bought back 85,362 shares tendered by shareholders.
b) In conjunction with the ongoing share buy-back program, 104,110 shares were acquired over the course of 2011 at an average price of EUR 4.95.

Of the shares bought back, 22,149 were used to

service share option programs.
At December 31, 2011, PULSION SE holds 756,162 own shares, equivalent to 7.90 % of the Company's share capital. The Company is currently planning to use these shares primarily to service option programs and any remaining shares will be cancelled.

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.

Skills and qualifications of employees: PULSION Group employees represent a key capital resource. The Company's success depends to a large extent on identifying their skills and putting them to good use. A flexible remuneration system and purposeful staff training program help to reduce know-how drift and retain skills within the Company (see also the Human Resources 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. During 2011, 5 internal audits were carried out in the areas of customer service, HR, production (disposables and monitors) and development.

Capital expenditure

Total capital expenditure in 2011 amounted to EUR 1.8 million (2010: EUR 2.9 million).

Capital expenditure related to the following:

- EUR 1.0 million was invested in monitors.
- EUR 0.6 million was invested in intangible assets including
- EUR 0.4 million on product development
- EUR 0.2 million for patents and approvals.

EUR 0.2 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 5 % (2010: 9 %).

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.
Hopes that the sales organization would stabilize in 2011 were not fulfilled and the employee fluctuation rate remained at a similarly high level to the previous year. An experienced local sales manager was recruited towards the end of the year to support and advise field sales force employees. The strategy of only selling a small number of products to selected target customers in defined regions was continued. Sales revenue rose by approximately 9 % whilst costs were reduced.

Purchasing, production, logistics

The relocation of all injection-mold processes to the Czech Republic was successfully completed in 2011. Final pre-shipment inspection tests, quality assurance and barcode-supported despatch to customers are still carried out at the Feldkirchen production site. Production outsourcing of labor-intensive production steps for CeVOX® and CiMON® probes was also completed. Sub-contractors selected to carry out the work have the necessary experience in manufacturing the products concerned, comply with relevant international quality standards and are regularly audited, so as to ensure the uninterrupted supply of components and/or sub-assemblies.
The new ProAQT® technology was successfully launched with the PulsioFlex® Monitor and the ProAQT® sensor.

Human resources

PULSION continued to invest in employee training in 2011. As described above, the focus was on training which dealt with commercial and sales topics, aimed at complementing our sales staff's already well-developed technical and medical expertise: both kinds of skill need to be combined in order to achieve success. Individually designed and targeted training measures are also available for employees. Particular attention was 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. In this context, it is worth pointing out that the first university graduate joined the newly created trainee program in 2011.

Another clear focus is on linking employee remuneration where possible to corporate targets and performance, with bonus agreements taking specific personal targets and Group EBIT into account.
The Company employed a worldwide workforce (including those employed on a low wage-earning basis) of 123 people at the end of the year (2010: 129), 5 % less than one year earlier.

Environmental care and quality management

PULSION's quality management system was again certified by Dekra Certification GmbH in 2011 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 authorities, FDA, and with the Canadian CMDCAS approval directives. PULSION is continuously improving its own quality management (QM) system.
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. In order to ensure that the whole range of R&D projects being carried out at PULSION is tightly aligned to corporate objectives, project targets have been defined, prioritized and incorporated into a timetable derived from those corporate objectives. Project managers are required to oversee the efficient execution of projects and ensure that outputs are delivered on time.

The following development targets were achieved in 2011:

1. Software / GUI

- Improved software versions for the PulsioFlex® technology platform and a new software version for ProAQT® technology. A new software version was launched to allow PiCCO® technology to be used with the PulsioFlex® device.
- New software version (3.1) launched for $PiCCO_2$® technology with improved measurement and calculation parameters. A new software version was developed for CeVOX® technology on the US market.

2. Algorithms

At the heart of the various technologies incorporated into PULSION products are a set of hemodynamic parameter computations that are performed using specially-developed algorithms. During the year under report, we improved our methodology for developing and validating computational models.

3. Disposables
One of the milestones in 2011 was the launch of the new catheter ProAQT® for use with the PulsioFlex® monitoring platform.

4. Approvals
The FDA audit of PULSION Medical Systems, first carried out in 2007, was passed in June 2011 for the second time in succession without objections.

The following approval proceedings were successfully concluded in 2011:
- $PiCCO_2$® in Argentina
- $PiCCO_2$® with CeVOX® and LiMON® module and all related disposables in Singapore
- PulsioFlex® monitor and the related ProAQT® sensor in the CE region and Australia
- PulsioFlex® with CeVOX® technology in the USA
- CeVOX® technology and probe in Japan. The CeVOX® probe was also accepted in the Japanese reimbursement program

5. Clinical development
Various medical journals have so far published more than 1,000 scientific papers and studies dealing with PULSION products or parameters derived from them. In recent years increasing emphasis has been placed on being able to quantify the benefits of medical care and define them in concrete terms; this applies particularly in the context of trying to reduce the length of time patients spend in intensive care and hospital wards.

The following studies have been underway since 2011 or earlier for which outcome-oriented results and publications should appear by the end of 2012 or the beginning of 2013:

a) a single-center study on the use of PiCCO® for patients undergoing cardiac surgery
b) an international multicenter outcome study of ProAQT® applications in the area of perioperative hemodynamic management
c) a single-center study on the use of PiCCO® in cases of sepsis

Patents and approvals
PULSION protects its intellectual property in 52 patent groups. These protection rights – either already issued or applied for – cover processes, equipment and disposable products and the various elements used in existing and future systems.

These 52 patent groups have been registered in various countries. By the end of 2011, 165 national patents (2010: 157) were in place, comprising 130 patents held by PULSION and 35 patent rights licensed to PULSION. The portfolio of protection rights was cleaned up during the year under report, primarily with a view to eliminating costs for patents that are no longer used.

Risk Report

PULSION has a comprehensive risk management and internal control system in place.

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 by the Management Board/Executive Directors, 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 potentially adverse impact. One of the prerequisites 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 lead-

ership 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 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 every six months under the leadership of the Risk Manager. The results are incorporated in PULSION's standardized risk reporting system and communicated to the Executive Directors and Administrative Board. If a risk or loss has been incurred, it is reported immediately.
PULSION's controlling system complements the risk management system with monthly and quarterly analyses/ reports containing comparisons to prior year, forecast 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 the preparation of financial statements and management report in compliance with the law are safeguarded by a whole range of procedures and internal controls. Changes in law, financial reporting standards and other pronouncements are regularly analysed to assess whether they are relevant or have an effect on the consolidated financial statements and are 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 and presentation of transactions.
- segregation of duties wherever this is possible, given the appropriate personnel structures, and economically acceptable.
- an access and authorization concept at all management levels.
- a group reporting system based on the Group Accounting Policies Manual.

Group companies prepare their financial statements locally. In some cases, transactions are recorded centrally by the parent company. The amounts shown in the subsidiaries' separate financial statements are recorded for the most part 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 group level in

order to ensure that the consolidated financial statements are properly and reliably derived from them. Thanks to well-defined structures and processes, the internal control and risk management system allows all relevant items to be recorded, processed and assessed and then presented appropriately in the consolidated financial statements. The internal control system does, however, have some inherent limitations, in particular with regard to 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 with the product Edwards EV1000 could pose a threat to the sale of disposable products for PULSION's installed base of equipment. We continue to observe the situation carefully. Also based on information available to our field sales organization, the number of EV1000 devices placed in Europe was slightly lower than PULSION's own target for fending off the competition.

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. The level of debt was reduced in 2011 in line with schedule. Based on forecasts, other than investment in product development and improvements, no major capital expenditure items or acquisitions are planned that need to be financed out of cash flow from operating activities.
If the financial market crisis results in the necessity for customers to make further savings, particularly in the area of public sector budgets, there could be 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 where product costs are reimbursed to hospitals – particularly in Brazil, China and Belgium – there is a risk that the level of reimbursements will be reduced. This leads, at best, to 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.

To the best of PULSION's knowledge, in 2011 no reductions of flat-rate product reimbursements were made in the countries listed above.
In countries with fixed-sum treatment amounts (Diagnosis Related Group systems or DRGs), such as

Germany, France or the USA, PULSION is constantly required to document that the use of PiCCO® 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 entirely discontinue their use. The situation did not noticeably worsen in 2011.

Product liability risk

Product liability has always represented a substantial risk for enterprises in the MedTech and life science sector, since in the worst case, products can cause physical damage or injury to patients which, in turn, may 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 2011.

Product approvals

Very strict approval regulations apply in the MedTech and pharmaceutical sectors (i.e. for ICG-PULSION®) and which can differ from country to country. It is likely that requirements will become even stricter in 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 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

Labor-intensive work for CeVOX® and CiMON® probes has been transferred to Hungary, and injection-mold production processes for the pre-assembly production of thermodilution catheters has been transferred the Czech Republic. It did not make good business sense to leave these production processes in Feldkirchen with the volumes currently required. Extensive due-diligence measures undertaken before the production transfer and tight monitoring of the sub-contractor processes ensure 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 72 % at December 31, 2011. Unpledged cash and cash equivalents of EUR 8.8 million and current trade accounts receivable of EUR 6.2 million also provide financial flexibility. In addition, PULSION generated a cash flow from operating activities of EUR 8.5 million in 2011. From today's perspective, the financing and liquidity situation of the Company can therefore be considered 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 countermeasures 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 business, PULSION

generally obtains payments in advance to protect the Group from 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 are public sector organizations themselves. PULSION is not exposed to significant seasonal fluctuations in its cash flows.
The interest rate risk is negligible since the Company no longer has any significant financial liabilities. As opposed to the previous year, currency risks were no longer hedged in 2011.

Patents and intellectual property

PULSION is not aware of any infringements of patents or other protected industrial rights of third parties.

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 product transportation 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 purchase and production volumes accordingly with the aid of flexible framework agreements with suppliers and a monthly update of worldwide sales forecasts (forecast management). Safety volume levels have been defined for the best-selling products in order to reduce risk in this area.

Information technologies

PULSION's daily operations depend increasingly on permanently available error-free and safe information technology solutions.
In order to minimize any resulting risks at an early stage, PULSION utilizes up-to-date hardware and software, redundant systems, virus and access protection and encryption systems to ensure the integrity of data and systems. Almost all servers run in virtualized environments.
Nevertheless, the loss of important / confidential data through Internet attacks, theft and uncontrollable events 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 in 2011.

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.
Distribution agreements were put in place with all subsidiaries in 2010 with a view to improving the liquidity position of these entities. The agreements ensure that a consistent margin can be earned by corresponding adjustments to transfer prices for monitors and disposables between the German parent company and subsidiaries.
In addition, liabilities of the Belgian and French subsidiaries owed to the German parent company were converted into equity capital. This move has no impact on the consolidated balance sheet, but does serve to improve the creditworthiness of the subsidiaries concerned and avoids the risk of any pending over-indebtedness at a local level.

In order to secure the financing of PULSION Pacific Pty. Limited and PULSION Medical UK Ltd., the parent company has agreed to defer the payment of those entities' intercompany payables until December 31, 2012.

Litigation

As a result of its international activities, PULSION is exposed to a variety of legal risks. This includes, in particular, risks relating to product liability, patent, tax and anti-trust law.
As a consequence of a settlement agreement, dated March 23, 2011, the Company no longer has any legal disputes with Dr. med. Pfeiffer.
The French subsidiary has been sued by an ex-director whose appointment was revoked in the past. A provision for the potential risk was recognized in 2009 and retained unchanged at the end of 2011 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 for monitoring critically ill patients, with the core competences "expanded hemodynamic monitoring" (cardiovascular system) and methods for monitoring vital organ functions.
- Improvement and expansion of the product range represent 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 launched during the second half of 2011. The PiCCO® module for the PulsioFlex® platform was presented at the ESICM Annual Congress (European Society for Intensive Care Medicine) in October 2011.
- 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 comprising international experts in the fields of anaesthetics and critical care medicine.
- Strong international representation via subsidiaries in France, Spain, Poland, Belgium, the UK, Switzerland and Austria, the USA and Australia, combined with a comprehensive distributor network. PULSION Mexico was founded, as planned, in April 2011 as a 51 % PULSION subsidiary. In September, PULSION Turkey was founded as a wholly owned subsidiary. Further selective expansion of PULSION's international presence is planned for 2012. 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. Nevertheless significant progress was made in 2011. The unaltered objective set for the coming year is to sharpen the focus of selling and marketing activities by taking a more potential-oriented approach to sales and by carrying out 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 founding companies 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. Personnel resources in this area were strengthened in 2011 and a suitable partner was found in Brazil. For the time being, this cooperation will be conducted on the basis of a distribution arrangement. The focus in 2012 will be on supporting the newly-founded companies.

- Strong licensing partners in Philips Healthcare, Dräger Medical, Mindray and GE Healthcare.

- Innovative strength driven forward through 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 terms on the following major projects on the basis of which growth targets can be achieved:

- Transfer of successful sales concepts to all sales companies
- Increased internationalization, primarily by founding new subsidiaries in high-potential countries (BRIC).
- Product portfolio to be improved and expanded through innovation and technology acquisitions.
- Perfusion business unit to be expanded by further approvals and new types of imaging systems.

Management plans to allocate PULSION's increased liquidity on the basis of the following priorities:

1. Acquisitions
2. Share buybacks
3. Dividends

The highest priority is attached to acquisitions, given that the company needs to close two strategic gaps in order to secure its future:

a) innovative products – as pointed out on a number of occasions, the proportion of sales revenue attributable to products less than 5 years old is too small.
b) critical mass needs to be increased in a number of regions, in particular the USA.

We are convinced that sensible acquisitions in these areas can stabilize and strengthen the company and hence significantly raise the value of the business.

The process of searching for appropriate candidates was set in motion in 2011. With two experienced investors on the Administrative Board, investment decisions can be taken quickly and capital allocated in a sensible way. We will most definitively not buy in if the potential deal does not increase the value of the business or is likely to increase PULSION's risk profile.

Outlook

Based on the assumption that there will be no major deterioration in 2012 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 PiCCO® module for PulsioFlex® (presented in 2011)
- Development and introduction of new products and opening up new fields of application
- Sales revenue increases in all regions

For 2012 the Executive Director forecasts a sales revenue increase of at least 6 % and an EBIT margin of at least 20 %. These targets are also seen as minimum levels for the year 2013 and beyond.

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, 2011 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 SE, which exceed 10 % of the voting rights, have been notified to PULSION Medical Systems SE:
FORUM European Smallcaps GmbH and other shareholders, which represent a shareholder pool, gave notice to the Company as at December 31, 2011 that they hold 48.38 % of the issued share capital of PULSION Medical Systems SE, which, based on a shareholders agreement, are attributable jointly to pool participants pursuant to § 30 (2) sentence 1 of the German Securities Acquisition and Takeover Act (WpÜG).

Appointment and removal of Executive Directors, Changes to Articles of Incorporation

The appointment and removal of Executive Directors are based on the rules contained in § 40 the Stock Corporation Act for SEs (SE-AG); changes to the Articles of Incorporation are made in accordance with Art. 9 (1) c) (ii) of the SE Regulation (in conjunction with § 133 and § 179 AktG).

Authorization to issue shares

A conditional capital of KEUR 481 was in place at the balance sheet date in accordance with shareholder resolutions taken at the Annual General Meeting which can be used to issue share options.

Authorization to buy back shares

In accordance with the shareholders' resolution taken at the Annual General Meeting on May 26, 2011, the Company was authorized in accordance with § 71 (1) no. 8 AktG to acquire up to 10 % of its then share capital as own (treasury) shares. The authorization runs for 5 years and expires on May 25, 2016.

Provisions in place in the event of a change in ownership

Service contracts with the Company's Executive Directors 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 consists of the declaration of compliance required by § 161 AktG, relevant information about corporate governance and a description of the work procedures of the Administrative Board and Executive Directors.

Declaration of compliance with the Corporate Governance Code

In 2011, 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 Administrative Board on December 23, 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 Administrative Board and the Executive Directors, 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 remunera-

tion paid are presented in the Compensation Report, which is part of the Management Report.

Work procedures of the Administrative Board and Executive Directors

The common objective of the Administrative Board and Executive Directors is corporate governance based on long-term value creation. In order to achieve this objective, the Administrative Board and Executive Directors work together closely in the interests of the enterprise. The Executive Directors manage the Company's business and represent the Company both judicially and extra-judicially. The Administrative Board governs the Company, defines the principles of its activities and supervises their implementation. Extensive disclosures on corporate governance practises at PULSION SE can be found in the Corporate Governance Report on www.PULSION.com.

Compensation Report of the Executive Directors and Administrative Board

Compensation system for Executive Directors

The Administrative Board determines the total remuneration of the individual Executive Directors, finding a reasonable balance between their duties and the work performed and the Company's economic position. The total remuneration of the Executive Directors 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. The Executive Directors are also entitled to a company car. As a long-term incentive, the Executive Directors also receive options on PULSION stock in conjunction with the existing stock option programs. Full details of the remuneration of each individual Executive Director are provided in the notes to the consolidated financial statements. During the year under report, no share options were granted to the Executive Directors.

Compensation system for the Administrative Board

In accordance with the Company's Articles of Incorporation, the Administrative Board is made up of three members. The remuneration of the Administrative Board comprises a fixed component and a corporate performance-related component. Members of the Administrative Board are also reimbursed expenses and liability insurance premiums.

In conjunction with the conversion of PULSION Medical Systems AG into an SE, the remuneration of the Administrative Board was amended in the Articles of Incorporation. The fixed remuneration (basic remuneration) amounts to EUR 12,500 for a member (previously: EUR 10,000), EUR 18,750 for the Deputy Chairman (previously EUR 15,000) and EUR 25,000 for the Chairman (previously EUR 20,000). Administrative 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 performance-based remuneration is calculated as follows: if the Group's EBIT margin as per the consolidated financial statements (EBIT as a % of group sales revenue) is at least 15.0 % but less than 20.0 % for the relevant financial year, each Administrative 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 each individual member of the Administrative Board for the financial year 2011 are provided in the notes to the consolidated financial statements.

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

Dependent Company Report

Since a control agreement is not in place with the majority shareholder, the Executive Directors of PULSION Medical Systems SE were required to prepare a report on relationships with affiliated companies pursuant to § 312 of the German Stock Corporation Act (AktG). In this report, all relationships with the shareholder pool around FORUM European Smallcaps GmbH and with entities belonging to the PULSION Group have been considered. The Executive Director confirms pursuant to § 312 (3) AktG that PULSION Group entities have, on the basis of the circumstances of which the Executive Directors was aware at the time when the legal transactions were carried out, received adequate consideration for every legal transaction, and that PULSION Group entities have not suffered any disadvantage as a result of the fact that measures have or have not been carried out.

Events after the end of the reporting period

In January 2012 amounts receivable by PULSION Medical Systems SE from PULSION Medical Inc. USA relating to trade receivables (EUR 2,687,523.14), loan receivables (EUR 2,584,159.65) and interest receivables for these two items (EUR 2,256,173.73) were transferred to additional paid-in capital at the level of PULSION Medical Inc., USA. This measure creates a solid financial basis for the US subsidiary.

Forward-looking Assertions

These consolidated financial statements contain assertions that refer to the future performance of PULSION Medical Systems SE and to economic and business conditions and developments. These assertions represent estimations made on the basis of information available 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.

Munich, March 19, 2012
PULSION Medical Systems SE

Patricio Lacalle
Executive Director

Consolidated Balance Sheet

PULSION Medical Systems SE
at December 31, 2011

ASSETS		Note	Dec. 31,2011	Dec. 31,2010 adjusted*	Jan. 1,2010 adjusted*
			KEUR	KEUR	KEUR
Non-current assets	Intangible assets	12, 13	4,096	4,244	3,975
	Property, plant, equipment	14	4,987	5,041	5,246
	Investment property	16	165	182	198
	Financial assets		26	16	0
	Total non-current assets		**9,274**	**9,483**	**9,419**
Current assets	Inventories	17	5,247	5,498	5,164
	Trade accounts receivable	18	5,927	5,268	5,582
	Other current assets	19	508	634	833
	Cash and cash equivalents	20	8,758	4,851	4,749
	Total current assets		**20,440**	**16,252**	**16,327**
	Total assets		**29,714**	**25,734**	**25,747**

* Prior year adjusted in accordance with IAS 8; further information see notes 10 and 21/22

EQUITY AND LIABILITIES		Note	Dec. 31,2011	Dec. 31,2010 adjusted*	Jan. 1,2010 adjusted*
			KEUR	KEUR	KEUR
Equity		21, 22			
	Share capital		9,577	9,577	9,577
	Additional paid-in capital		1,532	1,466	1,416
	Statutory reserve		1	1	1
	Treasury shares		(3,414)	(2,532)	0
	Other reserves		(813)	(858)	(421)
	Accumulated profit/deficit		14,112	9,543	6,690
	Minority interests	11	102	1	356
	Total equity		**21,097**	**17,198**	**17,619**
Non-current liabilities	Provisions	23	184	210	205
	Liabilities to banks	24, 25	24	414	704
	Other liabilities	24, 27	0	69	76
	Deferred taxes	10	1,100	2,036	823
	Total Non-current liabilities		**1,308**	**2,729**	**1,808**
Current liabilities	Provisions	23	401	403	910
	Liabilities to banks	24, 25	421	290	924
	Trade accounts payables	26	1,440	2,039	1,513
	Lease liabilities		0	0	69
	Taxes payables	10	2,322	294	110
	Other liabilities	24, 27	2,725	2,782	2,794
	Total current liabilities		**7,309**	**5,807**	**6,320**
	Total equity and liabilities		**29,714**	**25,734**	**25,747**

* Prior year adjusted in accordance with IAS 8; further information see notes 10 and 21/22

Group Income Statement PULSION Medical Systems SE For The Financial Year Ended December 31, 2011

	Note	2011	2010*
		KEUR	KEUR
Revenues	5	32,949	31,492
Cost of sales	6	(10,221)	(11,407)
Gross profit		**22,728**	**20,085**
		69,0%	63,8%
Selling and marketing expenses	9	(9,632)	(9,747)
Research and development expenses	9	(3,036)	(2,427)
General and administrative expenses	9	(3,597)	(3,956)
Other operating expenses	7, 8	(428)	(90)
Other operating income	7, 8	860	639
Operating profit		**6,895**	**4,504**
Exchange losses		(276)	(53)
Exchange gains		142	123
Profit before interests and taxes (EBIT)		**6,761**	**4,575**
		20,5%	14,5%
Interest expenses	7	(58)	(78)
Interest income	7	14	31
Profit before taxes (EBT)		**6,717**	**4,528**
Income taxes	10	(2,055)	(1,734)
Group net profit / loss (before minority interests)		**4,662**	**2,794**
of which attributable to shareholders of the group parent company		4,569	2,853
of which attributable to minority interests	11	93	(59)
Earnings per share			
Undiluted - ordinary operations after taxes (in €)	31	0.51	0.30
Diluted - ordinary operations after taxes (in €)		0.51	0.30
Average number of shares in circulation (undiluted)		8,877,724	
Average number of shares in circulation (diluted)		8,888,003	

* Prior year adjusted in accordance with IAS 8; further information see notes 10 and 21/22

Reconciliation of Result to Total Comprehensive Income of PULSION Medical Systems SE For The Financial Year Ended December 31, 2011

IRFS	2011	2010
	KEUR	KEUR
Group net profit / loss (before minority interests)	4,662	2,794
Income and expenses directly recognised in equity	29	-268
Total comprehensive income / loss for the period	**4,691**	**2,526**
of which attributable to minority interests	77	-59
of which attributable to owners of the parent company	4,614	2,853
Total comprehensive income / loss for the period	**4,691**	**2,794**

Consolidated Cash Flow Statement PULSION Medical Systems SE For The Financial Year Ended December 31, 2011

		2011	2010*
		TEUR	TEUR
Cashflow from operating activities	Group net profit / loss after monority interests	4,569	2,853
	Minority interests	93	(59)
	- Dividends	0	(138)
	+ Amortization and depreciation of intangible assets and property, plant and eqipment	1,810	1,855
	+ Interest paid	58	78
	- Interest received	(14)	(31)
	+ Income tax	3,062	506
	+/- Changes in other assets	116	182
	-/+ Changes in other liabilities	246	344
	-/+ Changes in deferred taxes	(936)	1,213
	-/+ Changes in tax receivables / tax liabilities	(149)	(322)
	-/+ Changes in provisions	164	(501)
	- Interest paid	(41)	(85)
	+ Interest received	13	22
	- Taxes paid	(806)	(371)
	+ Taxe refund	0	65
	+/- Other non-cash income and expenses	277	414
	Cashflow from operating activities before changes in net current assets	**8,463**	**6,024**
	+/- Changes in inventories	(193)	332
	+/- Changes in receivables	(991)	(334)
	-/+ Changes in trade accounts payable	(599)	500
	Cashflow from changes in net current assets	**(1,783)**	**498**
	Cashflow from operating activities after changes in net current assets	**6,680**	**6,523**
Cashflow from investing activities	Purchase of intangible assets	(583)	(1,414)
	Purchase of property, plant and equipment (without monitors)	(179)	(622)
	Purchase of monitors	(1,040)	(877)
	Proceeds from disposal of intangible assets	73	0
	Proceeds from disposal of property, plant and equipment	132	721
	Proceeds from disposal of financial assets	52	0
	Cashflow from investing activities	**(1,545)**	**(2,192)**
	Free cashflow	**5,135**	**4,331**
Cashflow from financing activities	- Payments to found entities in Mexico, Turkey (2010: Poland)	(27)	(98)
	- Payments for repurchase of treasury shares	(882)	(2,532)
	- Purchase of minority interests	0	(780)
	+ Proceeds from raising current and non-current loans	31	0
	- Repayments of bank borrowings	(290)	(704)
	Repayments of financial liabilities	0	69
	Cashflow from financing activities	**(1,168)**	**(4,184)**
Cash funds at end of period	Decrease/increase in cash funds	3,967	147
	Cash funds at beginning of period	4,791	4.644
	Cash funds at end of period	**8,758**	**4,791**

* Prior year adjusted in accordance with IAS 8; further information see notes 10 and 21/22

Consolidated Statement of Changes in Equity of PULSION Medical Systems SE at December 31, 2011

	Subscribed Capital		Additional-paid-in capital	Statutory reserves	Own shares	Other reserves	Accumulated deficit / profit	Minority interest	Total
	Shares	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**	**KEUR**
Balance at January 1, 2010* (reported)	**9.577,302**	**9,577**	**1,416**	**1**	**0**	**-421**	**6,052**	**356**	**16,981**
Adjustment IAS 8	0	0	0	0	0	0	638	0	638
Balance at January 1, 2010* (adjusted)	**9.577,302**	**9,577**	**1,416**	**1**	**0**	**-421**	**6,690**	**356**	**17,619**
Exchange differences	0	0	0	0	0	-328	0	60	-268
Group net profit	0	0	0	0	0	0	2,853	-59	2,794
Total result of the period	**0**	**0**	**0**	**0**	**0**	**-328**	**2,853**	**1**	**2,526**
Dividends	0	0	0	0	0	0	0	-138	-138
Employee share option programs	0	0	50	0	0	0	0	0	50
Release minority interest	0	0	0	0	0	218	0	-218	0
Acquisition minority interest	0	0	0	0	0	-327	0	0	-327
Share purchase program	0	0	0	0	-2,532	0	0	0	1
Total items directly recognised in the equity	**0**	**0**	**50**	**0**	**-2,532**	**-109**	**0**	**-356**	**-2,947**
Total	**0**	**0**	**50**	**0**	**-2,532**	**-437**	**2,853**	**-355**	**-421**
Balance at December 31, 2010* (adjusted)	**9.577,302**	**9,577**	**1,466**	**1**	**-2,532**	**-858**	**9,543**	**1**	**17,198**
Balance at January 1, 2011* (adjusted)	**9.577,302**	**9,577**	**1,466**	**1**	**-2,532**	**-858**	**9,543**	**1**	**17,198**
Exchange differences	0	0	0	0	0	45	0	-16	29
Group net profit	0	0	0	0	0	0	4,569	93	4,662
Total result of the period	**0**	**0**	**0**	**0**	**0**	**45**	**4,569**	**77**	**4,691**
Dividends	0	0	0	0	0	0	0	0	0
Employee share option programs	0	0	66	0	0	0	0	0	66
Withdrawal of capital reserves	0	0	0	0	0	0	0	0	0
Allocation statutory reserves	0	0	0	0	0	0	0	0	0
Release minority interest	0	0	0	0	0	0	0	24	24
Acquisition minority interest	0	0	0	0	0	0	0	0	0
Share purchase program	0	0	0	0	-882	0	0	0	-882
Total items directly recognised in the equity	**0**	**0**	**66**	**0**	**-882**	**0**	**0**	**24**	**-792**
Total	**0**	**0**	**66**	**0**	**-882**	**45**	**4,569**	**101**	**3,899**
Balance at December 31, 2011	**9.577,302**	**9,577**	**1,532**	**1**	**-3,414**	**-813**	**14,112**	**102**	**21,097**

* Prior year adjusted in accordance with IAS 8; further information see notes 10 and 21/22

Analysis of Changes In Fixed Assets of PULSION Medical Systems SE at December 31, 2011

	Historical costs					
	Jan. 1, 2011	Translation differences	Additions	Reclassifi-cations	Disposals	Dec. 31, 2011
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Intangible Assets						
purchased intangible assets	838	1	44	0	31	852
Internally generated intangible assets	5,862	0	539	0	299	6,102
	6,700	**1**	**583**	**0**	**330**	**6,954**
Property, plant and equipment						
Technical equipment, plant and machinery	2.059	0	51	0	20	2,090
Other equipment, furniture and fittungs	7,567	4	1,162	0	445	8,288
Finance lease	0	0	0			0
	9,626	**4**	**1,213**	**0**	**465**	**10,378**
Investment property	379	0	0	0	0	379
	16,705	**5**	**1,796**	**0**	**795**	**17,711**

Analysis of Changes In Fixed Assets of PULSION Medical Systems AG at December 31, 2010

	Historical costs					
	Jan. 1, 2010	Translation differences	Additions	Reclassifi-cations	Disposals	Dec. 31, 2010
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Intangible Assets						
purchased intangible assets	747	2	184	0	95	838
Internally generated intangible assets	5,174	0	1,230	0	541	5,862
	5,921	**2**	**1,414**	**0**	**636**	**6,700**
Sachanlagen						
Technical equipment, plant and machinery	1,546	0	469	114	70	2,059
Other equipment, furniture and fittungs	8,151	158	1,030	0	1,771	7,567
Finance lease	412	0	0	-114	298	0
	10,109	**158**	**1,499**	**0**	**2,139**	**9,626**
Als Finanzinvestition gehaltene Immobilien	379	0	0	0	0	379
	16,409	**160**	**2,913**	**0**	**2,775**	**16,705**

	Accumulated depreciation and impairment						Carrying amounts	
Jan. 1, 2011	Translation differences	Additions	Reclassifi-cations	Disposals	Dec. 31, 2011	Dec. 31, 2011	Dec. 31, 2010
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
574	0	67	0	5	636	216	264
1,883	0	591	0	251	2,223	3,880	3,980
2,457	**0**	**658**	**0**	**256**	**2,859**	**4,096**	**4,244**
753	0	266	0	4	1,015	1,075	1,306
3,832	4	869	0	329	4,376	3,912	3,735
0	0	0			0	0	0
4,585	**4**	**1,135**	**0**	**333**	**5,391**	**4,987**	**5,041**
197	0	17	0	0	214	165	182
7,239	**4**	**1,810**	**0**	**589**	**8,464**	**9,248**	**9,467**

	Accumulated depreciation and impairment						Carrying amounts	
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
509	0	71	0	6	574	264	238
1,437	0	689	0	243	1,883	3,980	3,737
1,946	**0**	**760**	**0**	**249**	**2,457**	**4,244**	**3,975**
619	0	142	16	24	753	1,306	927
3,979	150	937	0	1,233	3,832	3,735	4,172
265	0	0	-16	250	0	0	147
4,863	**150**	**1,079**	**0**	**1,507**	**4,585**	**5,041**	**5,246**
181	0	16	0	0	197	182	198
6,990	**150**	**1,855**	**0**	**1,756**	**7,239**	**9,467**	**9,419**

Notes to the Consolidated Financial Statements

1. Business and nature of operations

PULSION Medical Systems SE, which has its registered office at 81829 Munich, Joseph-Wild-Straße 20, Germany, (hereafter also referred to as "PULSION", "PULSION SE", "PULSION Group" or the "Company") was established in 1990 and has been listed on the Prime Standard of the Frankfurt Stock Exchange since June 2001. 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 (2010: 126) people worldwide as of December 31, 2011, of whom 92 (2010: 93) worked at PULSION SE's headquarters in Munich and production location in Feldkirchen.

The consolidated financial statements for the year ended December 31, 2011 were released by the Executive Director on March 19, 2012 for approval by the Administrative Board.

2. General comments

The consolidated financial statements of PULSION SE 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 by 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 practice. 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 2011, 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 SE in the year under report. The following pronouncements are involved:

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 official EU 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 does not have any impact on the net assets, financial and earnings position of PULSION SE. The potential impact on disclosures is currently being reviewed.

The Amendment to IAS 32, **"Classification of Rights Issues"** was published in December 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 official EU Journal on December 24, 2009. It is mandatory for retrospective application for annual periods beginning on or after February 1, 2010. This Interpretation did not have any impact on the consolidated financial statements of PULSION SE.

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 SE, 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 Standards 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 „Customer Loyalty Programmes". The amendments, which are mandatory for annual periods beginning on or after July 1, 2010 and January 1, 2011, do not from today's perspective have any impact on the net assets, financial and earnings position of PULSION SE.

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. This Interpretation does not have any impact on the consolidated financial statements of PULSION SE.

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. This Interpretation does not have any impact on the consolidated financial statements of PULSION SE.

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

In accordance with the amendment to IAS 1, items reported in other comprehensive income (OCI) are required to be presented separately for amounts that will be "recycled" in the income statement and those which will not.
Early adoption is permitted. It is currently expected that the requirements will be endorsed by the EU during the first quarter of 2012. The potential impact for PULSION SE is currently being reviewed.

Amendments to IFRS 7 "Financial instruments: Disclosures – Transfers of Financial Assets" relates to the expansion 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 the corresponding financial liabilities. The transferring entity is required to make substantial disclosures regarding the rights and duties attached to the transaction. The amendments to IFRS 7 were published in the official EU Journal on November 22, 2011 after endorsement by the EU and are mandatory for annual period beginning on or after June 30, 2011. The potential impact for PULSION SE 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 for the year ended December 31, 2011. Similarly, 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 SE is currently being reviewed.

The IASB published **IFRS 9 "Financial Instruments: Classification and Measurement of Financial Liabilities"** on October 28, 2010, reiterating new rules issued in November 2009. 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 a measurement mismatch arises 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 SE 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 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 SE.

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. As a consequence of the amendment, SIC-21 "Recovery of Revalued Non-Depreciable Assets" no longer applies the investment property measured at

fair value. The remaining rules were integrated into IAS 12, and SIC-21 was withdrawn accordingly. 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 amendments on the net assets, financial and earnings position of PULSION SE is currently being reviewed.

The IASB issued a revised version of IAS 19 "Employee Benefits" on June 16, 2011. The requirements contained in the Standard have an impact on the recognition and measurement of the expense of defined benefit plans and termination benefits. In addition, the revised Standard will entail a significant increase in disclosures that many entities will be required to make with respect to benefits to employees. It is currently expected that the revised Standard will be endorsed by the EU during the first quarter of 2012. The impact of the amendments on the presentation of the consolidated financial statements of PULSION SE is currently being reviewed.

I**FRS 10 "Consolidated Financial Statements"** is the outcome of the IASB's consolidation project and supersedes the requirements contained in the previous IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". The requirements relating to separate financial statements remain unchanged and IAS 27 will be renamed "Separate Financial Statements". IFRS 10 introduces a uniform ¬model which establishes control as the basis for consolidation – control of a subsidiary entity by a parent entity – and which can be applied to all entities. The control concept must therefore be applied both to parent-subsidiary relationships based on voting rights as well as to parent-subsidiary relationships arising from other contractual arrangements. As a consequence, special purpose entities – currently consolidated on the basis of the risk and reward concept contained in SIC-12 – must also be assessed using the control concept. The control concept pursuant to IFRS 10 comprises three elements, all of which must be complied with:

- control over another entity,
- variable returns and
- the ability to influence the level of variable returns by exercising control.

IFRS 10 is mandatory for the first time for annual periods beginning on or after January 1, 2013. Earlier application is permitted if this is disclosed in the notes to the financial statements and if IFRS 11 and 12 and the new requirements for IAS 27 and 28 are also applied early. It is currently expected that the revised Standard will be endorsed by the EU during the third quarter of 2012. The impact of the new requirements on the consolidated financial statements of PULSION SE is currently being reviewed.

IFRS 11 "Joint Arrangements" supersedes IAS 31 "Interests in Joint Ventures" and eliminates the option of proportionate consolidation of joint ventures. Mandatory application of the equity method – previously applicable to associated companies – will now also apply to joint ventures in accordance with IAS 28 "Accounting for Investments in Associates and Joint Ventures". The Standard also involves changes in terminology and new classifications for joint arrangements, with the result that the equity method may not necessarily be permitted for joint ventures that are currently accounted for proportionately. IFRS 11 is mandatory for the first time for annual periods beginning on or after January 1, 2013. Earlier application is permitted if this is disclosed in the notes to the financial statements and if IFRS 10 and 12 and the new requirements for IAS 27 and 28 are also applied early. It is currently expected that the revised Standard will be endorsed by the EU during the third quarter of 2012. The impact of the new requirements on the consolidated financial statements of PULSION SE is currently being reviewed.

IFRS 12 "Disclosure of Interests in Other Entities" brings together in one Standard the disclosure requirements for investments in subsidiaries, joint arrangements and associated companies and non-consolidated special purpose entities. In accordance with the new Standard, entities are required to provide quantitative and qualitative disclosures which should enable readers of the financial statements to evaluate the nature of, and risks associated with, its interests in other entities. IFRS 12 is mandatory for the first time for annual periods beginning on or after January 1, 2013. Earlier application is permitted if this is disclosed in the notes to the financial statements. It is currently expected that the revised Standard will be endorsed by the EU during the third quarter of 2012. The impact of the new requirements on the consolidated financial statements of PULSION SE is currently being reviewed.

IFRS 13 "Measurement at fair value" was published on May 12, 2011. The Standard sets out in a single IFRS a framework for measuring fair value, including a definition of the term and describing the methods that can be used to measure fair value. IFRS 13 also expands the disclosure requirements with respect to measurement at fair value. In future – similar to the previous requirements of IFRS 7 "Financial Instruments: Disclosures" – all assets and liabilities required to be measured at fair value must be allocated to classes which, among other things, determine the nature of measurement parameters that can be used to measure fair value. This could, for instance, be relevant for investment property measured at fair value. It will also be necessary to specify the procedures used to determine fair value. It is currently expected that the revised Standard will be endorsed by the EU during the third quarter of 2012. The impact of the amendments on the net assets, financial and earnings position of PULSION SE is currently being reviewed.

As a result of new requirements added to **IFRS 10 "Consolidated Financial Statements"**, the previous consolidation requirements contained in IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities" will be superseded. Since IAS 27 now only contains requirements applicable to separate financial statements, the Standard has been renamed IAS 27 "Separate Financial Statements (revised 2011)". The new version of this Standard is mandatory for the first time for annual periods beginning on or after January 1, 2013. Earlier application is permitted if this is disclosed in the notes to the financial statements and if IFRS 11 and 12 as well as IAS 28 (revised 2011) are also applied early. It is currently expected that the revised Standard will be endorsed by the EU during the third quarter of 2012. The impact of the new requirements on the consolidated financial statements of PULSION SE is currently being reviewed.

IFRS 11 "Joint Arrangements" eliminates the option of proportionate consolidation of joint ventures. Mandatory application of the equity method will now also apply to joint ventures in accordance with IAS 28. The scope of this Standard has been extended to cover joint arrangements and the Standard renamed IAS 28 "Accounting for Investments in Associates and Joint Arrangements (revised 2011)". It should be noted that as a result of the introduction of new classifications for joint arrangements, the equity method may not necessarily be applicable for joint ventures currently accounted for using the proportionate method.

As a result of further **amendments to IAS 28**, it will also be necessary for the first time, for the held-for-sale portion of the planned sale of an associated company or joint arrangement, to be accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" if the relevant classification criteria are met. The remaining portion continues to be accounted for using the equity method (so-called "split-accounting") until the held-for-sale portion is disposed of. If an associated company remains after the disposal, the equity method is retained, and if not, the remaining investment is accounted for in accordance with IFRS 9 "Financial In-

struments". Moreover, the previous scope exceptions for IAS 28 (i.e. venture capital organizations or investment funds) have been removed; investments in these entities can now be accounted for either at fair value or using the equity method. This measurement option also applies to investments in an associated company which are held indirectly i.e. via a venture capital organization or investment fund. IAS 28 also integrates the requirements previously contained in SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". It remains uncertain, however, whether
– on transfer of an operation to a joint arrangement
– only the portion of a gain /loss attributable to the equity interests of the other venturers can be recognized (formerly SIC-13, now IAS 28) or whether the whole of the gain/ loss must be recognized in accordance with IAS 27.
It is currently expected that the revised Standard will be endorsed by the EU during the third quarter of 2012.
IAS 28 (revised 2011) is mandatory for the first time for annual periods beginning on or after January 1, 2013. Earlier application is permitted if this is disclosed in the notes to the financial statements and if IFRS 11 and 12 as well as IAS 27 (revised 2011) are also applied early. The impact of the new requirements on the consolidated financial statements of PULSION SE is currently being reviewed.

Restatement recorded in 2011 in accordance with IAS 8

Deferred taxes are recorded in the consolidated financial statements of PULSION Medical Systems SE in accordance with IAS 12 in order to take account of future increases and decreases in tax and to recognize the appropriate tax expense for the relevant year. For these purposes, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base (IAS 12.11).

In its separate financial statements, PULSION Medical Systems SE has written down some of its receivables from foreign subsidiaries in full, whereas for tax purposes, only partial allowances have been recorded on these balances. These allowances are reversed for the purposes of the consolidated financial statements on elimination of intra-group receivables and payables. In accordance with IAS 12.15, deferred tax liabilities were recognized on the resulting quasi-permanent differences to cover future expected increases in tax expense.

The starting point for these calculations was the tax base of assets and liabilities at the level of the parent company. These tax bases, however, did not take account of a tax-exempt conversion into equity capital of receivables from foreign subsidiaries in 2004. The planned tax adjustment has led to a reassessment of the accounting treatment and the conclusion reached that the quasi-permanent differences no longer exist because of the contribution of receivables to subsidiaries described above. As a consequence, the Company has been required to restate the amount of deferred tax liabilities previously recorded.

During the financial year under report, deferred tax liabilities recognized on receivables with a nominal value of KEUR 4,294 (45% of which was treated as being written down for tax purposes) were corrected, thereby increasing unappropriated profit retrospectively by KEUR 638. This amount has been accounted for in accordance with IAS 8 and prior year figures restated accordingly. The restatement has the following effect:

Consolidated Balance sheet	Note	Dec. 31, 2011	Dec. 31, 2010 restated*	Jan. 1, 2010 restated*
		KEUR	KEUR	KEUR
Accumulated profit		14,112	9,543	6,690
Deferred taxes	10	1,100	2,036	823

Accumulated profit	KEUR
Accumulated profit at Jan.1, 2010	**6,052**
Restatement in accordance with IAS 8	638
Accumulated profit at Jan.1, 2010 restated	**6,690**
Group net profit 2010	2,853
Accumulated profit at Dec. 31, 2010 restated	**9,543**
Group net profit 2011	4,569
Accumulated profit at Dec. 31, 2011	**14,112**

* Prior year adjusted in accordance with IAS8, further information see notes 10 and 21/22

3. Group reporting entity and consolidation methods

	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	August 7, 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%
PULSION Medical Systems S. de RL de CV	Mexico	June 1, 2011	51%
PULSION Medical Systems Medikal ÜRÜNLER Ticaret Limited Sirketi	Turkey	September 27, 2011	99%

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

The following entity is not consolidated as an associated company due to the lack of significant influence by the Group over it.

	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 be completed. It is not expected, however, that these local audits will give rise to any further obligations for PULSION SE.

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 associated companies. 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, 2011	Closing rate at Dec. 31, 2010	Average rate 2011	Average rate 2010
USD	0.7722	0.7546	0.7188	0.7519
GBP	1.1933	1.1675	1.1522	1.1661
AUD	0.7856	0.7669	0.7417	0.6935
PLN	0.2254	0.2523	0.243	0.2510
CHF	0.8216	0.8023	0.8123	0.7247
MXN	0.0552	-	0.0579	-
TRY	0.4054	-	0.4295	-

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 judgment 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 judgment 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) Revaluation of property, plant and equipment and investment property:
As described in Note 14 – 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 12 “Intangible assets”. The initial recognition of costs as an asset is based on management’s assessment that technical and commercial feasibility has been demonstrated; this is usually the case if a product development project has reached a specific milestone. For the purpose of determining the amounts to be capitalized, the executive management 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 for 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 the date on which the Group obtains control over the asset (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 realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business less necessary variable costs to complete the sale. Manufacturing cost comprises the direct cost of production material and wages and a proportion of production overheads, including depreciation. Acquisition cost comprises the purchase price and all ancillary costs directly attributable to the acquisition. Acquisition and manufacturing cost are measured using the standard cost method. Borrowing costs are not capitalized since PULSION

does not have any qualifying assets. 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

Dhe 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:

- 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.
- 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.
- 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 reviewed for impairment at least once a year or 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, 2011.

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 issued. The length of contract is individually agreed with each customer and therefore part of the contract. PULSION SE 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 used operationally. It also sublets one underground parking space that is otherwise used operationally.

As the lessor under finance leases: At December 31, 2011 no leases with purchase options were classified as finance leases.

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 amortized cost. Finance lease liabilities are measured initially at the present value of future lease payments and reduced in subsequent periods by the repayment portion of lease payments. Current liabilities are measured at their repayment or settlement amount.

Borrowing costs: In accordance with IAS 23.20, borrowing costs are 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 fulfill 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 license 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 practices 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 pro¬grams are in place as incentives to tie employees and executive management into the Company. Stock options issued after November 7, 2002 (Stock Option Plan 2003 and Stock Option Plan 2006), are measured at their fair value in accordance with the rule contained in IFRS 2. The amount calculated is recognized as expense at the end of the vesting period and offset against the corresponding amount previously recognized in 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 as a component of the entity that engages in business activities for which it may earn revenues and incur expenses, whose operating results are reviewed by the chief operating decision maker and for which discrete financial information is available.

Explanatory notes to the Consolidated Income Statement

5. Revenues

Sales revenues by product line are as follows:

	2011 KEUR	2010 KEUR
Equipment	6,910	7,827
Disposables	21,289	19,779
Indication / diagnosis	4,753	3,886
	32,949	**31,492**

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 expenses

Cost of sales comprises primarily the cost of raw materials and supplies used (KEUR 6,949; 2010: KEUR 6,962) and of bought-in goods and services (KEUR 961; 2010: KEUR 827).

Depreciation, amortization and write-downs totaling KEUR 1,603 (2010: KEUR 2,000) are included. Depreciation of KEUR 594 (2010: KEUR 600) was recognized on monitors and amortization of KEUR 588 (2010: KEUR 441) on intangible assets.

No impairment losses were recognized on intangible assets in 2011 (2010: KEUR 529). Impairment losses on current assets totaling KEUR 571 (2010: KEUR 756) were included in cost of sales.

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

	2011	2010
	KEUR	KEUR
Wages and salaries	8,097	7,862
Statutory social security	1,389	1,297
Expenses for stock options	66	50
	9,552	**9,209**

Wages and salaries include personnel recruitment costs of KEUR 334 in 2011 (2010: KEUR 132). Personnel expenses include a pension expense of KEUR 18 (2010: KEUR 21).
The Group had 126 employees on average in both 2011 and 2010. The average employee figure for 2011 included 6 people employed on a low wage-earning basis (2010: 5).

7. Income and expenses from financial assets

Interest expense includes KEUR 58 (2010: KEUR 67) for liabilities to banks and KEUR 0 (2010: KEUR 2) for lease liabilities. Interest income on lease receivables amounted to KEUR 0 (2010: KEUR 3) and interest earned on bank balances totalled KEUR 14 (2010: KEUR 28).

8. Other operating income and expenses

Other operating income includes income from the derecognition of other liabilities/reversal of provisions amounting to KEUR 552 (2010: KEUR 289), income from the private use of company vehicles amounting to KEUR 132 (2010: KEUR 126) and rental income of KEUR 22 (2010: KEUR 24). Also includes is a government grant of KEUR 9 (2010: KEUR 71) which related to expenses incurred in the financial years 2009 and 2010. The amount received in 2011 relates to the final installment of a grant for which the application was submitted in the previous year in connection with the “Central Innovation Program for Medium-sized Companies” (since the approval period expired in September 2010). The grant was paid to promote one specific development project. Other operating expenses also include foreign sales tax and other fees totaling KEUR 73 (2010: KEUR 47).

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

	2011 KEUR	2010 KEUR
Income taxes	2,983	521
(of which relating to prior periods)	80	-78
Deferred tax expenses		1,213
Deferred tax income	-928	0
Total tax expenses	**2,055**	**1,734**

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 provisions at December 31, 2011 amounted to KEUR 2.322 (2010: KEUR 293).

Deferred taxes at December 31, 2011 were computed for the German entity on the basis of a corporation tax rate of 15.0 % (2010: 15.0 %). In addition, a solidarity surcharge of 5.5 % (December 31, 2010: 5.5 %) on corporation tax and an effective municipal trade tax rate of approximately 15.97 % (December 31, 2010: 15.97 %) were taken into account. A tax rate of 31.80 % (December 31, 2010: 32 %) was accordingly used to calculate deferred taxes for the Germany entity.

A deferred tax asset has been recognized for tax losses available for carryforward by group entities to the extent that it is probable that taxable profit will be available in the future to offset those losses. The Group has not recognized deferred tax assets of KEUR 5,379 (2010: KEUR 4,837) on unused tax losses of KEUR 15,210 (2010: KEUR 13,675) 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 31.8 % (2010: 32 %) for corporation tax, solidarity surcharge and municipal trade tax – and the actual tax expense:

	2011 KEUR	2010 KEUR
Group profit before taxes	6,717	4,528
Expected tax expenses	2,136	1,449
Effect of changes in tax rates	-7	-26
tax-exempt income	0	0
Tax expense/income - prior years	0	-78
Differences to group tax rate	-60	-42
Foreign withholding taxes	0	26
non-deductible expenses, adjustments for tax rules	183	122
Change in recoverability of deferred tax assets	4	168
Other consolidation procedures	-209	89
Utilization of tax losses	0	0
Recognition of deferred tax asset on unused tax losses	0	0
Other	9	26
	2,055	**1,734**

	Dec. 31, 2011		Dec. 31, 2010 adjusted*		Jan. 1, 2010 adjusted*	
	deferred tax assets	deferred tax liabilities	deferred tax assets	deferred tax liabilities	deferred tax assets	deferred tax liabilities
Intangible assets	43	1,235	66	1,463	92	1,233
Property, plant and equipment	245	18	200	34	236	44
Inventories	200	0	157	0	144	0
Receivables and other current assets	30	17	0	1	0	38
Liabilities	61	0	32	17	66	0
Consoidation procedures	0	525	0	1,215	897	1,215
Accumulated deficit	116	0	239	0	272	0
	695	**1,795**	**694**	**2,730**	**1,707**	**2,530**
Offset of deferred tax assets and liabilities	**-695**	**-695**	**-694**	**-694**	**-1,707**	**-1,707**
Total	**0**	**1,100**	**0**	**2,036**	**0**	**823**

* Prior year adjusted in accordance with IAS 8; further information see notes 10 and 21/22

It is forecast that, out of the KEUR 1,100 (2010: KEUR 2,674) reported as net deferred tax liabilities at December 31, 2011, deferred tax assets amounting to KEUR 43, (2010: KEUR 396) and deferred tax liabilities amounting to KEUR 17 (2010: KEUR 194) will be utilized within one year.

11. Minority interests

The development of minority interests is shown in the Consolidated Statement of Changes in Equity.

Explanatory notes to the Consolidated Balance Sheet

12. Intangible assets

Intangible assets at December 31, 2011 comprised:

	Note	Historical cost	Accumulated amortization and impairment losses	Carrying amount
		KEUR	KEUR	KEUR
Approvals		2,442	1,151	1,291
Patents		1,042	295	747
Distribution rights		178	178	0
Product development		2,718	776	1,942
Software		562	458	104
Goodwill	13	12	0	12
Total		**6,954**	**2,858**	**4,096**

Intangible assets at December 31, 2010 comprised:

	Note	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	13	12	0	12
Total		**6,700**	**2,457**	**4,244**

	Remaining amortization period	
	from	up to
Approvals	1 month	8 years
Patents	4,5 years	20 years
Product development	7 months	5 years
Software	1 month	3 years

Borrowing costs totaling KEUR 25 (2010: KEUR 60) were capitalized for intangible assets in 2011 on the basis of an interest rate of 10.47 % (2010: 6.14%) The total amount of borrowing costs recognized as an asset at the end of the reporting period was KEUR 182 (2010: KEUR 157). The amortization expense for the financial year 2011 amounted to KEUR 658 (2010: KEUR 760). No impairment losses were recorded on intangible assets in 2011 as a result of the annual impairment test (2010: KEUR 476). Impairment losses, when recognized, are recorded with income statement effect (in cost of sales). Intangible assets include advance payments totaling KEUR 100 (2010: KEUR 100).

13. Goodwill

	Dec. 31, 2011 KEUR	Dec. 31, 2010 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 2011 on property, plant and equipment to reduce their carrying amount to fair value (2010: KEUR 0). The depreciation expense for 2011 totaled KEUR 1,152 (2010: KEUR 1,079). One thermo former machine with a carrying amount of KEUR 81 was written down to zero in accordance with § 253 (3) sentence 2 HGB due to lack of future use.
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, 2011 amounted to EUR 2.5 million (2010: EUR 2.1 million).

15. Lease liabilities/asset carrying amounts

There were no contractual obligations at December 31, 2011.

16. Investment property

Rental income from investment property amounted to KEUR 22 in 2011 (2010: KEUR 24). Costs directly related to investment property amounted to KEUR 7 (2010: KEUR 9). The fair value of real estate presented as investment property corresponds roughly to the carrying amount. At the balance sheet date, mortgages on property totaled KEUR 417 (2010: KEUR 417).

17. Inventories

Inventories comprise:

	Dec. 31, 2011 KEUR	Dec. 31, 2010 KEUR
Raw materials and supplies	2,712	3,195
Finished goods and goods for resale	291	336
Work in progress	2,244	5,497
	5,247	**5,497**

Write-downs on inventories were as follows:

	Dec. 31, 2011 KEUR			Dec. 31, 2010 KEUR		
Raw materials and supplies	3,167			3,195		
Gross amount of which subject to write-down	455			0		
Write-downs		-455	2,712		0	3,195
Work in progress	291	0	291	336	0	336
Finished goods and goods for resale	2,621			2,418		
Gross amount of write down	377			452		
Write down		-377	2,244		-452	1,966
		5,247				**5,497**

The net impact of write-downs in 2011 was recognized as an expense within cost of sales and amounted to KEUR 571 (2010: KEUR 756). Darin enthalten sind im Geschäftsjahr 2011 Aufwendungen für die Verschrottung von fertigen Erzeugnissen in Höhe von KEUR 150.

18. Trade accounts receivable

	Dec. 31, 2011	Dec. 31, 2010
Trade accounts receivable	6,269	5,277
Less allowances	342	9
Trade accounts receivable	**5,927**	**5,268**

Impairment allowances developed as follows:

	2011	2010
Allowances at January 1	9	17
Allocated	333	0
Utilized	-1	0
Reversed	0	-8
Allowances at December 31	**342**	**9**

The impairment allowances include specific allowances amounting to KEUR 342 (2010: KEUR 9). Specific allowances on receivables entail a significant degree of estimation and the assessments of individual balances based on the creditworthiness of each customer. Impairment allowances are based on estimates.

During the reporting period, trade accounts receivable amounting to KEUR 24 (2010: KEUR 2) 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 endeavors to reduce the level of arrears by increased receivables management activities. Impairment losses on trade accounts receivable are determined individually.
Allowances totalling KEUR 313 were recorded for the first time at the level of the Spanish subsidiary in 2011 for receivables not settled within the agreed payment periods, reflecting the fact that public sector organizations in Spain have failed to make payments as a result of the debt crisis.
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 2,564 (2010: KEUR 2,031) 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 subject to impaiment loss and overdue at the following time window**				**of which subject to impaiment loss and overdue at he year-end**
			1-30 days	30-60 days	60-90 days	> 90 days	
	Dec. 31, 2011						
Trade accounts receivable	5,927	3,030	902	405	281	977	333
	Dec. 31, 2010						
Trade accounts receivable	5,277	3,245	835	362	190	644	1

For the purposes of determining the recoverability of trade accounts receivable, all changes in the creditworthiness of the customers from the date on which payment periods are agreed through to 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.

19. Other current assets

This item comprises the following:

	Dec. 31, 2011	Dec. 31, 2010
	KEUR	KEUR
Deferred Expenses	320	332
Advance payments to suppliers	41	114
Receivables from German Tax Office - value added tax	52	5
	414	**451**
Other	94	183
Total	**508**	**634**

20. Cash and cash equivalents / cash funds

Cash funds reported in the cash flow statement comprise:

	Dec. 31, 2011	Dec. 31, 2010
	KEUR	KEUR
Cash and cash equivalents	8,758	4,851
Cash pledged as collateral	0	-60
	8,758	**4,791**

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, 2011, 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 11,000 can still be exercised out of Conditional Capital III.
The Company's 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 1.00 . As a result of the acquisition of treasury shares, the average number of shares in circulation was 8,877,724.
Other reserves relate primarily to translation differences.
Additional disclosures relating to capital management: Equity capital increased during the financial year 2011 by 22.7 %, mainly as a result of the sharp rise in net profit for the year. The equity ratio increased as a result to 71 % (December 31, 2010: 67 %), while the return on equity and the return on total capital improved to 23.9 % (December 31, 2010: 16.5 %) and 17.2 % (December 31, 2010: 10.9 %) respectively.
The improvement in returns on equity/capital 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.

Performance indicator	Basis of computation	Dec. 31, 2011	Dec. 31, 2010
Equity ratio	Equity / balance sheet total	71.0%	67.0%
Return on equity	Group profit / average equity	23.9%	16.3%
Return on total capital	Group profit / average total capital	16.5%	10.9%

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

Additional paid-in capital	KEUR
Balance at January 1, 2011	1,466
Transfer from fair value measurement of share options	66
Transfer out of additional paid-in capital	0
Balance at December 31, 2011	**1,532**

Acquisition of treasury shares of KEUR 882.

The then Management Board of PULSION AG resolved on March 21, 2011, 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 buyback 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. In conjunction with the Share buyback Offer published in the Electronic Federal Gazette on March 24, 2011, a total of 85,362 of the Company's own shares – non-par bearer shares, each arithmetically representing EUR 1.00 of the share capital – were offered to the Company for buy-back prior to the expiry of the offer on April 14, 2011 and accordingly acquired by the Company. Based on a price of EUR 5.00 per share, the total acquisition cost was KEUR 427.
PULSION SE's offer related to up to 250,000 shares. The then Management Board of PULSION AG resolved on December 30, 2010 – on the basis of the resolution taken by shareholders at the Annual General Meeting of PULSION Medical Systems AG on May 18, 2010 and with the approval of the Company's Supervisory Board – to acquire up to 300,000 shares via the stock exchange. The shares were to be acquired with the intention of withdrawing the bought-back shares 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.
At December 31, 2011, the Company held 104,110 of its own shares as a result of buybacks via the stock exchange. 22,149 of these shares were issued to service option rights. Overall, the Company acquired 167,323 own shares during the year-ended December 31, 2011. At 31 December 2011 PULSION SE holds a total of 756,162 own shares, corresponding to approximately 7.89 % of the Company's share capital.

Minority interests

Minority interests relate to PULSION Pacific and, since June 1, 2011 to PULSION Mexico

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 pre-defined 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 2011 was EUR 5.26.

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

	December 31, 2011		December 31, 2010	
	Weighted average exercise price		Weighted average exercise price	
	Options	(EUR)	Options	(EUR)
Outstanding at the beginning of the year	221,500	5.11	221,000	5.15
Granted during the year	0		50,000	5.08
Exercised during the year	22,149	3.17	0	0.00
Exercised during the year / forfeited*	52,500	6.55	49,500	5.25
Outstanding at the end of the year	146,851	4.81	221,500	5.11
Thereof management board	50,000	5.08	65,000	5.75
Execisable at the end of the year	65,350	5.72	97,500	6.84
Thereof Management board / Executive Directors	0		15,000	7.99

* of which 42,500 are available for re-issue (2010: 30.000).

The following table summarizes information about options outstanding at December 31, 2011:

		Options outstanding		Options exercisable	
Exercise price	Number outstanding	Weighted average remaining	Weighted daverage exercise price	Number exercisable	Weighted average exercise price
EUR	Units	Years	EUR	Units	EUR
7 - 8	37,000	3.55	7.54	37,000	7.54
5 - 7	50,000	6.75	5.08	0	0.00
4 - 5	11,000	0.65	4.13	11,000	4.13
2 - 3	48,851	5.73	2.86	17,350	2.86
	146,851	**5.15**	**4.89**	**65,350**	**5.72**

At December 31, 2011 and December 31, 2010, conditional capital was available to meet subscription rights exercised in conjunction with incentive compensation plans. At December 31, 2011, 42 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:

	2011	2010
Risk-free interest rate	1.24%	1.24%
Dividend income	0%	0%
Volatility	60.61%	60.61%
Exercise price (EUR)	5.08	5.08
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. It is assumed that option holders will exercise their rights at the earliest possible date after the vesting period. No further options were granted in 2011. The weighted average fair value of the options granted in 2010 was EUR 1.43.

23. Provisions

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

	Jan. 1, 2011	Utilized	Reversed	Interest unwound	Allocated	Dec. 31, 2011
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Warranties	162	40	0	0	17	139
Other contractual obligations	129	0	0	8	0	137
Legal disputes	322	62	47	0	0	213
Other	0	0	0	0	96	96
	613	**102**	**47**	**8**	**113**	**585**

	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 reliable 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 139; December 31, 2010: KEUR 162) and for other contractual obligations (KEUR 137; December 31, 2010: KEUR 129).
With the exception of a partial amount of KEUR 184 (2010: KEUR 210), provisions all have an expected maturity of up to one year. The non-current portion will be utilized in installments through to January 31, 2022.

24. Financial liabilities

	Current		Non-current	
	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
	KEUR	KEUR	KEUR	KEUR
Unsecured financial liabilities at amortized cost				
Current account balances	0	0	0	0
Bank loans	0	0	0	0
Financial debts	0	0	0	0
Leas liabilities	0	0	0	0
Other liabilities	2,725	2,782	0	69
Secured financial liabilities at amortized cost				
Current account balances	31	0	0	0
Bank loans	390	290	24	414
Financial debts	0	0	0	0
Leas liabilities	0	0	0	0
Other	0	0	0	0
	3,146	**3,072**	**24**	**483**

25. Liabilities to banks

The liabilities disclosed at December 31, 2011 were subject to the following terms and conditions:

Liabilities to banks	Type	Maturity	Interest rate	Dec. 31, 2011	Current	Non-current
			%	KEUR	KEUR	KEUR
WestLB AG, Düsseldorf	Loan	09/2013	5.4	64	40	24
WestLB AG, Düsseldorf	Loan	07/2012	6.3	350	350	
Banco Pastor, Alcorcon / Spain	Loan	06/2012	6.0	31	31	
Total				**445**	**421**	**24**

At the balance sheet date, mortgages on property totaling KEUR 417 (2010: KEUR 417) had been given as collateral to secure liabilities to banks totaling KEUR 445. No cash at bank was pledged as collateral in 2011 (2010: KEUR 60). Assignment as collateral has also been agreed for purchased equipment totaling KEUR 720 (including value added tax).
Collateral assignment at December 31, 2011 amounted to KEUR 228 (2010: KEUR 417).
At December 31, 2011, the Group had unused credit lines of KEUR 162 (2010: KEUR 493).

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	Current	Non-current
			%	KEUR	KEUR	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 maturities of loans are as follows:

	KEUR
2012	421
2013	24
after 2014	0
	445

Interest expenses in 2011 include KEUR 36 (2010: KEUR 67) for liabilities to banks.

26. Trade accounts payable

Trade accounts payable at the balance sheet date amounted to KEUR 1,440 (2010: KEUR 2,039).
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, 2011	Dec. 31, 2010
Current other liabilities	KEUR	KEUR
Audit of company / group financial statements	228	145
License fees	159	40
Deferred income	298	390
Personnel-related obligations	1,055	1,163
Outstanding supplier invoices	194	460
Other	791	584
	2,725	**2,782**
Non-current other liabilities		
Retention of business documentation	0	53
Other	0	16
	0	69
Total other liabilities	**2,725**	**2,851**

Personnel-related obligations comprise mainly holiday and bonus entitlements as well as social insurance obligations.

28. Other financial obligations

	2012	**2013**	**2014**	**2015**	**from 2016**	**Total**
Obligations from	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Rental contracts	651	552	502	494	494	2,693
Vehicle leases	293	221	74	13	0	602
Other service contractors	70	64	12	0	0	146
Supplier framework agreements	1,914	135	32	0	0	2,080
Open purchase orders	1,514	1,258	1,721	23	17	4,533
Total	**4,442**	**2,230**	**2,341**	**530**	**511**	**10,054**

The line “Open purchase orders” includes framework agreements totaling KEUR 918. Commitments under purchase agreements amounted to KEUR 4,533. The combination of these two instruments provides security for production planning on the basis of sales forecasts. Fixed purchase prices also help to avoid unexpected price increases and reduce the risk of over-stocking.

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

	2011	2010
	KEUR	KEUR
Up to 1 year	959	1,017
Later than 1 year up to five years	2,024	472
Later than 5 years	0	0
	2,983	**1,489**

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 1,312 (2010: KEUR 1,282) was recognized in the income statement for operating leases.

As the lessor under operating leases: PULSION SE rents out investment property and sub-lets one rented parking space. PULSION SE also makes monitors available to customers in return for commitments to purchase PULSION products and in return for a fee. A contingent liability exists at December 31, 2011 for K’USD 2 (2010: K’USD 2) in connection with a performance guarantee and a rental guarantee amounting to KEUR 157 (2010: KEUR 157).

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, 2011:

	Carrying amount	Amount relevant for IFRS 7 purpose	Amortized cost	Recognized directly in equity	Recognized through income statement	Fair value
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Cash and cash equivalents	8,758	8,758	8,758	-	-	8,758
Trade account receivable	5,927	5,927	5,927	-	-	5,927
Other assets	508	-	-	-	-	-
Trade account payables	1,440	1,440	1,440	-	-	1,440
Liabilities to banks	445	445	445	-	-	445
Financial debts	0	0	0	-	-	0
Lease liabilities	0	0	0	-	-	0
Other liabilities	2,725	581	581	-	-	581

At December 31, 2010, the classes of assets and liabilities (all attributable to the category “loans and receivables”) were as follows:

				Fair value		
	Carrying amount	Amount relevant for IFRS 7 purpose	Amortized cost	Recognized directly in equity	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 account receivable	5,268	5,268	5,268	-	-	5,268
Other assets	847	-	-	-	-	-
Trade account payables	2,039	2,039	2,039	-	-	2,039
Liabilities to banks	704	704	704	-	-	704
Financial debts	0	0	0	-	-	0
Lease liabilities	0	0	0	-	-	0
Other liabilities	2,859	776	776	-	-	776

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.

The following table shows the Group’s financial liabilities and derivative financial liabilities by maturity category, based on the remaining term of the items at the end of the reporting period and contractually agreed maturity dates. Derivative financial liabilities are only included where this is necessary to understand the cash flows involved. The amounts shown in the table relate to undiscounted cash flows.

December 31, 2011	up to 1 year	1-5 years	above 5 years
	KEUR	KEUR	KEUR
Bank overdrafts	31	0	0
Other liabilities to banks	390	24	0
Trade accounts payable	4,165	0	0

December 31, 2010	up to 1 year	1-5 years	above 5 years
	KEUR	KEUR	KEUR
Bank overdrafts	290	414	0
Trade accounts payable	4,821	69	0

Financial assets measured at fair value	2011	2010
Fair value losses as a result of allowances on trade accounts receivables	334	2
exchange losses / gains	128	-49

30. Legal disputes and claims for damages

The enforcement application filed in conjunction with a settlement dated January 28, 2009 relating to the publication of a press release by the Company was terminated by settlement reached on March 23, 2011. In this latter settlement, the Company agreed to publish and delete press releases on its website. Costs incurred by parties in connection with the proceedings were deemed to cancel each other. As a consequence, the Company no longer has any legal disputes with Dr. med. Dr. med. habil. Pfeiffer and UP Med AG i.L.
The French subsidiary has been sued by an ex-director whose appointment was revoked in the past. A provision for the potential risk was recognized in 2009 and retained unchanged at the end of 2011 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.

		2011	2010
Weighted average number od shares (undiluted)	Number	8,877,724	9,528,232
Dilutive effect of options	Number	10,279	0
Weighted average number of shares (diluted)	Number	8,888,003	9,528,232
Group net profit / loss (after minority interests)	KEUR	4,569	2,853
Earnings per share (undiluted)	**EUR**	**0.51**	**0.30**
Earnings per share (diluted)	**EUR**	**0.51**	**0.30**

The computation of diluted earnings per share does not take account of 28,350 options (2010: 97,500 options) which have an anti-diluting effect. A diluting effect arises in 2011 due to the fact that the average market price in 2011 was higher than the exercise price of exercisable options. The decrease in the average number of shares from 9,528,232 to 8,877,724 was due to share buybacks executed in 2011.

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. Impairment losses are analyzed in Note 18. Categories of financial instruments:

	Dec. 31, 2011 KEUR	Dec. 31, 2010 KEUR
Financial assets		
Measured at fair value through profit or loss	0	0
Loans and receivables (including cash and cash equivalents)	14,685	10,119
Financial assets	0	0
Financial liabilities		
Measured at fair value through profit / loss	0	0
Other financial liabilities measured at amortized costs	4,610	5,594

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

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, MXN, TRY) 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, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
	KEUR	KEUR	KEUR	KEUR
USD	926	699	92	67
AUD	635	432	-17	16
GBP	909	839	219	288
CHF	680	426	101	59
PLN	182	85	8	5
MXN	37	0	0	0
TRY	11	0	2	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, 2011	Dec. 31, 2011	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2010	Dec. 31, 2010
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
USD	926	1,018	93	699	769	70
AUD	635	699	64	432	476	43
GBP	909	1,000	91	839	923	84
CHF	680	748	68	426	469	43
PLN	182	200	18	85	93	8
MXN	37	40	4	0	0	0
TRY	11	12	1	0	0	0
	3,380	**3,718**	**338**	**2,481**	**2,729**	**248**

	Liabilities			Liabilities		
	Carrying amount	Change +10%	Difference	Carrying amount	Change +10%	Difference
	Dec. 31, 2011	Dec. 31, 2011	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2010	Dec. 31, 2010
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
USD	92	102	9	67	74	7
AUD	-17	-19	-2	16	17	2
GBP	219	240	22	288	317	29
CHF	101	112	10	59	65	6
PLN	8	9	1	5	5	0
MXN	0	0	0	0	0	0
TRY	2	2	0	0	0	0
	406	**446**	**41**	**435**	**479**	**44**

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-fulfillment 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 matching 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, 2011	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 rate	0	0	0	0	0
Liabilities to banks					
subject to fixed interest rate	0	16	389	25	0
	0	**16**	**389**	**25**	**0**

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 rate	0	0	0	0	0
Liabilities to banks					
subject to variable interest rate	0	10	280	414	0
	0	**10**	**280**	**414**	**0**

33. Segment reporting

In accordance with IFRS 8, PULSION 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.
Reporting within the Group has changed in 2011, with the result that segment reporting has been changed accordingly. Whereas segment reporting had previously been based on geographical regions, it is now presented for the Critical Care and Perfusion business units. The two business units are different in nature and are managed separately, including responsibilities for revenues, procurement and regulatory affairs on the one hand and planning and management reporting on the other. The newly created position of Head of Business Unit was filled at the beginning of 2011. Both business units report segment information from external revenues down to EBIT.
Segment information at December 31, 2011 is analyzed as follows:

	Critical Care	Perfusion	Group
Total revenues	27,918	5,031	32,949
Cost of sales	-8,370	-1,851	-10,221
Gross profit	**19,548**	**3,180**	**22,728**
% of Revenues	**70%**	**63%**	**69%**
Operating expenses			
- Selling and marketing expenses	-9,176	-456	-9,632
- Research and development expenses	-2,631	-405	-3,036
- General and administrative expenses	-3,048	-549	-3,597
Other operating expenses	-428	0	-428
Other operating income	860	0	860
Exchange gains/losses	-134	0	-134
EBIT (Profit before interest and taxes)	**4,991**	**1,770**	**6,761**
% of Sales	**17.9%**	**35.2%**	**20.5%**

The Perfusion business unit recorded a gross margin of 63 % in 2011, and hence slightly lower than that of the Critical Care business unit. The main reason for this is the comparatively higher level of production and quality assurance costs incurred to produce the pharmaceutical agent indocyanine green (ICG).
The Perfusion business unit also has a very lean structure in personnel terms, with low marketing and selling costs. Thanks to the lower level of operating costs, it reports an EBIT margin of over 35 %, almost double that of the Critical Care business unit.
It is not possible retrospectively to present figures for 2010 on the basis of the new segment structure. Similarly, it is not possible to analyze segment assets/liabilities by segment in 2011.

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

KEUR	Germany	France	Rest of Europe	USA	Australia	Reconciliations	Group
Revenues - third 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
Revenues- 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

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 2011, the Management Board and (with effect from June 9, 2011) the Executive Directors comprised the following:

Patricio Lacalle

Chairman of the Management Board
(until June 9, 2011) and Chairman of the Executive Directors (from June 9, 2011);
Responsible for Sales, Marketing, Human Resources, Finance and Administration;

Other mandates:

- Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom
- Gérant of PULSION France S.A.R.L., France
- Member of the Board of Directors of PULSION Austria GmbH, Austria (from October 31, 2011)
- Director of PULSION Medical Inc., USA (from April 30, 2010)
- Member of the Board of Directors of PULSION Benelux N.V. , Belgium (from November 29, 2011)
- Member of the Board of Directors of PULSION Pacific PTY., Australia (from December 1, 2011)
- Member of the Board of Directors of PULSION Switzerland GmbH, Switzerland (from December 1, 2011)
- Member of the Board of Directors of PULSION Poland Sp.z.o.o., Poland
- Member of the Board of Directors of PULSION Iberica S.L, Spain (from December 1, 2011)
- Member of the Board of Directors of PULSION Medical Systems S. de RL de CV, Mexico (from June 1, 2011)
- Member of the Board of Directors of PULSION Medical Systems Medikal Ürünler Ticaret Limited Sirketi (from September 27, 2011)

Christoph R. Manegold

Member of the Management Board
(until June 9, 2011) and Executive Director
(from June 9 to October 31, 2011);
Responsible for Research and Development;
Other mandates:

- Director of PULSION Medical Inc., USA (until April 30, 2011)
- Member of the Board of Directors of PULSION Medical UK Ltd., United Kingdom (until October 31, 2011)
- Member of the Board of Directors of PULSION Benelux N.V., Belgium (until October 31, 2011)
- Member of the Board of Directors of PULSION Medical Systems Iberica S.L., Spain (until October 31, 2011)
- Member of the Board of Directors of PULSION Austria GmbH, Austria (until October 31, 2011)
- Member of the Board of Directors of PULSION Switzerland GmbH, Switzerland (until October 31, 2011)
- Member of the Board of Directors of PULSION Pacific Pty. Ltd., Australia (until October 31, 2011)

During the financial year 2011, the Supervisory Board and (with effect from June 9, 2011) the Administrative comprised the following:

Dr. Burkhard Wittek

MBA, Entrepreneur, Chairman;
Other mandates:

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

Jürgen Lauer
Dipl.-Betriebswirt, MBA, Deputy Chairman;
Director of JüLa Beteiligungs GmbH, Weißenhorn;
Other mandates:
- Medica Medizintechnik GmbH, Hochdorf (member of the Advisory Board)
- WashTec AG, Augsburg (Deputy Chairman of the Supervisory Board)

Frank Fischer
Dipl.-Kaufmann
- 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 SE, based in Munich, Germany. Transactions between PULSION SE 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 (2010: KEUR 168) has been issued on behalf of the Spanish subsidiary.
In order to secure the financing of PULSION Pacific Pty. Limited and PULSION Medical UK Ltd., the parent company has agreed to defer the payment of those entities' intercompany payables until December 31, 2012.

In addition, a commitment has been given to PULSION Medical UK Limited to keep liquidity at agreed levels and in accordance with which none of PULSION SE's intercompany receivables from PULSION Medical UK Limited will fall due for payment during a period of one year after adoption of the local financial statements, if as a result of such payments, a lack of funds would have insolvency consequences.

In accordance with IAS 24, the Group also reports all transactions between it and its related parties (including family members). Members of the Administrative Board and the Executive Directors (up to June 9, 2011 members of the Management Board and Supervisory Board) – in all cases also including and family members – have been defined as related parties.

The Chairman of the Administrative Board, Dr. Burkhard Wittek is also the Managing Director of FORUM European Smallcaps GmbH, Munich, Germany ("FES"). FES, together with Forum Private Equity GmbH and a number of private individuals known to PULSION through notifications given to it pursuant to §35 (1) of German Securities Acquisition and Takeover Act (WpÜG) (in conjunction with § 10 (3) WpÜG) have joined to form an shareholders' pool. The pool gave notice on February 16, 2009 that its shareholding in PULSION Medical Systems SE had exceeded the 30% threshold and that it represented the majority of the participants present at the Annual General Meeting 2009. Since then, PULSION has prepared an annual Dependant Company Report.

An underground parking space was rented out to the Executive Director Christoph R. Manegold by the Company at cost price for operational used until he left the Company on October 31, 2011.

Compensation report for the Management Board/Executive Directors

	2011				2010			
Compensation report for the executive directors	Fixed	Variable	Other	Total	Fixed	Variable	Other	Total
	*	**	***		*	**	***	
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Patricio Lacalle	238	50		288	70	17	0	87
Christoph R. Manegold (until Oct. 31, 2011)	162	0	195	357	160	40	0	200

* incl. private use of car, reimbursement of social security contributions ans insurance benefits / ** estimated entitlement for 2011 and 2010
*** remuneration earned on the exercise of stock options and redundancy payments

No share options were granted members of the Management Board/ Executive Directors in 2011. In the previous year 50,000 stock options were granted to members of the Management Board. The remuneration of the members of the Executive Directors totaled KEUR 584 (2010: KEUR 502). Out of the total amount accrued at the end of the previous year for variable remuneration, KEUR 40 was not disbursed.
The Executive Directors' service contracts do not contain any specific commitment to pay compensation in the event of either 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 Executive Directors for 2011 are presented in Note 22.

Compensation report for the Supervisory Board/Administrative Board

The expense recognized for compensation of the Administrative Board during the financial year 2011 by way of fixed remuneration totaled KEUR 51 (2010: KEUR 45). Variable remuneration for the financial year 2011 (based on EBIT) amounted to KEUR 51 (2010: KEUR 0). Amounts paid to the members of the Administrative Board were as follows:

	2011				2010			
	Fixed	Variable	Other	Total	Fixed	Variable	Other	Total
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Dr. Burkhard Wittek	23	23	0	46	20	0	0	20
Jürgen Lauer	17	17	0	34	15	0	0	15
Frank Fischer	11	11	0	22	10	0	0	10
Total	**51**	**51**	**0**	**102**	**45**	**0**	**0**	**45**

*estimated entitlement for 2011

Shareholdings of Executive Directors and members of the Administrative Board

At December 31, 2011 and December 31, 2010, the Executive Directors of PULSION SE (or members of the Management Board of PULSION AG until June 9, 2011) held the following number of shares and stock options:

	December 31, 2011		December 31, 2010	
Executive Directors	Shares	Options	Shares	Options
	(Units)	(Number)	(Units)	(Number)
Patricio Lacalle	50,000	50,000	50,000	50,000
Christoph R. Manegold (until Oct. 31, 2011)	20	0	20	15,000
Total	**50,020**	**50,000**	**50,020**	**65,000**

Administrative Board membersgave notice to the Company of reportable shareholdings in the Company as at December 31, 2011 as follows:
Based on the conclusion of a shareholders' agreement, Dr. Burkhard Wittek reported at December 31, 2011 that he held 4,633,542 shares which were attributable jointly to pool participants pursuant to § 30 (2) sentence12 of the German Securities Acquistion and Takeover Act (WpÜG).
At December 31, 2011 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 Administrative Board and Management Board/Executive Directors with PULSION securities, as notified to PULSION SE in accordance with § 15a of the German Securities Trade Act, can be accessed on the Company's website at www.pulsion.com. No transactions were notified during the year ended December 31, 2011.

36. Auditors' fees

In 2011, an expense of KEUR 132 (2010: KEUR 115) was recognized for the audit of the Company and Group financial statements and dependent company report pursuant to § 313 AktG. Of this amount KEUR 42 related to the auditors' international organization. In 2011, fees of KEUR 34 (2010: KEUR 25) 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 SE's website www.pulsion.com/fileadmin/pulsion_share/Investor/Corporate_Governance/Entsprechenserklaerung_2011.pdf.

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

We received the following notifications on March 7, 2011:
The percentage of voting rights of Seda S.p.A., Milan, Italy, in PULSION Medical Systems AG, Munich, Germany, went under the thresholds of 5% and 3% on March 4, 2011 and amounted to 0.31% at that date (corresponding to 29,800 votes).

We received the following notifications on March 9, 2011:
The percentage of voting rights of Forseda S.p.A., Milan, Italy, in PULSION Medical Systems AG, Munich, Germany, went under the thresholds of 3 % and 5 % on September 16, 2010 and amounted to 5.01% at that date (corresponding to 479,800 votes). Of these 5.01% (479,800 votes) are attributable to Forseda S.p.A. pursuant to § 22 Section 1 Sentence 1 n° 1 WpHG. The voting rights attributable to Forseda S.p.A. are held via entities controlled by Forseda S.p.A. which hold more than 3% of the voting rights of PULSION Medical Systems AG, namely:
- Seda S.p.A.
The percentage of voting rights of Forseda S.p.A., Milan, Italy, in PULSION Medical Systems AG, Munich, Germany, went under the thresholds of 5% and 3% on March 4, 2011 and amounted to 0.31% at that date (corresponding to 29,800 votes). Of these 0.31 % (29,800 votes) are attributable to Forseda S.p.A. pursuant to § 22 Section 1 Sentence 1 n° 1 WpHG.
The percentage of voting rights of Guiseppa D'Ancona Danieli, Italy, in PULSION Medical Systems AG, Munich, Germany, went under the thresholds of 5% and 3% on March 4, 2011 and amounted to 0.31% at that date (corresponding to 29,800 votes).

Of these 0.31 % (29,800 votes) are attributable to Guiseppa D'Ancona Danieli pursuant to § 22 Section 1 Sentence 1 n° 1 WpHG.

We received the following notifications on August 17, 2011:
The percentage of voting rights of AXXION S.A., Munsbach, Luxembourg, in PULSION Medical Systems SE, Munich, Germany, went over the thresholds of 3 % on August 25, 2011 and amounted to 5.01% at that date (corresponding to 392,524 votes).

39. Appropriation of profit

The Executive Director proposes that the accumulated loss be carried forward.

40. Events after the end of the reporting period

In January 2012 amounts receivable by PULSION Medical Systems SE from PULSION Medical Inc. USA relating to trade receivables (EUR 2,687,523.14), loan receivables (EUR 2,584,159.65) and interest receivables for these two items (EUR 2,256,173.73) were transferred to additional paid-in capital at the level of PULSION Medical Inc., USA. This measure creates a solid financial basis for the US subsidiary.

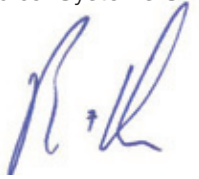
Munich, March 19, 2012
PULSION Medical Systems SE

Patricio Lacalle
Executive Director

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 and position 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 19, 2012
PULSION Medical Systems SE



Patricio Lacalle
Executive Director

Auditors' Report

We have audited the consolidated financial statements prepared by the PULSION Medical Systems SE, Munich, 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, 2011 to December 31, 2011. 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, 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefano Mulas
Wirtschaftsprüfer

ppa. Florian Horn
Wirtschaftsprüfer

Financial calendar 2012

The Annual Report can be downloaded under www.PULSION.com, Investor Relations section, and is also available in English. This section also includes comprehensive information on PULSION figures and stock.

We are available to answer your questions under investor@pulsion.com.

Important dates for our investors in 2012:

Financial report on first quarter 2012 . . . . . May 14, 2012

Annual General Meeting . . . . . May 16, 2012

Financial report on first half-year 2012 . . . . . August 14, 2012

Financial report on first three quarters 2012 . . . . . November 14, 2012

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.

Hemodynamics
Hemodynamics 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 hemodynamics leads swiftly to organ damage and life-threatening situations.

Hemodynamc monitoring
In recent years “hemodynamic monitoring” has become the accepted term for the use of equipment-based monitoring of the cardiovascular system. In simple hemodynamic 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. “Enhanced hemodynamic 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 recognize 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 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. Since patients are highly dependent, one nurse will have to look after 1 to 3 patients (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 and organ functions of intensive care patients. These parameters include, amongst others, heart rate, respiration, ECG, oxygen saturation and blood pressure.

Monitoring systems (multi-parameter 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 ever increasing number of observations into so-called multi-parameter 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 attach individual pieces of 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 more than 50 % of cases.

Disposables

PULSION's Critical Care business unit sells 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 bought 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 (ScvO2), oxygen absorption in the blood (VO2), oxygen supply to organs (DO2)

2011

PULSION
Medical Systems

PULSION Medical Systems SE · Hans-Riedl-Str. 17 · D-85622 Feldkirchen
Tel. +49-(0)89-45 99 14-0 · Fax +49-(0)89-45 99 14-18
infoDE@pulsion.com · www.PULSION.com

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

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

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

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

PULSION Medical UK Ltd.
Tel. +44-208-814 79 74
infoUK@pulsion.com

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

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

PULSION Poland Sp.z.oo.
Tel. +48-605 23 37 66
infoPL@pulsion.com

PULSION Medical Systems S. de R.L. de C.V.
Tel: +52 (55) 5207 6115/5674/6506
Info@pulsion.com

PULSION MEDICAL SYSTEMS
Med. Ürün. Tic. Ltd. Sti.
Tel: +90 212 337 57 2

Herausgeber: PULSION Medical Systems SE · Design & Produktion: Die Fux Werbe GmbH