Annual Report 2007

curasan

Regenerative Medicine

GROUP RESULTS AT A GLANCE

(€ thousand)	2007	2006	2005 Restated
Total sales revenues	9,716	8,389	7,707
Sales revenues attributable to Pharmaceuticals	1,442	1,514	1,484
Sales revenues attributable to Biomaterials	8,274	6,875	6,223
Operating result (EBIT)	(2,956)	(3,604)	(3,261)
Financial result	(125)	(66)	(65)
Extraordinary items	0	0	0
Result of ongoing activities	(3,145)	(3,703)	0
Result of discontinued activities	(947)	(597)	0
Net profit/loss for the year	(4,092)	(4,300)	(3,296)
Consolidated earnings as per DVFA/SG	(4,092)	(4,300)	(3,296)
Cash flow as per DVFA/SG	(3,185)	(3,738)	(2,658)
Earnings per share, ongoing activities (IAS)	(0.46)	(0.64)	(0.63)
Earnings per share, discontinued activities (IAS)	(0.14)	(0.11)	0.00
Equity	2,949	4,761	9,087
Balance sheet total	8,527	11,255	14,848
Number of employees (full-time)	67	68	65
Equity ratio (in %)	34.6	42.3	61.2
Return on sales (in %)	(42.1)	(51.3)	(42.8)
Revenue per employee	145	123	119
EBIT per employee	(44)	(53)	(50)

KEY FIGURES

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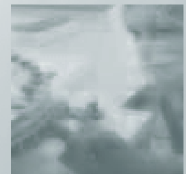
Hans Dieter Rössler, CEO

DEAR SHAREHOLDERS, BUSINESS ASSOCIATES AND STAFF,

For curasan AG, the past financial year was dominated by operational consolidation. Both our marketing and sales activities and our internal processes were further tailored to concentrate on the market for surgical implant technology. This included sharpening our focus on selected export markets and incorporating them into an overall international concept. As one of the positive aspects arising from this process, we were granted worldwide distribution rights for the bioresorbable Epi-Guide® membrane by Kensey Nash Corporation, USA. We thereby extended the cooperation established in 2001, which until now covered sales in Germany, various other European countries, and – since 2005 – the USA.

Our US subsidiary curasan, Inc. has developed very successfully to date with the distribution of Cerasorb®, almost breaking even in the past financial year. In June, curasan AG received certification from the US approvals authority FDA (Food and Drug Administration) for its dental implant system REVOIS®, which can now be marketed in the USA as a medical product. Its market launch took place at the International Congress of Oral Implantologists (ICOI) in Las Vegas in January 2008.

Our intensive cost management drive led to warehousing and commissioning operations in Kleinostheim being outsourced in Q4. By relocating our order processing staff from the warehousing building to the head office, we were able to completely close down one of our sites, prompting further savings. In addition to this, in-house production of the haemostatic sponge stypro® at Pro-tec Medizinische



Produkte GmbH in Freilassing ceased at the end of the year. It is now produced for us by a contract manufacturer.

These steps and the resulting reduction in costs will have a positive effect on the result as of 2008.

As part of our marketing mix, we took part in a number of national and international congresses and held countless training events for our target group, dental implantologists.

For example, curasan AG provided up-to-date background information for clinics and practices for the eleventh time by staging "Frankfurt Implantology Day" at the International Dental Show (IDS) in Cologne – the world's largest trade show for the industry – on 23 March. The presentations covered an extensive range of topics from the basic theory behind bone regeneration to its practical implementation in all areas, and from implant systems to the new hygiene regulations. Once again, the event maintained its tradition of bringing together clinics and practices, universities and scientists to stimulate an animated exchange of expertise and ideas which gave all delegates numerous tips for their day-to-day work.

On 21 July, curasan AG held a health day in Aschaffenburg community hall in conjunction with regional doctors and healthcare partners. The event offered health-conscious members of the public information about various medical issues and was very well received. curasan AG, the overall event organiser, provided information and gave talks about dental implants, bone regeneration and osteoarthritis. With the event, we aimed to generate additional demand for our products and increase awareness of the company in the local area.

curasan AG was a Gold Sponsor at the 4th International Annual Congress held by the DGOI (German Society for Dental Implantology), which took place at Frankfurt congress centre from 27 to 29 September. According to the organiser, 500 delegates registered and attended the talks with great interest. curasan sponsored a workshop examining augmentation techniques in preparation for the insertion of dental implants.

In Q4, various roadshows and two 2-day seminars with live operations were once again staged for interested implantologists around Germany to support marketing of the REVOIS® implant system.

The Management Board presented last year's figures at the analyst conference held on 27 March as part of Stock Day Spring in Frankfurt. The Board made it very clear that curasan AG had been successfully realigned to focus on dental surgery and implantology. Thanks to application-orientated marketing and focused sales, curasan AG is a competent retail partner for in-licensed products.

On 21 June, the company's seventh Annual General Meeting was held in Aschaffenburg community hall at Johannisburg Castle. All of the proposed resolutions on the agenda were passed by a majority. Mr Richard F. Chambers was elected to succeed Mr Hans-Günter Niederehe, who retired from the Supervisory Board. Mr Chambers is a management consultant with extensive experience in the life science sector.

The Management Board was authorised to increase the company's share capital, in one or more stages, by up to a total of € 3,000,000 in the period to 20 June 2012 by issuing new individual bearer shares against cash contribution or non-cash capital contribution with the approval of the Supervisory Board. The Management Board may also decide on the rights attributable to shares and the conditions of issuance with the consent of the Supervisory Board (authorised capital).

We would like to express our thanks to our staff, clients, suppliers and shareholders for the trust they have placed in us and our products.

Hans Dieter Rössler

THE CURASAN SHARE

STOCK MARKETS IN 2007

The German stock market profited from a positive environment at the beginning of the year. Greater economic growth, rising company profits and high dividend payments all helped to prompt a sharp rise in the DAX index. In July, the DAX even achieved an all-time high, briefly trading at 8,151.57 points.

However, the turbulence on the US mortgage market put a stop to this upward trend. In the second half, shareholders were unsettled following the sub-prime crisis, periodically prompting share prices to plummet.

The German share market proved very resilient in comparison to other major worldwide stock markets, however. When the DAX closed at 8,067.32 points on 28 December, it was still 22 per cent over its value at the beginning of the year. By way of comparison, the Euro Stoxx50 gained just 7 per cent in the past year while the Stoxx50 only recorded a slight increase. The global share index MSCI World finished 2007 on a minus.

PERFORMANCE OF THE CURASAN SHARE

The Prime Pharma and Health Performance Index serves as a benchmark for the curasan share. This index comprises all the Prime Standard companies operating within the pharmaceutical and healthcare industry. The value of the index developed well at the beginning of the year, starting the financial year at 1,702.81 points and reaching its highest value for the year – 2,082.74 points – on 7 May. In the second half, however, it was unable to remain immune to the consequences of the sub-prime crisis. With a closing price of 1,858.95 points, the average value of the Prime Standard companies active in pharmaceuticals and healthcare rose by 9.17 per cent in the course of the year.

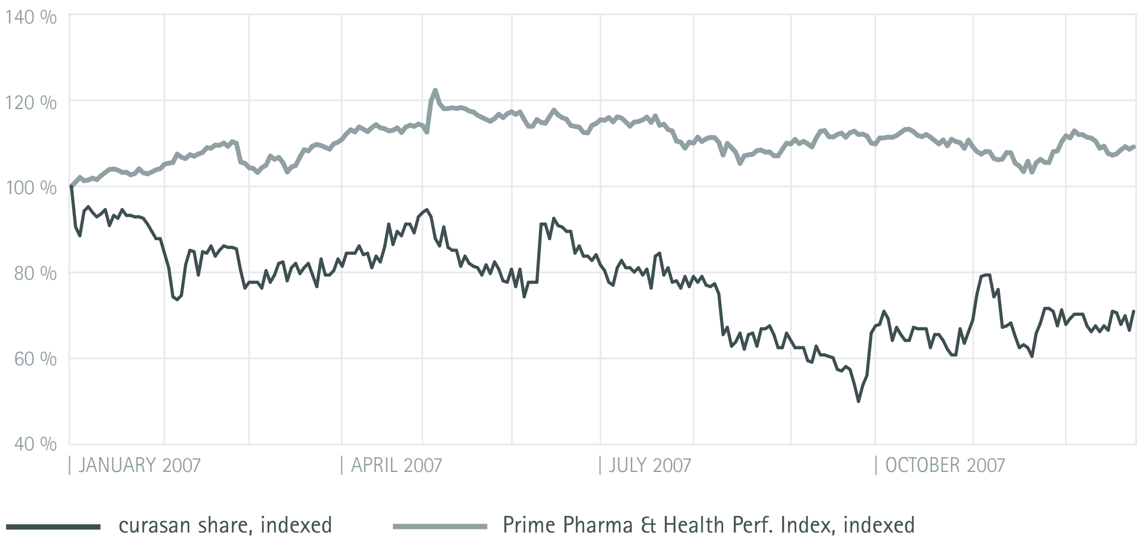
The curasan share started the year at € 2.96 before the sub-prime crisis and the ensuing market jitters dragged it down. Only after hitting its low for the year of € 1.48 on 25 September did the curasan share bounce back to finish the year at € 2.10.

The share experienced a particularly high trading volume in mid June when curasan was licensed to distribute the dental implant system REVOIS® in the USA. Further international successes with the bone regeneration material Cerasorb® M boosted the share at the end of the year. Approvals in South Korea, Brazil and Mexico have now given curasan AG access to another three major markets. This will allow us to tap synergies when expanding our marketing activities and benefit from additional sales potential.

FUNDAMENTALS

WKN/ISIN/code	549 453/DE 000 549 453 8/CUR
Type of stock	No-par value common stock
Number of shares	6.78 million
Free float	61.99 %
Closing price 2 Jan. 07/closing price 28 Dec. 07 (Xetra)	€ 2.96 / € 2.10
Highest/lowest closing price (Xetra)	€ 2.96 / € 1.48
Trading volume for Xetra and Frankfurt (2 Jan.–31 Dec. 07)	€ 6.28 million
Market capitalisation, year-end	€ 14.22 million
Free float factor acc. to Deutsche Börse AG	0.6199
Free float market capitalisation, 31 Dec. 07	€ 8.82 million

CURASAN SHARE PERFORMANCE



DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE ISSUED BY CURASAN AG PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

In 2001, the German Government appointed a Government Commission to develop a German Corporate Governance Code. This Code was finalised at the beginning of 2002. For the current and future corporate governance practised by curasan AG, the following Declaration refers to the requirements of the Code contained in the version dated 14 June 2007.

The Code comprises the following standards:
- ∇ Recommendations, which are indicated in the Code by the word "shall"
- ∇ Suggestions, which are indicated in the Code by the words "should" or "can"

With regard to the recommendations, Section 161 of the German Stock Corporation Act (AktG) specifies that listed companies must publish a Declaration of Conformity if they deviate from any recommendations. Companies may deviate from suggestions without having to provide any explanation.

Both the Management Board and the Supervisory Board of curasan AG are bound by the German Corporate Governance Code and issue an annual Declaration of Conformity accordingly. Neither the Management Board nor the Supervisory Board is aware of any points in which the principles contained in the respective version have been breached.

Deviations from the recommendations of the German Corporate Governance Code attributable to the company's Articles of Association are as follows:

Re point 2.3.1: Invitation to the Annual General Meeting

Only some of the reports and documents relating to the Annual General Meeting required by law also appear on the company's website.

Re point 4.2.1: Composition of the Management Board

Pursuant to Section 5 (1) of the Articles of Association of curasan AG, the Management Board shall consist of one or more members. Currently, the Management Board of curasan AG consists of one person.

Re points 4.2.2 and 4.2.3 and 4.2.4: Itemised Management Board compensation

Compensation of the Management Board members was and is reported and itemised as fixed and variable components. There are no plans to incorporate variable components and long-term incentive components, as the sole member of the Management Board is also the principal shareholder of the company. Since increasing the value of the company is in his own natural interest, no additional incentive systems are deemed necessary.

Re points 5.1.2 and 5.4.1: Age limits for Management Board and Supervisory Board members

The German Corporate Governance Code recommends specified age limits for members of the Supervisory Board. curasan AG is setting an age limit of 67 for Supervisory Board and Management Board members. This means that when the Supervisory Board is elected or the Management Board appointed, candidates may not have reached the age of 67. This brings the company's age limit in line with the general retirement age.

Re point 5.3: Formation of qualified committees

The Supervisory Board of curasan AG is comparatively small, consisting of just three members. For this reason, it does not require any qualified committees or an audit committee. The Supervisory Board of curasan AG as a whole addresses all matters of financial reporting, risk management and compliance with due diligence.

Re point 5.4.7: Supervisory Board remuneration

Pursuant to Section 12 (1) of the Articles of Association of curasan AG, the deputy chairman of the Supervisory Board receives no separate remuneration. The Articles of Association of curasan AG specify a fixed level of compensation for members of the Supervisory Board. No performance-related remuneration is currently offered.

Kleinostheim, December 2007

The Management Board The Supervisory Board

MANAGEMENT REPORT OF THE CURASAN GROUP (GROUP MANAGEMENT REPORT) FOR THE 2007 FINANCIAL YEAR

FOR THE PURPOSES OF TRANSPARENCY, THE MANAGEMENT REPORT HAS BEEN COMPILED SEPARATELY FOR THE GROUP AND THE PARENT COMPANY.

I. REVIEW OF BUSINESS DEVELOPMENTS

Economic conditions and legal framework

Now that it has started distributing the dental implant system REVOIS® after acquiring the licensing rights at the end of the previous year, curasan AG plans to focus on the dental market in terms of sales while continuing to pursue research and development activities for the entire market of regenerative medicine.

For some years now, the market for dental implants has been growing. Experts agree that the annual revenue percentage growth rate will remain in double figures in the future as implants are considered a better option than bridges and dentures. In Western countries, some 220 million people have a dental status where implants would be the recommended solution. 65 million could comfortably afford this form of treatment, while the rest would have to save up for it. However, many more dentists need to be training in implantology in order to tap this huge potential. The May 2006 edition of the Journal of Dental Technology featured a report by iData Research which forecasts average annual growth of 16.2 per cent for the American market to some US$800 million in 2012. In June 2007, curasan AG was awarded FDA certification to distribute REVOIS® in the USA. The subsequent market launch marked the company's entry into the highest-revenue and most profitable segment of dental surgery.

Research by Deutsche Bank shows that the market for bone regeneration materials for dental use will virtually double in the period from 2004 to 2010. The USA alone accounts for 60 per cent of this market. With a year-on-year increase in revenue of almost 100 per cent, our subsidiary curasan, Inc. is sharing in this market growth with the synthetic bone regeneration material Cerasorb®. The market volume for synthetic synovial fluid used in the treatment of osteoarthritis and bone growth factors – markets in which curasan AG is also represented with proprietary products – is also developing very pleasingly.

In the coming years, a number of products from our well-stocked R & D pipeline will be out-licensed for distribution. We hope to distribute these products via multinationals in niche markets which are difficult to access for curasan, i.e. wound healing disorders, burns, skin transplants, plastic surgery, orthopaedics, the spinal column, traumatology and tissue engineering. In addition to this, we will continue to expand our range of products for self-distribution in the dental market.

A number of personnel precautions were taken to ensure that curasan AG makes fast market progress. The management of curasan AG consists of the company's founder and sole Management Board member, Hans Dieter Rössler. The extended management team comprises the finance manager, the national sales manager and one international sales manager, the divisional manager for medical products, and the technical manager in charge of research and development. In addition to directing their respective areas of responsibility, the company's senior managers are accountable for risk management.

Organisational structure

The majority of the curasan Group's business activities are attributable to curasan AG (production, research and development, sales and administration). The foreign subsidiaries curasan Benelux B.V. (Veenendaal, Netherlands) and curasan, Inc. (Raleigh, USA) are structured entirely as sales organisations. In the 2007 financial year, the subsidiary Pro-tec GmbH produced the haemostatic product stypro®. Given the long-term loss situation at Pro-tec GmbH, the management decided to stop manufacturing stypro® as of 31 December 2007 and outsource production. The contract manufacturer has extensive experience in producing and marketing gelatin sponges.

Major new contracts and approvals in the 2007 financial year

On 26 March 2007, Kensey Nash Corporation, USA, awarded curasan AG the worldwide distribution rights for the bioresorbable Epi-Guide® membrane. The two companies thereby extended the successful cooperation established in 2001, which until now covered sales in Germany, various other European countries, and – since 2005 – the USA.

On 12 June 2007, curasan AG received certification from the FDA for its dental implant system REVOIS®, which can now be marketed in the USA as a medical product. Its market launch took place at the ICOI congress in Las Vegas in late January 2008.

In November 2007, curasan AG was granted medical product approvals for its synthetic bone regeneration material Cerasorb® M in South Korea, Brazil and Mexico.

Capital measures at the parent company

In connection with the acquisition of the REVOIS® licence, curasan AG conducted a capital increase dated 5 January 2007 by issuing 500,000 new bearer shares against a non-cash capital contribution. The issue price of the new shares was € 2.10 per share. The new shares are entitled to dividends as of 1 January 2007. The surplus of € 600,000 was allocated to capital reserves. On 1 March 2007, curasan AG placed a capital increase consisting of 525,000 new bearer shares against cash contribution. The new shares were subscribed by institutional investors as part of a private placement. The issue price for the new shares was € 2.41 per share. They are entitled to dividends as of 1 January 2007. The surplus of € 740,250 was allocated to capital reserves. The € 1,025,000 increase in share capital to € 6,775,000 including the cash and non-cash capital increase utilised the existing authorised capital. Equity therefore increased by a total of € 2,365,250 in the 2007 financial year.

Employees

As at the balance sheet cut-off date, the Group had 61 employees, compared with 68 in the previous year.

The Management Board would like to thank all of its staff for their commitment in working towards the Group's success.

The year-on-year change in staffing levels is outlined below.

Employees (full-time)	2007	2006
Marketing/sales	32	34
Operations	18	19
Research/regulatory affairs	4	5
Finance/controlling	3	5
Administration	4	5
Total	61	68

II. STATUS REPORT

Financial position

The balance sheet total decreased by € 2.7 million to € 8.5 million in the reporting year. On the assets side, this was largely the result of a decrease in fixed assets due to depreciation and amortisation, despite allowing for subsequent acquisition costs of € 0.3 million in connection with the REVOIS® licence, and – to a greater extent – a € 1.1 million total drop in current and non-current other assets. This decrease resulted from payment of the remaining purchase consideration from the sale of a business unit in previous years. In addition to this, inventories were down € 0.4 million, primarily following the disposal of stocks of stypro®, Cerasorb® M and REVOIS®, and cash decreased by € 0.5 million. Assets from discontinued activities account for 2.6 per cent of the balance sheet total (previous year: 2.3 per cent).

Despite the capital increases for cash and assets other than cash conducted in the reporting period (access to total equity of € 2.4 million), equity was down € 1.8 million due to the € 4.0 million loss for the year.

In addition to the € 1.6 million total decrease in equity and other current and non-current liabilities, the liabilities side was dominated by an increase in other current provisions (€ 0.4 million) and trade accounts payable (€ 0.2 million). As in the previous year, provisions included restoration obligations for our production site in Frankfurt (€ 0.1 million; previous year: € 0.1 million), personnel-related provisions (€ 0.1 million; previous year: € 0.1 million) and costs in connection with the acquisition of the REVOIS® licence, including subsequent procurement costs (€ 0.4 million). The provisions and liabilities relating to discontinued activities predominantly consist of provisions for impending losses in conjunction with the suspension of production at Pro-tec GmbH (€ 0.2 million; previous year: € 0).

Cash flows

Cash and cash equivalents developed as follows:

(€ million)	2007	2006
Cash flow from operating activities	(2.2)	(2.5)
Cash flow from investing activities	0.8	(0.1)
Cash flow from financing activities	1.5	0.0
Cash and cash equivalents at 1 January	0.3	2.9
Cash and cash equivalents at 31 December	0.2	0.3

Although the cash flow from operating activities improved on the previous year at - € 2.2 million, it remained negative because the curasan Group once again posted a loss for the year. At - € 0.7 million (previous year: - € 0.6 million), the change in assets less liabilities for discontinued activities contributed to this development. The cash flow from investing activities was positive due to payments of € 0.8 million in connection with the reimbursement of the remaining purchase price for Delta Select. Due to the positive € 1.5 million cash flow from financing activities arising from the capital increase for cash and proceeds from short-term loans at Sparkasse Aschaffenburg-Alzenau, cash and cash equivalents came to € 0.2 million. As in previous years, this illustrates that the curasan Group is not yet in a position to generate the necessary funds from operating activities and is still dependent on external sources of equity and lenders.

The make-up of the cash and cash equivalents changed in comparison with the figure posted for the previous year in that the bank overdraft facilities with short-term maturities used by the curasan Group for treasury management in the relevant reporting periods were included in the figure. The previous year's figure has been adjusted accordingly. Cash and cash equivalents were made up as follows:

(€ million)	2007	2006
Cash	0.7	1.1
Overdraft facilities used	(0.5)	(0.8)
Cash and cash equivalents	0.2	0.3

Cash includes time deposits totalling € 600 thousand, which serve to secure a loan from Sparkasse Aschaffenburg-Alzenau and are therefore not freely available. As at 31 December 2007, the company therefore had available cash totalling € 34 thousand plus the unutilised overdraft facility worth € 178 thousand for treasury management (total overdraft facility: € 700 thousand).

As at 28 February 2008, the Group posted cash totalling € 50 thousand.

Earnings position

The curasan Group generated revenue of € 9.7 million in the year under review (previous year: € 8.4 million).

Revenue therefore grew by 15.8 per cent year on year.

Quarter (€ million)	2007	2006	Diff.
I	2.6	2.1	0.5
II	2.6	2.0	0.6
III	2.2	2.1	0.1
IV	2.3	2.2	0.1
Total	9.7	8.4	1.3

Broken down into the individual Group companies, revenue developed as follows:

(€ million)	2007	2006	Diff.
curasan AG	8.0	7.0	1.0
curasan, Inc.	1.4	0.7	0.7
curasan Benelux	1.1	1.1	0.0
Pro-tec GmbH	0.3	0.1	0.2
Minus intra-Group sales	(1.1)	(0.5)	(0.6)
Total	9.7	8.4	1.3

The growth in revenue from biomaterials was largely due to REVOIS®. The Group also saw a sharp increase in revenue from its proprietary products Cerasorb®, Curavisc® for osteoarthritis and the Epi-Guide® membrane. The revenue generated with stypro® remained constant but failed to meet our expectations due to delays in the transition from in-house to outsourced packaging operations.

Products (€ million)	2007	2006	Diff.
Biomaterials	8.3	6.9	20 %
Pharmaceuticals	1.4	1.5	(6 %)
Total	9.7	8.4	16 %

In regional terms, revenues were mainly generated in Germany and Europe as a whole, but the Group also saw significant growth rates in the USA.

Regions (€ million)	2007	2006	Diff.
Europe	7.5	7.2	4 %
Middle East	0.2	0.2	0 %
Asia	0.6	0.3	100 %
USA	1.4	0.7	100 %
Total	9.7	8.4	16 %

The cost of materials within the Group amounted to € 3.9 million, which corresponds to 38.5 per cent of the curasan Group's total output (sales revenues plus changes in inventories) compared with 39.8 per cent in the previous year. The improved margin is primarily attributable to sales of the high-margin product REVOIS®.

The decrease in other operating income is the result of a settlement payment arising from arbitration proceedings in the USA. This payment of € 0.4 million was recorded in the previous year.

Personnel expenses remained unchanged on the year at € 3.9 million.

At Group level, depreciation/amortisation expenses and write-downs totalled € 0.9 million, as opposed to € 0.6 million in the year before. This increase was partly due to acquiring the licence for REVOIS® at the end of the previous year. In addition to this, write-downs of € 140 thousand (previous year: € 100 thousand) were conducted on licences and distribution rights which are no longer used.

Other operating expenses included legal fees for proceedings against former sales partners in the USA and came in at € 4.6 million (previous year: € 4.7 million).

The net finance result and tax expenses developed as expected. Overall, the result of ongoing business activities improved by € 0.6 million, primarily due to the increased gross profit. The result of discontinued activities worsened by € 0.4 million due to high costs in conjunction with the closure of Pro-tec GmbH. All in all, the consolidated income statement shows a loss for the year of € 4.0 million (previous year: € 4.3 million).

Earnings as per DVFA/SG (€ thousand)	2007	2006
Consolidated earnings	(4,092)	(4,300)
of which from ongoing activities	(3,145)	(3,703)
of which from discontinued activities	(947)	(597)
Number of shares, average (thousand)	6,775	5,750
per share, ongoing activities (€)	(0.46)	(0.64)
per share, discontinued activities (€)	(0.14)	(0.11)

Cash earnings as per DVFA/SG (€ thousand)	2007	2006
Consolidated earnings	(4,092)	(4,300)
Depreciation and amortisation of fixed assets	960	682
Change in long-term provisions	(53)	(120)
Cash earnings	(3,185)	(3,738)
Number of shares, average (thousand)	6,775	5,750
per share (€)	(0.47)	(0.65)

III. RESEARCH, DEVELOPMENT AND REGULATORY AFFAIRS

In the course of 2007, major steps were taken towards developing new products. For the first time, the development of a paste form of Cerasorb® was successfully tested in living tissue; it displayed outstanding biocompatibility and significantly faster resorption behaviour together with noticeable cellular activity, without stimulating a negative immune response.

A series of in vivo tests was completed with the bone bonding agent in small animals without complications. It confirmed the impressive data on biocompatibility and biomechanics already available. A second study was subsequently initiated in large animals. The results of this second set of animal experiments are expected in mid 2008; preliminary results have confirmed our positive expectations.

Production papers have been drawn up for three developments. Various investments are to be made next year to transform the product developments into medical preparations suitable for permanent production.

The observational study for the hyaluronic acid preparation Curavisc® involving 400 patients resulted in considerable improvements in symptoms which lasted well beyond the treatment period. At approximately one in a thousand, the likelihood of side effects is very low, especially in comparison to other hyaluronic acid preparations. In April, the 1 ml preparation Curavisc® mini was approved. This was developed specially for the treatment of smaller joints such as the facet joints.

On 23 March 2007, the 11th "Frankfurt Implantology Day" was held at the International Dental Show (IDS) in Cologne. The event focused on the principles behind bone regeneration and modern regeneration methods, especially those which use Cerasorb®, and talks covering the material properties, design and clinical experience of the dental implant system REVOIS®. The day was rounded off by an expert forum, where delegates and speakers engaged in an animated exchange of expertise and ideas.

In the past financial year, a total of €0.4 million was invested in research and development, €0.1 million of which was attributable to personnel. Expenditure for regulatory affairs came to € 0.4 million, with staff costs making up € 0.2 million of that figure. A total of €0.8 million (previous year: €0.7 million) was therefore spent on R & D.

IV. REMUNERATION REPORT

Management Board remuneration

The Supervisory Board determines the remuneration of the Management Board members. This remuneration consists solely of a fixed component – variable components are explicitly not payable. The Management Board also receives remuneration in kind, which includes among other elements the use of a company car and retirement benefits. The fixed component of Management Board remuneration amounted to €251 thousand in the 2007 financial year (previous year: €245 thousand).

Supervisory Board remuneration

Supervisory Board remuneration is determined in accordance with the Articles of Association. The members of the Supervisory Board each receive a fixed annual sum – variable components are explicitly not payable. The Chairperson receives € 20 thousand, while the two remaining members of the Supervisory Board each receive € 10 thousand. As regards meetings attended by the Supervisory Board, each member receives the same fixed amount – €1.5 thousand – per day. Supervisory Board remuneration totalled € 71 thousand in the 2007 financial year (previous year: €66 thousand).

V. DISCLOSURES PURSUANT TO TAKEOVER REGULATIONS

> The share capital of curasan AG as at the balance sheet cut-off date totalled € 6,775,000. It is divided into 6,775,000 individual bearer shares.

> The Management Board of curasan AG is not aware of any limitations concerning the voting rights or the transfer of shares.

> As of the balance sheet date, Mr Hans Dieter Rössler had a holding of some 33 per cent in curasan AG. The Management Board knows of no further direct or indirect holdings that exceed 10 per cent of the voting rights.

> Shares with special rights granting supervisory powers have not been issued.

> No voting right checks for employees are planned.

> Section 5 of the Articles of Association stipulates that the Management Board shall comprise one or more members.

The Supervisory Board determines the exact number of members on the Management Board. The Supervisory Board also decides on the conclusion, alteration or cancellation of employment contracts with the members of the Management Board.

> Section 7 of the Articles of Association stipulates that the Supervisory Board shall comprise three members. The members of the Supervisory Board are elected by the Annual General Meeting.

> As regards changes to the Articles of Association, the statutory regulation applies, according to which the Annual General Meeting decides. Section 19 of the Articles of Association stipulates that changes to the Articles of Association which only relate to their wording can be implemented by the Supervisory Board.

> Following the Annual General Meeting resolution dated 21 June 2007, the Management Board is authorised to increase the company's share capital, in one or more stages, by up to a total of € 3,000,000 in the period to 20 June 2012 by issuing new individual bearer shares against cash contribution and/or non-cash capital contribution with the approval of the Supervisory Board. The Management Board may also decide on the rights attributable to shares and the conditions of issuance with the consent of the Supervisory Board (authorised capital). With the Supervisory Board's consent, the Management Board is also authorised to suspend the shareholders' statutory subscription rights for residual amounts. The same also applies in the case of a capital increase for cash if the new shares for which the subscription right is suspended do not account for more than 10 per cent in total of the share capital available at the time when the new shares are issued and the issue price of the new shares is not materially lower than the price of shares of the same class and with equivalent rights already listed on the stock exchange at the time at which the issue price is finally determined by the Management Board as per Section 203 (1 and 2), Section 186 (3) sentence 4 of the German Stock Corporation Act (AktG). The same shall also apply in the case of a capital increase for assets other than cash.

> No substantial agreements exist on the part of curasan AG subject to a change of control resulting from a takeover bid.

> The company has not entered into any compensation agreements with members of the Management Board or employees for the event of a takeover bid.

VI. RISK REPORT

Risk management objectives and methods

The Group, which in the financial year under review was subject to legally binding quality assurance regulations mainly with regard to medical products, is committed to maintaining the requisite quality management systems within the respective areas of its business. These systems have been certified by independent specialists. As regards the ongoing activities of the Group, there were no problems or indications of significant risks relating to the organisation of these systems or emanating from the systems in the financial year just ended.

In 2007, the risk-related early warning system was again updated by those responsible for supervising specific functional areas in the Group. Within this context, risks were determined and evaluated on the basis of certain criteria, using a matrix system. The risk-related early warning system encompasses the entire Group. The Management Board reports to the Supervisory Board, on a regular basis, any information regarding latent risk and provides details of appropriate measures taken to counteract such risks. As regards insurable risks, the company endeavours to provide a sufficient and appropriate level of insurance protection to satisfy legal regulations and to meet the requirements of an enterprise of this size. An independent expert is regularly consulted for the purpose of evaluating the efficacy and appropriateness of the aforementioned insurance cover.

The reputation of curasan AG and its subsidiaries is of immense importance when it comes to attracting new investors, business associates and employees. It is with this in mind that the Supervisory Board and the Management Board resolved to comply with the provisions outlined in the German Corporate Governance Code. The Declaration of Conformity as regards the German Corporate Governance Code can be accessed via curasan's corporate website.

RISKS AND OPPORTUNITIES ASSOCIATED WITH FUTURE DEVELOPMENT

Risks threatening the existence of the Group

(a) Liquidity risks

Due to negative business developments, the curasan Group's liquidity situation remains tense. In the 2007 financial year, the Group posted a negative operating cash flow of € 2.2 million, which it was able to compensate for by means of a capital increase and a bank loan. Although we plan to considerably boost revenue, we expect another liquidity squeeze in 2008. We anticipate the cash burn rate to ease up significantly by year-end – primarily due to major revenue growth with REVOIS® and the demand for Curavisc®, which is already much higher than planned. However, further short-term financing and restructuring activities are necessary to safeguard the curasan Group's continuing operations until year-end. For this reason, we have resolved to take the following steps, which have also largely been implemented:

> On 19 December 2007, an agreement was concluded with Sparkasse Aschaffenburg-Alzenau for a loan of € 811 thousand. The loan attracts interest at a rate of 5.85 per cent p. a. and is repayable on 30 April 2008. The majority shareholder Mr Rössler pledged credit balances and savings bonds to secure the loan. Mr Rössler issued a written declaration on 13 March 2008 stating that should curasan be unable to repay the loan when it becomes due, he will grant the company a loan equivalent to the amount covered by the right of lien. This loan will not become due until curasan has overcome its liquidity squeeze and is in a position to repay the loan.

> Mr Rössler also granted curasan a further bridging loan of € 200 thousand in January 2008, based on an original loan agreement dated 9 August 2007 (for € 1.0 million, of which € 800 thousand was financed by Sparkasse Aschaffenburg-Alzenau). Interest of 7.5 per cent p. a. is payable on the bridging loan, which becomes repayable when certain options for the sale of a product can successfully be concluded. As collateral, all of the rights relating to the Curavisc® product were transferred to Mr Rössler.

> On 20 March 2008, a € 500 thousand increase in the overdraft facility from € 700 thousand to € 1,200 thousand was arranged in writing with Sparkasse Aschaffenburg-Alzenau. An absolute suretyship furnished by Mr Rössler serves as collateral.

> The subsidiaries curasan, Inc. and Pro-tec GmbH will draw considerably fewer funds from the parent company in conjunction with the planned business expansion and suspension of production (Pro-tec GmbH). Furthermore, we expect arbitration proceedings in the USA to be concluded successfully, resulting in an inflow of funds.

> In addition to this, we are currently examining further external financing options, such as the sale of the Mitem® product, a drug used in oncology. By streamlining our product range in this way, we aim to continue sharpening our focus on bone and tissue regeneration. We are also currently negotiating with investors in the USA regarding options to penetrate the US market faster.

Given the financing measures that have been implemented and assuming that the revenue which forms the basis of the liquidity plans is generated as anticipated, the curasan Group's solvency and therefore continuation of its business operations are safeguarded until at least the end of the 2008 financial year. Once the planned restructuring activities take effect, the Group's ongoing operations will be secured beyond 2008.

(b) Risks arising from the current equity situation

As the business situation remained negative in year under review, the curasan Group's equity decreased to € 2.9 million as at 31 December 2007 following € 4.7 million in the previous year, despite a capital increase. The Group's share capital has therefore been eroded by € 3.8 million to € 6.8 million; equity now makes up around just 44 per cent of the share capital.

The Group's profit forecast for the 2008 financial year projects sales revenues of € 11.5 million and a balanced result. In the first two months of 2008, the Group generated sales revenues of € 1.8 million, € 0.3 million up on the year. We still expect to achieve our revenue and profit targets. The curasan Group's current negative equity situation will only improve if the restructuring measures have the desired effect and if we exceed our revenue and profit forecasts.

Industry and sales risks

Regenerative medicine is a sector which has been growing continuously for a number of years and is expected to keep growing strongly. However, patients often have to fund all or part of their own treatment. Should an economic crisis occur, this could curb growth.

Default risk

Ongoing factoring of a large proportion of customer receivables protects the company from any significant bad debts. As a result, the risk of default is considered relatively low. Risks associated with international business activities are addressed by implementing prudent assessments and organisational measures. Within this context, for example, we regularly check international customers' accounts receivable before executing delivery orders that exceed a specific level. Moreover, prior to engaging in business with new accounts, we scrutinise independent credit reports. Deliveries to customers from specific countries are only executed once we have received the invoiced amount in advance or once a letter of credit has been furnished.

Pricing risk

The risk of the company's acquisition costs increasing is deemed low as it has concluded agreements – some of them long term – with its suppliers which rule out significant pricing changes to the detriment of the company.

Opportunities

The curasan Group will grow organically with its whole product portfolio. In 2008, a new product will be licensed to harness autologous growth factors. We hope that a newly developed bone replacement material will also be licensed in late 2008/early 2009. This material is designed for cases where rapid bone formation is not desirable.

We will soon conclude a contract which will expand our portfolio by adding end products aimed at our target group. This could very quickly boost revenue by 10 per cent.

Together with our existing products (Cerasorb®, REVOIS®, Curavisc® and membranes), these planned new additions will have a positive effect on business developments and contribute towards growth.

VII. SUPPLEMENTARY REPORT

To bridge the tense earnings and liquidity situation, the management has initiated measures which are currently under discussion. Talks are being held with US investors regarding targeted investments in opening up the market there. These were already at an advanced stage when the management report went to press. In addition to this, there are concrete negotiations concerning the sale of Mitem®, a drug used in oncology. By streamlining our product range in this way, we aim to continue sharpening our strategic focus on bone and tissue regeneration with the support of a good liquidity position in future.

There were no further significant events to report after the balance sheet date.

VIII. FORECAST

(€ million)	2007 actual	2008 target
Sales revenues	9.7	11.5
Net profit/loss for the year	(4.0)	0.0
Equity	2.9	2.9

The forecast for the coming financial year projects a double-digit percentage growth rate for revenue to € 11.5 million and a balanced result. The first two months developed very pleasingly – the Group slashed its costs and posted a 19 per cent increase in revenue on the year. However, this fell just short of the target figures.

In September, the company outsourced warehouse administration and integrated its order-booking staff into the Lindigstraße site or the sales team. This move generated synergies in sales, allowing us to cut costs and therefore improve liquidity. The suspension of production at Pro-tec GmbH has had a major positive effect on both liquidity and the earnings position. However, the cost-cutting measures we have taken will only be felt in full during the course of 2008.

In the 2008 financial year, Cerasorb® is set to remain the main core revenue driver in its various sizes and forms. The launch of REVOIS® in the USA is expected to provide a second pillar upon which to build revenue and significantly improve earnings at curasan AG, particularly in view of the attractive profit margins associated with this product. The REVOIS® implant system is also finding favour with a growing number of users in neighbouring France. We have received a number of orders for Curavisc® from newly tapped export markets.

We aim to continue significantly ramping up our export activities and their share of business. One of our focal points will be various Asian markets such as Korea, Taiwan and Vietnam. Based on the positive business developments there, France now looks set to develop into our most important market in Western Europe after Germany.

Our outsourcing measures regarding warehousing and order picking will have an appreciable positive effect on costs. We have already seen a real improvement in liquidity following the suspension of production at Pro-tec GmbH.

To bridge the tense liquidity situation, the management has initiated measures which are currently under discussion. These include talks with US investors. In addition to this, we are engaged in negotiations concerning the sale of the product Mitem®.

It is important to stress that the future development of the curasan Group rests to a large extent on the ongoing financial support of the Management Board/majority shareholder and external lenders. However, the aforementioned measures to ease the company's tense liquidity and earnings position can be realised in the 2008 financial year.

Kleinostheim, 25 March 2008

Hans Dieter Rössler

CONSOLIDATED FINANCIAL STATEMENTS OF CURASAN AG (IFRS/IAS)

CONSOLIDATED FINANCIAL STATEMENTS OF CURASAN AG (IFRS/IAS)

CONSOLIDATED BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2007 (IFRS/IAS)

Assets (€ thousand)	Note	31.12.07	31.12.06
A. Current assets			
1. Cash and cash equivalents	5.1	684	1,139
2. Trade accounts receivable	5.2	859	965
3. Inventories	5.3	1,783	2,224
4. Current assets from discontinued activities	6.4	88	99
5. Other current assets	5.4	332	857
6. Prepaid expenses		0	25
Total		**3,746**	**5,309**
B. Non-current assets			
1. Intangible assets	5.5	3,086	3,541
2. Property, plant and equipment	5.5	1,430	1,528
3. Deferred taxes	5.6	129	165
4. Non-current assets from discontinued activities	6.4	136	162
5. Other assets	5.7	0	550
Total		**4,781**	**5,946**
		8,527	**11,255**

Equity and liabilities (€ thousand)	Note	31.12.07	31.12.06
A. Current liabilities			
1. Short-term bank borrowings	5.8	1,952	1,487
2. Trade accounts payable	5.9	1,436	1,228
3. Provisions	5.10	935	502
4. Other current liabilities	5.8/5.11	806	1,875
5. Current liabilities and provisions from discontinued activities	6.4	239	23
Total		**5,368**	**5,115**
B. Non-current liabilities			
1. Long-term debt	5.8	0	572
2. Pension provisions	5.12	210	263
3. Other non-current liabilities	5.8/5.11	0	544
Total		**210**	**1,379**
C. Equity			
1. Subscribed capital		6,775	5,750
2. Capital reserves		22,099	20,803
3. Translation reserve		(62)	(21)
4. Accumulated losses brought forward		(21,771)	(17,471)
5. Net loss for the period from ongoing activities		(3,145)	(3,703)
6. Net loss for the period from discontinued activities		(947)	(597)
Total		**2,949**	**4,761**
		8,527	**11,255**

CONSOLIDATED INCOME STATEMENT (IFRS/IAS) FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2007

(€ thousand)	Note	31.12.07	31.12.06
Sales revenues	4.1	9,716	8,389
Changes in inventories of finished goods and work in progress	4.1	206	(186)
Total output		**9,922**	**8,203**
Cost of materials and services purchased	4.2	(3,821)	(3,262)
Gross profit from ongoing activities		**6,101**	**4,941**
Other operating income	4.1	371	739
Staff costs	4.3	(3,912)	(3,931)
Depreciation and amortisation of non-current assets	4.4	(925)	(647)
Other operating expenses	4.5	(4,591)	(4,706)
Operating result		**(2,956)**	**(3,604)**
Net interest income	4.6	(125)	(67)
Financial result		**(125)**	**(67)**
Income taxes	4.7	(64)	(32)
Result of ongoing activities		**(3,145)**	**(3,703)**
Result of discontinued activities	6.4	(947)	(597)
Consolidated net loss for the year		**(4,092)**	**(4,300)**
Number of shares in 2007: average		**6,775**	**5,750**
Earnings per share, ongoing activities (undiluted, IFRS/IAS; €)		**(0.46)**	**(0.64)**
Earnings per share, discontinued activities (undiluted, IFRS/IAS; €)		**(0.14)**	**(0.11)**

The undiluted earnings per share are identical to the diluted earnings per share as no options have been issued.

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2006

(€ thousand)	Subscribed capital	Capital-reserves	Translation reserve	Acc. losses brought forward	Net profit/ loss for the year	Total
Balance at 1 Jan. 2006	5,750	20,803	5	(17,471)	0	9,087
Change	0	0	(26)	0	(4,300)	(4,326)
Balance at 31 Dec. 2006	5,750	20,803	(21)	(17,471)	(4,300)	4,761

CASH FLOW STATEMENT
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2007

(€ thousand)	2007	2006
Net profit/loss for the year from ongoing activities	**(3,145)**	**(3,703)**
Net profit/loss for the year from discontinued activities	**(947)**	**(597)**
Depreciation and amortisation of fixed assets, ongoing activities	925	647
Depreciation and amortisation of fixed assets, discontinued activities	35	35
Loss from the disposal of fixed assets	(115)	0
Changes in deferred taxes	64	33
Change in assets less liabilities and provisions, discontinued activities	226	(36)
Change in long-term provisions, ongoing activities	(53)	156
Change in trade accounts receivable and other current assets, ongoing activities	497	828
Change in trade accounts payable and other current liabilities and provisions, ongoing activities	328	106
Cash flow from operating activities	**(2,185)**	**(2,531)**
Proceeds from sale of a business unit	1,150	0
Payments for investments in intangible assets and property, plant and equipment	(354)	(114)
Cash flow from investing activities	**796**	**(114)**
Proceeds from increases in equity	1,221	0
Proceeds from/payments for bank borrowings/repayment of bank borrowings	236	(32)
Cash flow from financing activitiess	**1,457**	**(32)**
Net change in cash and cash equivalents	68	(2,677)
Non-cash change in cash and cash equivalents	(140)	0
Effect of exchange rate changes on cash and cash equivalents	(41)	(26)
Cash and cash equivalents at the beginning of the period	278	2,981
Cash and cash equivalents at the end of the period	165	278
Composition of cash and cash equivalents at the end of the year:		
Deposits at banks, ongoing activities	684	1,139
Deposits at banks, discontinued activities	3	4
Overdraft facility used	(522)	(865)

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2007

(€ thousand)	Subscribed capital	Capital-reserves	Translation reserve	Acc. losses brought forward	Net profit/loss for the year	Total
Balance at 1 Jan. 2007	5,750	20,803	(21)	(21,771)	0	4,761
Change	1,025	1,296	(41)	0	(4,092)	(1,812)
Balance at 31 Dec. 2007	6,775	22,099	(62)	(21,771)	(4,092)	2,949

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2007 FINANCIAL YEAR

1. GENERAL INFORMATION

Since 20 July 2000, curasan AG, Lindigstraße 4, 63801 Kleinostheim, has been operating as a stock corporation (Aktiengesellschaft) listed in the Regulated Market within the Prime Standard segment. The company's registered offices are in Kleinostheim, Federal Republic of Germany. curasan AG is entered in the commercial register at Aschaffenburg District Court under reference HR B 4436. Under Section 267 (3) of the German Commercial Code (HGB), curasan is classified as a large corporation.

The object of the company is the production and distribution of drugs as well as medical and diagnostic products. In the reporting year, the discontinued activities of Pro-tec GmbH are shown separately. The previous year's figures (balance sheet, income statement, cash flow statement, statement of changes in equity) have been adjusted accordingly (cf. Note 6.4).

As a listed parent company governed by Section 3 of the German Stock Corporation Act (AktG) and operating within an organised market within the meaning of Section 2 (5) of the Securities Trading Act (WpHG), curasan AG has prepared the consolidated financial statements according to international accounting standards, as required under Article 4 of Regulation (EC) 1606/2002 issued by the European Parliament and Council dated 19 July 2002, in conjunction with Section 315a of the German Commercial Code (HGB).

On the basis of this Regulation, the consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards/International Accounting Standards (IFRS/IAS) published by the International Accounting Standards Board (IASB). For the financial year under review, all IFRS/IAS applicable at the reporting date as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) – formerly the Standards Interpretation Committee (SIC) – have been applied.

These consolidated financial statements prepared in accordance with IFRS are in compliance with the European Union Directive on Consolidated Accounts (Directive 83/349/EEC).

The consolidated financial statements are prepared in euros. Unless otherwise stated, all figures are rounded to the nearest thousand euros. The financial year corresponds to the calendar year.

The following legal information is of importance:

In the reporting year, the company's share capital was increased by a total of € 1,025 thousand against cash and non-cash contributions. The difference between the nominal increase and the share issue price less the costs of the capital increase (€ 44 thousand) was allocated to capital reserves (€ 1,296 in total).

At the Annual General Meeting on 21 June 2007, the shareholders resolved to authorise the Management Board – subject to the Supervisory Board's consent – to launch a stock option plan for Management Board members, selected executives and other key members of staff at curasan AG and its subsidiaries in the period up to 20 June 2012. The company did not make use of this authorisation in 2007. The same Annual General Meeting resolution also provides for a conditional increase in the company's share capital in order to secure subscription rights by issuing up to 677,500 individual bearer shares.

The Management Board is also authorised to increase the company's share capital, in one or more stages, by up to a total of € 3,000,000 in the period to 20 June 2012 by issuing new individual bearer shares against cash contribution or non-cash capital contribution with the approval of the Supervisory Board. The Management Board may also decide on the rights attributable to shares and the conditions of issuance with the consent of the Supervisory Board (authorised capital).

Subject to the agreement of the Supervisory Board, the Management Board is furthermore authorised to suspend shareholders' statutory subscription rights,

> in the case of residual amounts,

> in the case of a capital increase for cash if the new shares for which the subscription right is suspended do not account for more than 10 per cent in total of the share capital available at the time when the new shares are issued, and the issue price of the new shares is not materially lower than the price of shares of the same class and with equivalent rights already listed on the stock exchange at the time at which the issue price is finally determined by the Management Board as per Section 203 (1 and 2), Section 186 (3) sentence 4 of the German Stock Corporation Act (AktG),

> in the case of a capital increase for assets other than cash.

The consolidated companies were included on the basis of their annual financial statements as at 31 December 2007. These consolidated financial statements were approved for publication by the Management Board on 12 March 2008.

2. SCOPE OF CONSOLIDATION

As at 31 December 2007, the consolidated group includes the parent company curasan AG plus the entities listed below.

Name and registered offices	Ownership interest	Date of initial consolidation
curasan Benelux B.V., Veenendaal/Netherlands	100%	31 Dec. 1998
Pro-tec Medizinische Produkte GmbH, Kleinostheim	100%	1 Mar. 2001
curasan, Inc., Raleigh/USA	100%	1 Mar. 2004

At the balance sheet date, curasan AG did not hold any equity interests other than those held in entities included in the consolidated financial statements.

3. ACCOUNTING AND VALUATION PRINCIPLES

3.1 Use of estimates

The preparation of consolidated financial statements requires the Management Board to make assumptions and estimates that directly affect the amounts reported in the balance sheet and the income statement. The actual figures may not coincide with the estimated amounts. Estimates apply in particular to the measurement of provisions, inventories, the collectability of receivables, and deferred tax assets.

3.2 Consolidation

The consolidated financial statements comprise the separate financial statements of curasan AG and the separate financial statements of its subsidiaries, which have also been prepared in accordance with IFRS/IAS. The date of initial consolidation is the date on which curasan AG assumed the power to control the enterprise. Capital consolidation is performed on the basis of the purchase method of accounting at the time of acquisition. Any positive difference that cannot be allocated directly to individual assets is carried as goodwill under intangible assets.

Intra-Group receivables and liabilities as well as intra-Group expenses and income have been eliminated as part of standard consolidation procedures.

Transactions to be included in the consolidated financial statements have been carried at the cost of purchase or conversion. Unrealised profits resulting from intra-Group transactions have been eliminated.

3.3 Currency translation

Currency translation is performed according to the concept of the functional currency (IAS 21). The functional currency is the currency in which the foreign entity predominantly generates its funds and makes its payments. The financial statements of all entities – with the exception of the financial statements for curasan, Inc., which have been prepared in US dollars – have been prepared in euros. The assets and liabilities included in the consolidated financial statements are translated at the closing rate, while income and expenses are translated at average exchange rates for the year. Capital consolidation is translated using the rate which applied on initial inclusion in the consolidated financial statements. Exchange differences arising on consolidation have been accounted for directly in equity as a translation reserve.

Transactions in foreign currencies are converted using the exchange rate on the day they occurred. Receivables and liabilities in foreign currencies are recorded with the possible lower or higher exchange rate on the balance sheet date.

3.4 Revenue recognition

Revenue is recognised when goods have been delivered or when a service has been rendered, as well as when risk and title have been passed. Revenue is measured at the fair value of the consideration received or receivable. Taxes, trade discounts and rebates associated with the sale are deducted accordingly.

Interest income is broken down into the relevant periods.

3.5 Goodwill, software, development costs and other intangible assets

Any difference between the cost and market value of assets acquired as part of a company acquisition is recognised as derivative goodwill.

Goodwill is carried at cost; up until the 2004 financial year any accumulated amortisation and write-downs were deducted from this amount. In accordance with IFRS 3, effective from the 2005 financial year, goodwill is no longer subject to amortisation. Instead, a goodwill impairment test is carried out once a year in compliance with IAS 36.

All goodwill was written down in prior financial years. There was no goodwill to be capitalised or retroactively capitalised in 2007. As a result, no impairment test was required.

Intangible assets are recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and if the cost of the asset can be measured reliably. Intangible assets with finite useful lives are carried at cost, less amortisation expense and impairment losses. Amortisation is calculated using the straight-line method. The amortisation period and amortisation method are subject to an annual assessment. Intangible assets with indefinite useful lives are carried at cost. Applying IAS 36, an impairment test is performed annually to determine whether additional impairment losses should be recognised.

> **Patents, registrations, brand names**

Development costs associated with internally generated drug approvals are capitalised. The costs of internally generated intangible assets are calculated and carried in accordance with IAS 38. They comprise direct personnel-related expenditure in addition to overheads directly associated with generation of the asset in question. Approvals acquired are recognised at cost as intangible assets. The depreciable amount of acquired and internally generated approvals is allocated on a systematic basis over a useful life of 10 years.

> **Software**

Purchased software is capitalised at cost of acquisition and subsequently amortised over its useful life of 3 years.

3.6 Property, plant and equipment

Property, plant and equipment is recognised on the basis of purchase or conversion cost less scheduled depreciation (with the exception of land). Costs subsequently arising for repairs and maintenance are accounted for in the period in which they are incurred. Capitalisation only occurs on the basis of specific evidence that the measures have given rise to a quantifiable increase in the economic benefit associated with the asset in question. Additions to property, plant and equipment are subject to depreciation on a straight-line basis. Scheduled depreciation for property, plant and equipment is based principally on the following useful lives:

> Buildings: 25 years
> Technical plant and machinery: 5 to 10 years
> Operating and office equipment: 3 to 10 years

As there are no material differences between the useful lives stipulated for accounting purposes and those specified for tax purposes, the useful lives stipulated by tax law have been applied accordingly.

The useful lives and depreciation method are subject to an annual assessment as to whether they reflect the actual use of an asset.

Impairment tests for such assets are conducted if corresponding indications show that an impairment test is required. An impairment loss is recognised if the recoverable amount is lower than the net book value of the asset. The recoverable amount is the higher of the fair value less costs to sell and the present value of the future cash flow.

On sale or disposal of the assets, the corresponding costs of acquisition and accumulated depreciation are derecognised. Gains and losses arising from the difference between the book value and the sale proceeds are recognised in the income statement as other operating income and other operating expenses.

3.7 Borrowing costs

As stipulated in IAS 23.7, borrowing costs are recorded as an expense using the benchmark method in the period in which they were incurred.

3.8 Leasing

Leases are classified in accordance with IAS 17. Depending on the transfer of risks and rewards incidental to ownership, a lease is recognised in the balance sheet of the lessor (operating lease) or the lessee (financial lease). curasan's operating leases are restricted solely to operating and office equipment. Payments arising from these leases are expensed as incurred. The Group does not have any financial leases.

3.9 Financial instruments

Financial assets and liabilities are categorised as per IFRS 7 as follows:

> Financial assets at fair value through profit and loss
> Financial investments held to maturity
> Available-for-sale financial assets
> Loans and receivables
> Financial liabilities at fair value through profit and loss
> Financial liabilities held at net book value

Financial assets and liabilities are categorised on the basis of their type and purpose. They are classified on acquisition.

The financial assets held by the Group are primary assets, principally receivables, liabilities and cash. The Group had no derivative financial instruments as at the balance sheet date. Cash, trade accounts receivable and other receivables are classed as loans and receivables. Such financial assets are initially measured at acquisition cost, which corresponds to the fair value of the consideration given. They are subsequently valued at amortised cost.

Trade accounts payable, bank borrowings/loan liabilities and other liabilities are classified as financial liabilities held at net book value. Following their initial entry, they are carried at amortised cost.

Please refer to the balance sheet for book values.

As security for the liabilities to banks, there are land charges to the value of € 1,125 thousand. No further financial assets are pledged as collateral for liabilities or contingent liabilities.

Income and expenses resulting from the financial instruments is recorded through profit and loss in the consolidated income statement.

By their very nature, the Group's financial assets are subject to credit, market and interest rate risks. The individual risks are taken into account when reporting and valuing the financial instruments using the general valuation principles outlined in the notes to the individual balance sheet items.

In principle, the book value of the financial assets recorded in the consolidated financial statements less any impairment represents the maximum default risk to the Group.

The individual risks are examined in section 3.23.

3.10 Capital management

The curasan Group's strategic alignment defines the underlying requirements for optimum capital management. The focus is on long-term appreciation in the interests of the Group's shareholders, staff and customers. We aim to achieve this by continuously improving profits by means of growth and increased efficiency.

curasan's capital structure is largely made up of cash and cash equivalents, the equity attributable to curasan AG's equity providers, and current and non-current financial liabilities. Equity is composed of shares issued and capital reserves. Please refer to the balance sheet and the statement of changes in equity for the figures and changes on the year.

The Articles of Association of curasan AG do not include any capital requirements.

3.11 Research and development costs

In accordance with IAS 38, research costs are recognised as expense in the period in which they are incurred. Development costs are capitalised as intangible assets only if it is probable that future economic benefits will flow to the entity. Such an economic benefit arises when an approval/registration has been granted; prior internal development costs are expensed as incurred. Amortisation over the expected useful life commences upon economic use of the intangible assets developed.

3.12 Cash and cash equivalents

For the first time, cash and cash equivalents have been shown differently in the cash flow statement for the reporting year, in that the overdraft facilities used by the company for short-term treasury management have been included. The previous year's figure for cash and cash equivalents has been adjusted accordingly. Cash equivalents are short-term, highly liquid investments readily convertible to known amounts of cash. At the balance sheet date, there were free overdraft facilities totalling € 178 thousand. Cash equivalents include time deposits worth € 600 thousand which are pledged as collateral for short-term bank loans.

3.13 Trade accounts receivable and other assets

Trade receivables and other assets are carried at amortised cost. Any risks are accounted for by means of allowances. Receivables denominated in foreign currencies are measured at the lower of the exchange rate at the date of acquisition or the closing rate.

3.14 Inventories

Inventories are measured at the lower of cost of purchase/cost of conversion and net realisable value. The net realisable value is the estimated selling price achievable in the ordinary course of business, less the estimated costs incurred until completion and the estimated costs necessary to make the sale. Materials and production supplies as well as goods are measured at their cost of purchase less an appropriate deduction. Finished goods are measured at their cost of conversion. The costs of conversion of inventories include costs directly related to the units of production and a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods, which includes depreciation of fixed assets associated with conversion. An applicable amount of administration overheads is also included. Borrowing costs are not included in the cost of conversion. The cost of conversion of finished goods is subject to an appropriate deduction. Inventories that are difficult to sell or obsolete are written down to the appropriate amount or written down in full.

3.15 Trade accounts payable and other liabilities

Trade payables and other liabilities are carried at the amount payable. Liabilities denominated in a foreign currency are calculated on the basis of the higher closing rate if this is applicable.

3.16 Bank borrowings

Bank borrowings are carried at the amount payable and are presented in the schedule of liabilities.

3.17 Provisions

Pension obligations were accounted for in accordance with IAS 19 using the projected unit credit method.

Other provisions take into account all identifiable risks and contingent liabilities. They are carried at the amount that is deemed appropriate following a reasonable commercial assessment for probable present obligations (legal or constructive) as a result of past events. Provisions are recognised only if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions for commitments within the subsequent 12 months are classified as current; other provisions are classified as non-current and discounted.

3.18 Deferred taxes

In accordance with IAS 12, deferred taxes are recognised for temporary differences between the carrying amount or liability in the IFRS balance sheet and its tax base which are expected to become payable or recoverable in the future. Deferred taxes also include tax loss carryforwards whose future utilisation is probable. Deferred tax assets and liabilities are measured using the tax rates and laws applicable at the time of calculation. The carrying amount of a deferred tax asset is reduced to allow for any future tax benefits whose utilisation is no longer probable.

curasan AG, in particular, has considerable corporation tax and trade tax loss carryforwards for which no deferred tax assets were recognised in prior years, as the company does not expect to be able to utilise these in the short term on the basis of ongoing operations. Measurement was based on an expected uniform corporation tax rate of 15 per cent. Including the solidarity surcharge and the trade tax on earnings, deferred income taxes were determined at a rate of approx. 31 per cent. In addition, the subsidiaries of curasan AG also generated tax losses, resulting in the recognition of deferred tax assets in prior years.

In view of the audit conducted by the DPR in 2006 with regard to the consolidated financial statements of curasan AG for the financial year ended 31 December 2005, the Management Board has decided to recognise deferred tax assets on tax carryforwards only if the future use of such tax loss carryforwards is deemed certain on the basis of an earnings track record. Within this context, no further deferred tax assets were accounted for in the 2007 financial year.

3.19 Equity

The costs associated with an equity transaction (e.g. an increase in capital), less applicable (deferred) income taxes, are recognised as a deduction from equity. The costs of an equity transaction only comprise the external costs directly attributable to the equity transaction that otherwise would have been avoided.

3.20 Government grants

Government grants are recognised as income only if there is reasonable certainty that the company will comply with the conditions attached to them. In line with IAS 20, government grants for research and development projects are recognised as income over the periods necessary to match them with the related costs for which they are intended to compensate, on a systematic basis. In the year under review, the company received grants totalling €46 thousand.

3.21 Contingent liabilities and contingent receivables

Contingent liabilities are not recognised in the accounts. Instead, they are disclosed in the notes to the consolidated financial statements, unless the outflow of resources embodying economic benefits is not probable. Contingent receivables are not recognised in the accounts. Instead, they are disclosed in the notes to the consolidated financial statements if it is virtually certain that an inflow of economic benefits will arise.

3.22 Segments

curasan is divided into segments. A segment is a distinct division which provides goods and services that differ from those of other segments in terms of their production and marketing, for example. curasan is split into two (previous year: two) segments. These segments form the basis on which the company provides general segment information. Financial information about the segments and the head office functions can be found in the “Other information” section of the notes.

The revenue, expenses and net profit/loss posted for each segment include transfers between business units and geographical segments. These transfers were eliminated in the course of consolidation.

3.23 Concentration of risk

Due to negative business developments, the curasan Group’s liquidity situation remains tense. In the 2007 financial year, the Group posted a negative operating cash flow of € 2.2 million, which it was able to compensate for by means of a capital increase, a bank loan and proceeds from the disposal of a business unit. Although we plan to considerably boost revenue, we expect another liquidity squeeze in 2008. We anticipate the cash burn rate to ease up significantly by year-end – primarily due to major revenue growth with REVOIS® and the demand for Curavisc®, which is already much higher than planned. However, further short-term financing and restructuring activities are necessary to safeguard the curasan Group’s continuing operations until year-end. For this reason, we have resolved to take the following steps, which have also largely been implemented:

> On 19 December 2007, an agreement was concluded with Sparkasse Aschaffenburg-Alzenau for a loan of € 811 thousand. The loan attracts interest at a rate of 5.85 per cent p. a. and is repayable on 30 April 2008. The majority shareholder Mr Rössler pledged credit balances and savings bonds to secure the loan. Mr Rössler issued a written declaration on 13 March 2008 stating that should curasan be unable to repay the loan when it becomes due, he will grant the company a loan equivalent to the amount covered by the right of lien. This loan will not become due until curasan has overcome its liquidity squeeze and is in a position to repay the loan.

> Mr Rössler also granted curasan a further bridging loan of € 200 thousand in January 2008, based on an original loan agreement dated 9 August 2007 (for € 1.0 million, of which € 800 thousand was financed by Sparkasse Aschaffenburg-Alzenau). Interest of 7.5 per cent p. a. is payable on the bridging loan, which becomes repayable when certain options for the sale of a product can successfully be concluded. As collateral, all of the rights relating to the Curavisc® product were transferred to Mr Rössler.

> On 20 March 2008, a € 500 thousand increase in the overdraft facility from € 700 thousand to € 1,200 thousand was arranged in writing with Sparkasse Aschaffenburg-Alzenau. An absolute suretyship furnished by Mr Rössler serves as collateral.

> The subsidiaries curasan, Inc. and Pro-tec GmbH will draw considerably fewer funds from the parent company in conjunction with the planned business expansion and suspension of production (Pro-tec GmbH). Furthermore, we expect arbitration proceedings in the USA to be concluded successfully, resulting in an inflow of funds.

> In addition to this, we are currently examining further external financing options, such as the sale of the Mitem® product, a drug used in oncology. By streamlining our product range in this way, we aim to continue sharpening our focus on bone and tissue regeneration. We are also currently negotiating with investors in the USA regarding options to penetrate the US market faster.

Given the financing measures that have been implemented and assuming that the revenue which forms the basis of the liquidity plans is generated as anticipated, the curasan Group's solvency and therefore continuation of its business operations are safeguarded until at least the end of the 2008 financial year. Once the planned restructuring activities take effect, the Group's ongoing operations will be secured beyond 2008.

3.24 Standards and interpretations applicable in the current financial year

In the current financial year, the Group applied IFRS 7 "Financial Instruments: Disclosures" and the associated revision to IAS 1 "Presentation of Financial Statements" for the first time. These changes are applicable for financial years beginning on or after 1 January 2007.

The application of IFRS 7 and the revised IAS 1 resulted in additional disclosures relating to the financial instruments used by the Group as presented in these financial statements and its capital management.

Four further interpretations were published by the International Financial Reporting Interpretations Committee (IFRIC) which became applicable in the current financial year. These were:

IFRIC 7: "Applying the Restatement Approach under IAS 29: Financial Reporting in Hyperinflationary Economies"

IFRIC 8: "Scope of IFRS 2"

IFRIC 9: "Reassessment of Embedded Derivatives"

IFRIC 10: "Interim Financial Reporting and Impairment".

The application of these interpretations did not have any effect on the Group's accounting and valuation principles.

3.25 Voluntary application of new standards

In addition to the standards listed above, additional IFRS standards were published by the IASC prior to the reporting date which also came into effect. These standards may be applied. However, this is not obligatory:

IAS 23 (revised):
"Borrowing Costs" (obligatory for financial years beginning on or after 1 January 2009)

IAS 32 (revised):
"Financial Instruments: Presentation" (obligatory for financial years beginning on or after 1 January 2009)

IFRS 2 (revised):
"Share-based Payment" (obligatory for financial years beginning on or after 1 January 2009)

IFRS 3 (revised): "Business Combinations" and IAS 27 (revised): "Consolidated and Separate Financial Statements under IFRS" (obligatory for financial years beginning on or after 1 July 2009)

IFRS 8: "Operating Segments" (obligatory for financial years beginning on or after 1 January 2009)

IFRIC 11: "Group and Treasury Share Transactions" (obligatory for financial years beginning on or after 1 March 2007)

IFRIC 12: "Service Concession Arrangements" (obligatory for financial years beginning on or after 1 January 2008)

IFRIC 13: "Customer Loyalty Programmes" (obligatory for financial years beginning on or after 1 July 2008)

IFRIC 14: "IAS 19 – The Limit on a Defined-Benefit Asset, Minimum Funding Requirements and their Interaction" (obligatory for financial years beginning on or after 1 January 2008).

The company does not use the option of prior voluntary application. With the exception of the following, the Management Board does not expect the application of these standards in future reporting periods to affect the consolidated financial statements:

IFRS 2: This standard requires that share-based remuneration transactions are reported in the balance sheet. In particular, it stipulates that companies must take the effects of share-based payment transactions into account when presenting their financial position, cash flows and earnings position, including the costs arising in connection with transactions in which employees are granted stock options.

IFRS 8: This standard replaces IAS 14, which previously governed segment reporting. Instead of a risk and reward approach, the new IFRS 8 adopts a management approach to segment reporting. In this context, the definition of a segment is no longer based on groups of products, services or clients; instead, it uses a group's internal organisational/reporting structure. This approach means that units which do not operate on the external market are also defined as possible segments. IFRS 8 also states that segment information must be aligned with the set of figures used for internal budgeting and efficiency reviews. For this reason, IFRS 8 does not define the terms revenue, expense, asset and debt; instead, it obliges the reporting company to explain its understanding of the terms.

3.26 Events after the balance sheet date

To bridge the tense earnings and liquidity situation, the management has initiated measures which are currently under discussion. Talks are being held with US investors regarding targeted investments in opening up the market there. These were already at an advanced stage when the management report went to press. In addition to this, there are concrete negotiations concerning the sale of Mitem®, a drug used in oncology. By streamlining our product range in this way, we aim to continue sharpening our strategic focus on bone and tissue regeneration with the support of a good liquidity position in future.

There were no further significant events to report after the balance sheet date.

4. NOTES TO THE INCOME STATEMENT

The income statement is produced using the total cost method of accounting.

4.1 Sales revenues and operating income

(€ thousand)	2007	2006
Sales revenues	9,957	8,458
Sales deductions	(241)	(69)
Changes in inventories	206	(186)
Other operating income	371	739
Total	**10,293**	**8,942**

Sales revenues were primarily generated by marketing biomaterials (Cerasorb®, REVOIS®, Curavisc® and membranes) and the drug Mitem®.

Other operating income in 2007 predominantly included revenue from the workshops run by curasan, AIF grants and revenue from the retransfer of provisions.

4.2 Cost of materials

(€ thousand)	2007	2006
Cost of materials, production supplies and purchased goods	3,821	3,262
Total	**3,821**	**3,262**

4.3 Staff costs

(€ thousand)	2007	2006
Wages and salaries	3,384	3,351
Social security	528	580
Total	**3,912**	**3,931**

4.4 Depreciation and amortisation

(€ thousand)	2007	2006
Intangible assets	762	407
Property, plant and equipment	163	240
Total	925	647

4.5 Other operating expenses

(€ thousand)	2007	2006
Sales expenses	2,171	2,558
Advertising expenses	990	824
Regulatory expenses	326	171
Administrative expenses	1,104	1,153
Total	**4,591**	**4,706**

4.6 Financial result

(€ thousand)	2007	2006
Other interest and similar income	22	31
Interest and similar expenses	147	98
Total	**125**	**67**

4.7 Tax income

The tax expense (-)/income (+) reported in the income statement comprises the following items:

(€ thousand)	2007	2006
Current income tax	0	0
Deferred tax income	0	0
Deferred tax expense	64	32
Total	**(64)**	**(32)**

Reconciliation from expected to current tax expense/income is as follows:

(€ thousand)	2007	2006
Result before income taxes	(4,028)	(4,268)
Tax at domestic tax rate (38.26%)	1,541	1,633
Impairment loss for deferred taxes on loss carryforwards	(2,400)	(1,768)
Difference due to foreign tax rates	(27)	(26)
Effect of write-down of receivables from affiliated companies in separate financial statements	737	77
Other effects	85	52
Current tax expense (–)/income (+)	**(64)**	**(32)**

4.8 Earnings per share

The earnings per share are calculated using IAS 33. The undiluted earnings per share (for the overall result) of - €0.60 (previous year: - €0.75) are calculated by dividing the profit/loss for the period which is attributable to the shareholder by the weighted average number of shares in circulation (6,775,000 shares; previous year: 5,750,000 shares).

The undiluted earnings per share are identical to the diluted earnings per share as no options have been issued.

5. NOTES TO THE BALANCE SHEET

5.1 Cash and cash equivalents

Cash and cash equivalents comprise short-term fixed-term deposits and the balance on current accounts.

5.2 Trade accounts receivable

(€ thousand)	2007	2006
Trade receivables attributable to the parent company	595	609
Trade receivables attributable to subsidiaries	264	356
Total	**859**	**965**

Impairment losses amounted to € 31 thousand in the reporting year (previous year: € 84 thousand). All trade accounts receivable are due within one year.

5.3 Inventories

(€ thousand)	2007	2006
Materials and production supplies	145	154
Work in progress	494	479
Finished goods and merchandise	1,055	1,504
Prepayments	89	87
Total	**1,783**	**2,224**

Impairment losses amounted to € 51 thousand in the reporting year (previous year: € 194 thousand).

5.4 Other current assets

(€ thousand)	2007	2006
Purchase consideration from disposal of business unit	0	600
Other items	332	282
Total	**332**	**882**

5.5 Intangible assets and property, plant and equipment

A breakdown of the intangible assets and property, plant and equipment is provided in the fixed assets schedule. The land and buildings recognised as assets constitute collateral for loans. The collateral amount is equivalent to € 1,125 thousand.

A key addition to intangible assets is the subsequent capitalisation of the REVOIS® licence in the amount of € 280 thousand. For details regarding the purchase price consideration, which corresponds to the acquisition cost, please refer to the section dealing with other liabilities.

5.6 Deferred taxes

The consolidated financial statements no longer include deferred tax assets on loss carryforwards. The deferred taxes recognised are largely the result of effects arising from the elimination of intra-Group profits.

5.7 Other assets

The existing reinsurance policy associated with the pension commitments constitutes a plan asset and is offset with pension obligations in the consolidated financial statements to 31 December 2007.

5.8 Liabilities

Liabilities consist of amounts due to banks, trade accounts payable and other liabilities. As security for the liabilities to banks, land charges have been agreed upon in the amount of €1,125 thousand. Please refer to the schedule of liabilities for details regarding the maturity of all liabilities.

(€ thousand)	31 Dec. 07	Due	Due	Due	31 Dec. 06
		< 1 year	1 to 5 years	> 5 years	
Bank borrowings	1,952	1,952	0	0	2,059
Trade accounts payable	1,436	1,436	0	0	1,228
Other liabilities	806	806	0	0	2,419
Total	**4,235**	**4,235**	**0**	**0**	**5,729**

5.9 Trade accounts payable

(€ thousand)	2007	2006
Trade payables attributable to the parent company	1,316	1,182
Trade payables attributable to subsidiaries	120	46
Total	**1,436**	**1,228**

5.10 Provisions

Other provisions make allowances for all identifiable risks and contingent liabilities. The items carried as liabilities include, for example, employees' outstanding leave (staff provisions), the costs of preparing annual financial statements, and outstanding invoices. Financial obligations arising from the provisions are due within one year.

The book value and composition of the other provisions at the beginning and end of the reporting period are shown in the following schedule.

(€ thousand)	31 Dec. 07	Utilised	Reversed	Allocated	31 Dec. 06
Staff provisions	144	28	30	61	141
Novident/REVOIS®	394	18	68	480	0
Other items	397	224	48	308	361
Total	**935**	**270**	**146**	**849**	**502**

5.11 Liabilities

(€ thousand)	2007	2006
Tax liabilities	68	64
Social security	5	7
Purchase consideration for equity interests	282	312
Purchase price for REVOIS® rights	400	1,700
Other items	51	336
Total	**806**	**2,419**

The purchase consideration for equity interests relates to the acquisition of Pro-tec GmbH and is payable within seven years in revenue-related instalments. The last instalment is due in 2008.

5.12 Pension obligations

This item relates to an obligation towards the Management Board for a pension payable from the age of 65 onwards and a disability pension as well as a widow's pension in the amount of 60 per cent of the pension entitlement (defined-benefit obligation). The obligation has been reinsured by means of life insurance, which constitutes a plan asset in the consolidated financial statements to 31 December 2007 within the meaning of IAS 19.

The corridor method is not used for actuarial gains/losses. According to this method, the accumulated, unamortised amounts that do not exceed a corridor of 10 per cent of the maximum present value of the obligation are not recognised. Actuarial gains/losses are recognised in full through profit and loss.

The following actuarial assumptions were applied to the measurement on the basis of an actuarial report:

Discount rate: 5.5 per cent (previous year: 4.5 per cent)
Expected pension adjustment: 2.0 per cent (previous year: 2.0 per cent)
Expected return on plan asset: 4.5 per cent (previous year: 4.5 per cent)

The following table outlines the changes to the pension obligation in the financial year under review.

(€ thousand)	2007	2006
Defined-benefit obligation at 1 January	**462**	**383**
Service cost	31	23
Interest expenses	20	17
Unrealised gains (losses)	79	(39)
Defined-benefit obligation at 31 December	**434**	**462**

The defined-benefit obligation calculated as at 31 December 2008 is € 485 thousand.

The following table shows the development of the plan asset in the reporting year.

(€ thousand)	2007	2006
Plan asset at 1 January	**199**	**174**
Employer contributions	25	22
Current rate of return	0	3
Plan asset at 31 December	**224**	**199**

The calculated market value of the plan asset as at 31 December 2008 is € 263 thousand.

The following table shows the reconciliation of the DBO and the current market value of the plan asset with the balance sheet figure.

(€ thousand)	2007	2006
Defined-benefit obligation at 31 December	434	462
Plan asset at 31 December	(224)	(199)
Balance sheet figure	**210**	**263**

The expenses/income associated with the pension obligation are as follows:

(€ thousand)	2007	2006
Service cost	31	23
Interest expenses	20	17
Return on plan asset	0	3
Actuarial gains/losses	(79)	39
Net expense in the period	**(28)**	**76**

5.13 Equity

Equity development is shown as a separate part of the annual financial statements.

The company's share capital totalled € 6,775,000 euros at the balance sheet date (previous year: € 5,750,000). It is divided into 6,775,000 individual bearer shares with a nominal value of € 1.00 each.

Please refer to the legal information for the effects of resolutions passed by the Annual General Meeting and changes in the Articles of Association on equity (section 1, "General information").

The capital reserves primarily consist of the share premium attributable to the initial public offering in 2000.

The translation reserve shows the balance arising from currency translation differences in the course of capital consolidation, offsetting receivables and payables in the consolidated financial statements, and converting the consolidated companies' individual income statements.

6. OTHER INFORMATION

6.1 Financial instruments

Primary financial instruments in the form of cash, receivables and liabilities are included in the balance sheet. These financial instruments are, by nature, subject to default and interest rate risks. The company is mainly exposed to an increased level of default risk in connection with trade accounts payable – particularly as part of its export activities. These risks are counteracted by means of factoring, credit investigations and systematic dunning procedures (collection of accounts receivable).

6.2 Expenditure for research and development

Research and development expenditure recognised as expense is outlined below.

(€ thousand)	2007	2006
Cost of materials	147	43
Cost of conversion	117	72
Staff costs	279	262
Services	14	23
Registration fees	193	259
Depreciation and amortisation	35	36
Total	**785**	**695**

6.3 Contingent liabilities and other financial obligations

The other financial obligations relate to rental and maintenance agreements as well as leasing obligations. These obligations are due as follows:

(€ thousand)	2008	2009 to 2012	After 2012	Total
Rental and maintenance agreements	219	39	0	258
Leasing obligations	218	237	2	457
Other items	0	0	0	0
Total	**437**	**276**	**2**	**715**

Leasing expenditure totalling € 64 thousand (previous year: € 60 thousand) was recorded as other operating expenses in the reporting year.

6.4 Discontinued activities

The discontinued activities reported relate to Pro-tec GmbH, whose production plant in Freilassing was closed in the reporting year.

The profit/loss from discontinued activities was as follows:

(€ thousand)	Total 2007	Total 2006
Sales revenues	260	89
Cost of materials	(116)	(46)
Gross profit	144	43
Other operating income	15	0
Staff expenses	(424)	(283)
Depreciation and amortisation	(35)	(35)
Other operating expenses	(418)	(233)
Net interest income	(122)	(91)
Consolidation effects through profit and loss	(107)	2
Total	**(947)**	**(597)**

The assets, provisions and liabilities reported as at 31 December 2007 and 2006 were made up as follows:

(€ thousand)	Total 2007	Total 2006
Assets		
Intangible assets	83	97
Property, plant and equipment	53	65
Inventories	78	59
Receivables and other assets	7	36
Cash	3	4
Total assets	**224**	**261**
Other provisions	198	0
Current liabilities	41	23
Total provisions and liabilities	**239**	**23**

6.5 Segment reporting

curasan operates within the areas of "Pharma" and "Bio". As in the previous financial year, both areas represent the product-oriented segments of the Group's operating activities and reflect the structure of opportunities and risks associated with the Group.

The segment designated as "Pharma" relates principally to the product Mitem®, a drug which is used for the treatment of superficial bladder carcinoma. It is marketed by a urology unit of Schwarz Pharma AG.

The segment designated as "Bio" (i.e. biomaterials) relates to medical products with a particular emphasis on bone replacement, platelet concentration, hyaluronic acid, stypro® and dental implants (REVOIS®).

As a matter of course, segment information is based on the same principles of presentation, valuation and accounting as the consolidated financial statements. The segment result is equivalent to the result from ordinary activities.

There is no segment revenue from transactions with other segments.

Information about the geographical segments relates to Germany (domestic) and the rest of the world (foreign).

a) Segment revenue and results

(€ thousand)	Pharma	Bio	N.A.	Total
Segment revenue 2007	1,902	8,391	0	10,293
Segment revenue 2006	1,624	7,318	0	8,942
Segment result 2007	(871)	(1,572)	(513)	(2,956)
Segment result 2006	(1,012)	(2,007)	(585)	(3,604)

(€ thousand)	Domestic	Foreign	N.A.	Total
Segment revenue 2007	6,961	3,332	0	10,293
Segment revenue 2006	6,786	2,156	0	8,942
Segment result 2007	(1,047)	(1,396)	(513)	(2,956)
Segment result 2006	(1,546)	(1,473)	(585)	(3,604)

The unallocated segment result (N.A.) is attributable to administration costs.

b) Segment assets

Deferred taxes and cash were not included in the allocated segment assets.

(€ thousand)	Pharma	Bio	Total
Segment assets 2007	582	7,132	7,714
Segment assets 2006	923	9,024	9,947

(€ thousand)	Domestic	Foreign	Total
Segment assets 2007	4,957	2,757	7,714
Segment assets 2006	7,013	2,934	9,947

c) Segment liabilities

Pension provisions were not included in the allocated segment liabilities.

(€ thousand)	Pharma	Bio	Total
Segment liabilities 2007	860	4,508	5,368
Segment liabilities 2006	857	5,374	6,231

(€ thousand)	Domestic	Foreign	Total
Segment liabilities 2007	3,625	1,743	5,368
Segment liabilities 2006	4,484	1,747	6,231

d) Segment capital expenditure/amortisation and depreciation

Capital expenditure on property, plant and equipment and operating software was not taken into account when allocating segment capital expenditure/amortisation and depreciation.

(€ thousand)	Pharma	Bio	Total
Segment capital expenditure 2007	0	434	434
Segment capital expenditure 2006	0	1,753	1,753
Segment amortisation/depreciation 2007	55	870	925
Segment amortisation/depreciation 2006	65	582	647

(€ thousand)	Domestic	Foreign	Total
Segment capital expenditure 2007	434	0	434
Segment capital expenditure 2006	1,753	0	1,753
Segment amortisation/depreciation 2007	925	0	925
Segment amortisation/depreciation 2006	647	0	647

6.6 The Management Board

In the year under review, the Management Board comprised:

> Mr Hans Dieter Rössler, Bessenbach (Chairman)

Total Management Board compensation amounted to € 251 thousand in the 2007 financial year, of which € 0 was variable (previous year: € 245 thousand, of which € 0 was variable).

In addition, compensation included pension provisions and remuneration in kind. Remuneration in kind mainly comprised an accident insurance policy and the amounts applicable under tax law in connection with the use of a company car.

6.7 The Supervisory Board

In the year under review, the Supervisory Board comprised:

> Dr Detlef Wilke, Wennigsen (Chairman);
Managing Partner of Dr Wilke & Partner Biotech Consulting GmbH, Wennigsen

> Mr Hans-Günter Niederehe, Mainz (Deputy Chairman),
  self-employed management consultant (until the Annual General Meeting on 21 June 2007)
> Mr Richard F. Chambers, Kröning,
  management consultant (since the Annual General Meeting on 21 June 2007)
> Dr Konstantin Rogalla, Hamburg (new Deputy Chairman since the Annual General Meeting on 21 June 2007),
  Managing Partner of PFLÜGER SCHULZ ROGALLA Unternehmensberatung GmbH, Hamburg.

Total Supervisory Board compensation amounted to € 71 thousand (previous year: € 66 thousand) in the 2007 financial year. Of this amount, € 28 thousand was attributable to the Chairman of the Supervisory Board, € 10 thousand to the previous Deputy Chairman, € 18 thousand to the new Deputy Chairman and € 15 thousand to the third member of the Supervisory Board.

In the reporting year, the Supervisory Board members had the following mandates relating to other supervisory board or similar bodies:

Dr Detlef Wilke	Faustus Translational Cancer Research GmbH, Leipzig (Chairman of the Supervisory Board) Faustus Translational Drug Development AG, Vienna (Chairman of the Supervisory Board) Novosom AG, Halle (Chairman of the Supervisory Board)
Dr Konstantin Rogalla	INSTRUCT AG, Munich (Supervisory Board) CONVENTIS AG, Rostock (Supervisory Board) Amerigo AG, Hamburg (Management Board)

6.8 Directors' dealings

As at 31 December 2007, the governing bodies of curasan AG held the following shares in curasan AG. There were no options or entitlements to options in the year under review.

(in thousands)		31 Dec. 07	Change	31 Dec. 06
Management Board	Hans Dieter Rössler	2,232	105	2,127
Supervisory Board	Dr Detlef Wilke	12	0	12

6.9 Related party disclosures

With the exception of the Management Board and Supervisory Board members listed above, there are no other related parties subject to disclosure.

With the exception of the compensation to members of the Management Board and Supervisory Board listed above, there were no other reportable benefit-specific relationships. In particular, no grants/loans were issued to members of the governing bodies. The Group did not enter into any agreements giving rise to contingent liabilities in favour of Management Board or Supervisory Board members.

There are no severance or pension obligations towards former members of the governing bodies.

6.10 Employees

At the balance sheet date, the Group employed 61 members of staff (previous year: 68).

	2007	2006
Management Board	1	1
Staff	59	66
Apprentices	1	1
Total	**61**	**68**

6.11 Statutory auditors

The following expenses were recognised in 2007 with regard to professional fees for the statutory auditors of the consolidated financial statements: € 60 thousand for the year-end audit, € 19 thousand for other certification and valuation services and € 32 thousand for other services.

6.12 Disclosures in accordance with the Securities Trading Act (WpHG)

As per the Securities Trading Act (WpHG), the Federal Financial Supervisory Authority (BaFin) was notified of the reportable changes in voting rights in 2007. These were also published. The individual ad hoc releases are included in the annual document for 2007 and can also be viewed in the "Investor Relations" section of the company's website.

6.13 Events after the balance sheet date

No significant events took place.

7. ADDITIONAL EXPLANATORY NOTES UNDER SECTION 315A (1) OF THE GERMAN COMMERCIAL CODE (HGB)

7.1 Disclosure of individual Management Board members' compensation

Under Section 314 (1) sentence 6a of the German Commercial Code (HGB), the company is obliged to disclose the remuneration paid to each individual Management Board member. As the company only has one Management Board member, the figures provided in section 6.5 shall apply accordingly.

7.2 Declaration of Conformity with the German Corporate Governance Code

The Supervisory Board and the Management Board have issued a Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG) and have made this document permanently accessible to shareholders via the company's website.

Kleinostheim, 25 March 2008

Hans Dieter Rössler

CONSOLIDATED FIXED ASSETS SCHEDULE FOR THE 2007 FINANCIAL YEAR (GROSS ANALYSIS)

(€ thousand)	Purchase/manufacturing cost				Depreciation and amortisation				Net book value	
	Carried forward 1 Jan. 07	Additions / write-up	Disposals	Balance 31 Dec. 07	Carried forward 1 Jan. 07	Additions/ write-up	Disposals	Balance 31 Dec. 07	Balance 31 Dec. 07	Balance 31 Dec. 06
I. Intangible assets										
1. Concessions, industrial property rights and similar rights and values, as well as licences thereto	5,329	280	95	5,514	1,838	721	0	2,559	2,955	3,491
2. Software	380	1	0	381	312	56	0	368	13	68
3. Goodwill	1,004	0	0	1,004	1,004	0	0	1,004	0	0
4. Prepayments	78	124	0	202	0	0	0	0	202	78
	6,791	**405**	**95**	**7,101**	**3,154**	**777**	**0**	**3,931**	**3,170**	**3,637**
of which ongoing activities	6,622	405	95	6,932	3,081	765	0	3,846	3,086	3,541
of which discontinued activities	169	0	0	169	73	12	0	85	84	96
II. Property, plant and equipment										
1. Land, land rights and buildings	1,888	0	0	1,888	664	80	0	744	1,144	1,224
2. Technical equipment and machinery	259	7	0	266	134	23	0	157	109	125
3. Other equipment, operating and office equipment	1,578	21	44	1,555	1,333	80	27	1,386	169	245
4. Prepayments	0	60	0	60	0	0	0	0	60	0
	3,725	**88**	**44**	**3,769**	**2,131**	**183**	**27**	**2,287**	**1,482**	**1,594**
of which ongoing activities	3,520	79	44	3,555	1,992	160	27	2,125	1,430	1,528
of which discontinued activities	205	9	0	214	139	23	0	162	52	66
Total consolidated fixed assets	**10,516**	**493**	**139**	**1,087**	**5,285**	**960**	**27**	**6,218**	**4,652**	**5,231**

CONSOLIDATED FIXED ASSETS SCHEDULE FOR THE 2006 FINANCIAL YEAR (GROSS ANALYSIS)

(€ thousand)	Purchase/manufacturing cost				Depreciation and amortisation				Net book value	
	Carried forward 1 Jan. 06	Additions / write-up	Disposals	Balance 31 Dec. 06	Carried forward 1 Jan. 06	Additions/ write-up	Disposals	Balance 31 Dec. 06	Balance 31 Dec. 06	Balance 31 Dec. 05
I. Intangible assets										
1. Concessions, industrial property rights and similar rights and values, as well as licences thereto	3,579	1,750	0	5,329	1,488	350	0	1,838	3,491	2,091
2. Software	380	0	0	380	256	56	0	312	68	124
3. Goodwill	1,004	0	0	1,004	1,004	0	0	1,004	0	0
4. Prepayments	90	3	15	78	0	0	0	0	78	90
	5,053	**1,753**	**15**	**6,791**	**2,748**	**406**	**0**	**3,154**	**3,637**	**2,305**
of which ongoing activities	0	0	0	0	0	0	0	3,081	3,541	0
of which discontinued activities	0	0	0	0	0	0	0	73	96	0
II. Property, plant and equipment										
1. Land, land rights and buildings	1,888	0	0	1,888	585	79	0	664	1,224	1,304
2. Technical equipment and machinery	236	23	0	259	111	23	0	134	125	124
3. Other equipment, operating and office equipment	1,794	37	253	1,578	1,412	174	253	1,333	245	378
	3,918	**60**	**253**	**3,725**	**2,108**	**276**	**253**	**2,131**	**1,594**	**1,805**
of which ongoing activities	0	0	0	0	0	0	0	1,992	1,528	0
of which discontinued activities	0	0	0	0	0	0	0	139	66	0
Total consolidated fixed assets	8,971	1,813	268	10,516	4,856	682	253	5,285	5,231	4,110

CONFIRMATION PURSUANT TO SECTION 289 (1) SENTENCE 5

The Management Board of curasan AG hereby confirms as per Section 289 (1) sentence 5 that – to the best of its knowledge – the management report portrays a true and fair view of the course of business, including the operating result and the situation of curasan AG. Furthermore, it describes the material risks and opportunities entailed in the company's probable development in the financial year.

Kleinostheim, 25 March 2008

Hans Dieter Rössler

AUDITORS' REPORT

"We have audited the consolidated financial statements, prepared by the curasan AG, Kleinostheim, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the consolidated financial statements, together with the group management report for the business year from 1 January 2007 to 31 December 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a paragraph 1 HGB are the responsibility of the company's management. 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 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 environ-ment 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 entities to be included in consolidation, the accounting and con-solidation principles used and significant estimates made by management, 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 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.

Without qualifying this opinion we refer to the discussion in the section "Going Concern Risk" in the risk report in the management report. Therin it is disclosed that due to the strained liquidity and equity concerns going concern of curasan AG materially depends on the realization of the planned and applied measures for financing and restructuring, the assurance of the further financial support by the management and majority shareholder as well as external lenders and that the underlying assumptions for the profit and liquidity planning will commence."

Frankfurt am Main, 25 March 2008

PKF PANNELL KERR FORSTER GMBH
Wirtschaftsprüfungsgesellschaft

R. Brinskelle
Wirtschaftsprüfer
(Public Accountant)

T. Peil
Wirtschaftsprüfer
(Public Accountant)

SUPERVISORY BOARD REPORT

Dr. Detlef Wilke, Chairman of the Supervisory Board

DEAR SHAREHOLDERS,

throughout the past financial year, 2007, the Supervisory Board of curasan AG fulfilled its responsibilities pursuant to the German Stock Corporation Act and the company's Articles of Association. It monitored the activities of the company's Management Board and acted in an advisory capacity. The Supervisory Board was involved in all material decisions. The Chairman of the Supervisory Board was in close contact with the company's Management Board throughout the past financial year and supported its decision-making.

The Management Board provided the Supervisory Board with detailed information about the company's situation and the course of business at its four meetings in 2007. The Management Board kept the Supervisory Board informed about the latest business developments – especially as regards sales revenues, the financial position, cash flows, liquidity, risk controlling and all events of particular importance – throughout the year. The Supervisory Board regularly discussed the company's financial position and business developments with the Management Board. All important measures were discussed and overseen by the Supervisory Board.

The first Supervisory Board meeting on 16 March 2007 centred on approving the annual financial statements for 2006 and correcting the previous year's figures following an audit by the DPR (German Financial Reporting Enforcement Panel).

In its second meeting on 20 June 2007, the Supervisory Board focused on the sales and marketing report.

The third Supervisory Board meeting on 25 September 2007 involved an in-depth examination of the Management Board's report and the cost-cutting measures which had either been initiated or proposed.

The last Supervisory Board meeting in the past financial year was held on 11 December 2007. It concentrated on the risk report, the Supervisory Board's internal efficiency review and annual planning for 2008. The Management Board and Supervisory Board of curasan AG jointly issued their Declaration of Conformity with the recommendations of the Government Commission of the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG).

Mr Hans-Günter Niederehe retired from the Supervisory Board. During the Annual General Meeting on 21 June 2007, Mr Richard F. Chambers was elected as his successor.

The annual financial statements and management report for curasan AG, the consolidated financial statements for the curasan Group and the Group management report – all to 31 December 2007 – were audited by PKF Pannell Kerr Forster GmbH, Frankfurt, as commissioned by the

Supervisory Board. The auditors issued an unconditional audit certificate for each.

The annual financial statements and management report for curasan AG, the consolidated financial statements and management report for the curasan Group and the relevant reports issued by the auditors were presented and explained to the Supervisory Board, which assessed them in accordance with Section 171 (1) of the German Stock Corporation Act (AktG). The auditor provided a full report of all the major findings of his audit and gave detailed answers to the Supervisory Board's questions. Prior to the audit, the Supervisory Board had agreed with the auditor in accordance with point 7.2.1 of the German Corporate Governance Code that the Chairman of the Supervisory Board should be informed immediately about any aspects which suggested that the auditor may be biased or any evidence that would have disqualified the auditor. Furthermore, pursuant to point 7.2.3 of the German Corporate Governance Code, the Supervisory Board had agreed with the auditor that the latter should immediately furnish pertinent information about all issues and events arising during the execution of the audit deemed to be of importance to the duties of the Supervisory Board. In addition, the Supervisory Board had agreed with the auditor that the latter should inform the Supervisory Board or include a relevant note in the audit report if, when conducting the audit, he identified facts which may represent a misstatement involving the Declaration of Conformity issued by the Management Board and the Supervisory Board pursuant to Section 161 of the German Stock Corporation Act (AktG) in connection with the German Corporate Governance Code.

The Supervisory Board independently examined the annual financial statements and management report for curasan AG and the consolidated financial statements and Group management report for the curasan Group, as prepared by the Management Board, in addition to the proposal regarding the appropriation of profit. No objections were raised by the Supervisory Board as part of this examination. Consequently, the annual financial statements for the company are thereby adopted as per Section 172 sentence 1 of the German Stock Corporation Act (AktG) and the consolidated financial statements are approved pursuant to Section 171 (1) of the German Stock Corporation Act (AktG). The Supervisory Board is in agreement with the proposal for the appropriation of profit as put forward by the Management Board.

The Supervisory Board would like to thank the Management Board and all employees at the curasan Group for their hard work in the 2007 financial year.

Kleinostheim, March 2008
The Supervisory Board
Dr Detlef Wilke, Chairman

MANAGEMENT BOARD

Hans Dieter Rössler
60 years of age; degree in business administration;
CEO and Managing Director since 1988

SUBERVISORY BOARD

Dr Detlef Wilke (Chairman) –
Managing Partner at Dr. Wilke & Partner Biotech
Consulting GmbH, Wennigsen

Dr Konstantin Rogalla (Deputy Chairman) –
Managing Partner at Pflüger, Schulz, Rogalla
Unternehmensberatung GmbH, Hamburg

Richard F. Chambers
management consultant, Kröning.

FNANCIAL CALENDAR

13 May 2008	Publication of Q1 interim report
26 June 2008	Annual General Meeting
12 August 2008	Publication of Q2 interim report
12 November 2008	Publication of Q3 interim report

IMPRINT

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For the financial statements of curasan AG (HGB) see the internetsite of the company (www.curasan.de) or get in contact with the company directly.

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