



Annual Report and Annual Financial Statement for 2002

of the MEDISANA Corporation

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Economic downturn persists in Europe

In 2002, the economic situation worsened in many European countries. In Germany, our main market, strongly restrained consumer behavior and the consequent reluctance of companies to invest were particularly instrumental in the decline in domestic demand. The main reasons for this reluctance to consume were increasing uncertainty about the future economic trend and pending political decisions (increases in taxes and social security contributions were announced). The uncertainty of the private sector was compounded by the discussions about “subjective inflation” after the introduction of the euro as the legal tender and the increasing numbers of unemployed. The uncertain economic environment has led to a substantial increase in the savings ratio in Germany. In 2002, more than 10% of disposable income was saved (source: Federal Statistical Office).

According to the Federal Statistical Office, domestic demand in Germany declined by 1.3% in real terms compared with the prior year. Only a strong export performance enabled the economy as a whole to grow by 0.2% over the course of the year (2001: 0.6%). That was the lowest growth rate in Europe. Many other European countries, though, also fell short of the economic forecasts. The average rate of economic growth achieved by the countries of the European Union was 0.9% (compared with 1.5% in the prior year).

Heavy pressure on retail sector

During the year, the increasing caution of consumers increased the pressure on the retail sector. Nominally, German retail sales in 2002 (excluding automobiles and filling stations) declined by 2.0 %, or approx. EUR 6.5 billion, to just under EUR 321 billion. Real retail sales decreased by 2.3 %. This negative trend had a particularly severe impact on the non-food sector, whose sales fell by 3.7 % (source: Federal Statistical Office). This was accompanied in 2002 by intensifying price competition in the retail sector in response to the strong increase in price sensitivity among consumers.

Unsatisfactory trend on the home healthcare market

In this difficult environment, the home healthcare market in Germany and Europe showed mixed trends. While those products for regular use (e.g. electronic blood pressure meters or thermometers) that are now appreciated by consumers continued to show stable sales, the trend in demand for innovative and out-of-the-ordinary healthcare products was burdened by the generally restrained consumption. This was particularly disadvantageous for new market launches and products that had been launched on the market only recently.

In the fiscal year ended, against a background of increasing caution and price sensitivity among consumers, healthcare product sales in Germany showed a distinct trend towards the inexpensive mass products that are sold predominantly by discount retailers. Most of these were well known and widely accepted health care products with a prophylactic emphasis (such as blood pressure meters).

Mixed developments at MEDISANA

In the fiscal year ended we were unable to escape from the unfavorable economic environment and, in particular, from the increasing reluctance of private consumers in Germany to consume. The sales of our products through specialized retailers (medical suppliers, pharmacies, department stores, electrical goods retailers) on our biggest market were particularly disappointing. The trend towards discount products that prevailed last year adversely affected the sales volume of our high-grade healthcare products that are sold via specialized retailers under the brand name MEDISANA. What is more, the restructuring of our sales activities that was begun in 2002 has resulted in us not yet achieving our desired position for our second brand LIGHTWAVE – which is intended primarily for sale via large-scale retail outlets (self-service department stores, hypermarkets).

While the sales volume of our products declined sharply in Germany, the activities of our subsidiaries in other European countries showed a more stable trend. Only the sales posted by our Italian subsidiary Sanico in the fiscal year ended fell short of the prior-year figures. The sales revenues of some of the still young group companies in the Benelux countries, Spain and Greece have increased markedly, although they are still comparatively low.

Main restructuring priorities implemented

Our primary concern in the fiscal year 2002 was the implementation of our strategic restructuring, which we pushed along at undiminished pace. The measures involved are geared primarily towards our activities in Germany. Although we regard the rather stagnating trend that currently prevails on the German home healthcare market as a special challenge, we are continuing to focus our activities mainly on the expected long-term development of the market.

In the process, we are concentrating on strengthening our range of products via profitable and largely calculable distribution channels. The reorganization and expansion of our relevant activities were to the fore in the fiscal year ended. For one thing, we pressed ahead with the sale of high-quality products via specialized health stores; in this distribution sector the reputation and position of the MEDISANA brand have been good for several years now. For another, we have continued to realign our large-scale retail activities. The intention is to minimize the risks of selling in the large-scale retail segment, which is characterized by high pressure on margins. On top of that, we have restructured our hitherto unprofitable business activities abroad with a view to achieving profitability.

Sales team successfully integrated

In 2002 we took a number of important steps to strengthen our specialized retail activities in the long term. The key element was the restructuring of our indoor and field sales staff. Although in the past we served the specialized retailers primarily through external sales representatives, in the last fiscal year we began to build up our own sales team, which will be supplemented by external representatives only in extreme situations. The objective is to support the specialized retailers, who are important to us, directly through our own employees. This should position MEDISANA even better as a leading and competent supplier of home healthcare products. The direct contact should also lead to greater flexibility and shorter reaction

times in the design and presentation of the product range in the specialized retailing segment. We completed the reorientation of field sales at the start of the new fiscal year 2003.

Parallel to the establishment of the new field sales team, we also optimized our indoor sales staff. Indoor sales, as the interface between the sale of our products via field sales on the one hand and production and warehouse management on the other, ought to guarantee the optimum control and distribution of the articles, optimizing the commitment of capital in the company as a result.

New product line launched at specialized retailers

In the second half of 2002, as an additional means of strengthening our distribution through specialized retailers, we launched a new product line under our specialized retail brand MEDISANA. The so-called Platinum series stands out by virtue of its high-quality articles with a modern lifestyle feel. A new design and the products' high functionality should enable the product line's sales to benefit from the existing growth trends on the home healthcare market. In this area we are focusing mainly on appealing more to the steadily growing target group of young and young-at-heart people who are discovering the themes of health monitoring and self-medication for themselves on the back of the durable wellness trend. We want the new product range to establish us in this group as a supplier of health-related lifestyle products.

The series currently consists of 40 articles in the three areas of health monitoring, treatment at home and beauty. The newly launched product range underlines the MEDISANA claim that it is the only supplier on the market commanding the specific expertise that a full range of health articles demands. We are concentrating primarily on high-quality products with attractive designs that are distinguished by their easy handling and extensive functionality. In adopting this approach, we are consciously aiming to differentiate the range sold under the MEDISANA brand from the increasing range of discount goods in individual article groups. We have, however, reacted to this trend by adapting product groups of our own (e.g. blood pressure meters) with the aim of emphasizing clearly the advantages of the MEDISANA devices in these segments compared with the discount rivals and appealing to our own target group.

Risks of large-scale retailing are being minimized further

As a result of our concentration on high-margin and low-risk distribution channels, we also further optimized our large-scale retailing activities in 2002. In the light of past experience, we are going to be selective with our distribution through large-scale retailers so that the risks inherent in these activities are minimized. In 2001 this area was strongly expanded and the sales risks underestimated. The level of returns meant that we had to build up large inventories. Similarly, price stability in large-scale retailing outlets is considerably lower and the pressure on margins therefore higher than in the specialized retail segment. Even in the fiscal year ended, we concentrated increasingly on those distributors in the large-scale retailing segment that give us a reasonable contribution margin and with whom we can limit the sales risks. As a result, our LIGHTWAVE brand, created especially for large-scale retailing, achieved the turnaround in this segment in 2002 with lower sales. From the mid-year point in particular, the trend in this segment was pleasingly stable.

Organization spin-off for LIGHTWAVE activities

Moreover, setting up our own subsidiary to bundle the LIGHTWAVE activities has created an important prerequisite for the profitable expansion of our large-scale distribution activities. Our internal structures are now geared towards generating potential growth in this segment by cooperating with external partners. Our goal is to ensure increasing product sales volume by cooperating with e.g. a consumer goods manufacturer with a strong distribution network. The aim here is to ensure that the existing sales risks in the large-volume orders that predominate in large-scale retailing are minimized and kept calculable. In cooperation with a strong partner, we want to exploit our potential in large-scale retailing that results mainly from our comprehensive range of healthcare products. That will enable us to supply the shelf space demanded by the large-scale retailers and present our products ambitiously.

At the moment, however, we regard the specialized retailers as our main market and the most important distribution channel for launching new technologies and products. In our opinion, this is due to the sensible and, for innovative products, necessary sales and stimulation advice that only specialized retailers can provide. In large-scale retailing outlets, the only products that can be placed successfully are those that have already been launched with success on the market and whose functions are already well known.

Disappointing overseas activities realigned

Besides pressing on with the restructuring of the activities that are focused mainly on our home market of Germany, we have also realigned our activities on individual foreign markets. In view of the disappointing trend in the operating activities of our subsidiaries in Charlotte/USA and Hong Kong, we discontinued operations in both of these locations in the second half of the year. The companies are still being maintained in order to wind down our contacts and whatever business transactions remain. The research and development activities that were based in Hong Kong are being relocated to our Meckenheim site.

In the future, the sale of our products in the USA will be attended to by our new cooperation partner, the US-based company Royal Appliance Mfg. Co. Royal Appliance is well known throughout the world as a manufacturer of household appliances and devices and one of the leading suppliers of cleaning appliances, particularly for private households (e.g. the Dirt Devil brand). The group has decided to enter the healthcare market and has chosen MEDISANA as their appropriate partner. This decision was taken in view of the fact that Royal Appliance intends to exploit the outstanding potential of the North American market in the short term without having to acquire its own product expertise. Since we can provide the required articles at the desired quality and quantity levels, Royal Appliance will now sell the MEDISANA brand as a licensee in the USA, Canada and Mexico. The group can fall back on a comprehensive distribution network (including the Wal-Mart and Target retail chains). In order to facilitate a quick entry into the healthcare market, Royal Appliance has acquired the assets of our US subsidiary. In 2002 the careful selection of suitable products, target groups and distribution partners was then completed. The sales launch scheduled for 2002, however, had to be postponed until 2003.

In addition, we have gained the internationally active healthcare and pharmaceuticals company PanGeo Pharma as a private-label partner in North America. As early as the summer of 2002, the Canada-based company sold seven healthcare articles that we had developed and manufactured (including blood pressure meters and massage devices) under its own "Bodycheck" brand in Canada. PanGeo concentrates on specialized healthcare retailers and its customers include more than 6,500 pharmacies, drugstores and healthcare and medical stores.

Gimelli acquires stake in MEDISANA

In order to strengthen our international activities and increase our financing potential, we entered into a strategic partnership with a subsidiary of the Hong Kong-based group Techtronic Industries Comp. Ltd. (TTI) in the fiscal year ended. In connection with this we have placed 880,000 new shares from a cash capital increase at the TTI subsidiary Gimelli Laboratories Co. Ltd., which as a result holds 18.8% of the capital stock of MEDISANA AG. The new shares were, in line with the company statutes, in accordance with the resolution of the Shareholders' Meeting and with the approval of the Supervisory Board, were issued to the existing shareholders without subscription rights. The issue price for the shares issued in July was fixed at EUR 2.25 per share, well above the share's market price at that time. On the basis of Gimelli's participating interest, our aim is to put establish strong cooperation geared to a long-term perspective. In the process, we are also aiming to improve our financing potential by becoming embedded within a large group.

Gimelli maintains locations in Hong Kong and Switzerland and ranks as the world's largest manufacturer of dental and oral hygiene products in the OEM area, manufacturing especially for renowned brand-name companies in the USA such as Waterpik and Conair. The parent company TTI is a globally active manufacturer of electrical tools and floor care appliances for both professional and household use. The group's production operations are based primarily in the Far East, North America and Mexico, and as an OEM partner also manufactures an extensive article portfolio for well-known brand-name companies.

Strategic goals of the cooperation

The intention with the indirect strategic stake in MEDISANA is to achieve a targeted expansion of the company's own brand portfolio. The high familiarity and reputation of the MEDISANA brand and our excellent distribution network in Europe were particularly important criteria in arriving at this decision. In the future we intend to realign the healthcare activities under the MEDISANA umbrella.

During the last few months of the fiscal year ended, we began cooperating with Gimelli on the development of joint products in the field of oral hygiene. We want to extend our product portfolio to include the articles manufactured by Gimelli, which are a useful supplement to our delivery program.

Declining sales trend in 2002

In the fiscal year ended, the sales of our products suffered particularly from the generally difficult economic conditions and the depression in German consumption that prevailed throughout the year. As in the previous year, the important pre-

Christmas period was notably short of our expectations. This was accentuated by the fact that in restructuring our sales and marketing activities, we realigned our activities in several channels and placed our new product line in the specialized retail outlets. While these measures, whose aims are long-term growth and increasing profitability, were being implemented there were more temporary year-on-year reductions in sales. During the year, moreover, we also had to work on reducing the inventories that were built up as a result of the disappointing trend in 2001. The necessary product sales – also in the run-up to the launching of the new articles – generally led to falling sales and, for the articles affected, to lower revenue margins.

In the fourth quarter of 2002, as new healthcare products were being launched on the market, there was an unscheduled delay in deliveries to our dealers. An internal quality assurance procedure revealed that one consignment contained individual devices that were defective. Despite checking all of the products in the consignment, we had to postpone these products' delivery to our dealers – which had been scheduled for the beginning of the fourth quarter – until November/December. For us, the most important aspect was to maintain the high quality standards of our products. According to this corporate philosophy, the faultless functioning of our products takes the highest priority.

The largely stable trend in our activities in other European countries could not compensate fully for the decline in group-level sales on the German market. Since most of our subsidiaries have been active on their respective markets for only a few years, these companies' sales are still at a relatively low level compared with our sales in Germany. Our Milan-based subsidiary Sanico is an exception here, as the company was already active on the Italian home healthcare market before MEDISANA acquired it.

Altogether, the MEDISANA group generated sales of EUR 20.5 million in 2002, compared with EUR 26.7 million in 2001. Despite the negative sales trend caused by external factors, and in spite of the fact that it will take time for the restructuring measures to influence our growth positively, we achieved a turnaround as expected in the fiscal year ended after recording disappointing results in 2001. Gross earnings amounted to EUR 6.4 million (prior year EUR 6.8 million), a margin of 31% (prior year 25%) of sales. The negative operating result decreased from EUR –4.6 million in 2001 to EUR –3.5 million in 2002; the net loss for the year amounted to EUR –2.9 million (prior year EUR –3.8 million).

Assets and financial structure remains solid

The pleasing business trend is also reflected in the year-on-year changes in individual balance sheet items as of December 31, 2002. Altogether, the group's balance sheet total decreased from EUR 29.9 million to EUR 24.4 million.

On the assets side, the balance sheet contraction consists primarily of a sharp decrease in inventories, which were down from EUR 9.1 million to EUR 6.5 million. This shows our success in reducing the high levels of inventories of our own products that we had accumulated due to the difficult trend in 2001. In addition to that, trade accounts receivable were lower. On the balance sheet date fixed assets constituted 19%, current assets 57% and the item "income tax claims including prepaid expenses and deferred charges" 24% of the balance sheet.

On the shareholders' equity and liabilities side, there were notable changes in both shareholders' equity and liabilities. With regard to shareholders' equity, the subscribed capital and the capital reserves, on the one hand, both increased as a result of the issuance of the new shares, and on the other the shareholders' equity was burdened by the reporting of the balance sheet loss for 2002. In overall terms, shareholders' equity decreased from EUR 15.2 million to EUR 13.4 million in the period under review. The liabilities also declined. Short-term liabilities, in particular, were reduced from EUR 6.7 million to EUR 4.2 million. As a result of the balance sheet changes, the capital ratio increased to a still very solid 55% as of December 31, 2002. Of the remainder, 2% was accounted for by other shareholders' holdings, 8% by accruals and 32% by liabilities. 3% was accounted for by income tax claims and prepaid expenses and deferred charges.

Stable trend in employee numbers

On the balance sheet date, the group had a total of 97 (prior year 92) employees on its payroll. The group's general training activities were focused mainly on encouraging internal group communication.

In establishing foreign subsidiaries, we aim to secure ourselves market-specific know-how and long-term experience by integrating suitable employees into the process. With this in mind, the senior management positions of the group companies are filled with people who know the markets in question and had already been active for years in their respective home healthcare segments. We also ensure that the managing directors have a stake in their own group companies, the aim being to increase their sense of responsibility and motivation and create long-term employee bonding.

Enlargement of Management Board at MEDISANA AG

The Supervisory Board of MEDISANA AG appointed Mr. Norbert Schwella to the Management Board on August 7, 2002. Together with the company founder Rainer H. Behnke, Norbert Schwella is now responsible for the management of MEDISANA. He holds Management Board responsibility for the areas of finance, controlling and personnel.

Development of risk management

In 2002 we made notable progress with our risk controlling activities. We believe that the ongoing comparison of actual developments with existing plans is a crucial component of efficient risk management. We have further improved the risk sensitivity within the company by conducting in-house workshops and reallocating areas of responsibility.

Our activities in this area also focused on the increased standardization of internal and inter-company processes. We have, for example, further optimized and adjusted the internal material and product flows. The goal is to increase the efficiency of these areas in the provision and distribution of our articles via the existing national and international distribution channels. The same purpose is served by the intended – and in 2002 initiated – encouragement of group-wide and inter-divisional communication.

The complete restructuring of our sales activities with their concentration on specialized retailing will also further limit the risks that are inherent to business activity. We also intend – in the light of our experience in fiscal 2001 – to minimize the risks involved in concluding high-volume orders in the large-scale retailing segment. In future we will take on such orders only if they are backed by a high level of sales security, preferably through existing partners that can guarantee high sales of our products or assume an appropriate share of the sales risk.

Opportunities and risks of future development

Generally, the possible risks can be classified under the headings of commercial risks and financial risks.

Increasingly fierce competition may put increased pressure on the margins of products and product groups. Competition can be intensified particularly by the market entry of new suppliers who want to exploit the attractiveness of the home healthcare market that is regarded as a long-term growth market, to sell their products. Aside from that, sales of consumer products depend to a large extent on changes and trends in consumer behavior. As we implement our forward-looking and innovative product policy we are repeatedly opening up new market niches, which we then aim to occupy as the technological leader. In the process, we gear new products towards the expected developments and demands of the market. We also use design, features and handling to differentiate our products from the existing competition and endow them with unique selling points. In order to reduce the risk of excessive dependence on individual distribution partners, we are aiming for the broadest possible selling basis.

Financial risks refer primarily to exchange rate, interest and bad debt risks. We strive to prevent these risks by pursuing a solid financial policy and by making forward-looking analyses and plans.

Trend to date in 2003

The business environment remained strained in the first three months of the new fiscal year. The retail industry association expects the retail sales volume for 2003 as a whole to decrease again as a result of the persistent consumer reticence in the private sector.

We nevertheless managed to keep the sales of our products gratifyingly stable in the first nine months of 2003. Sales through specialized retailers, in particular, led to greater acceptance of our new product line. Both sales and margins have increased in this distribution channel. In addition to this, the situation in large-scale retailing has also improved.

Further expansion in foreign activities

In the ongoing business year we have continued to expand our activities beyond the borders of our home market, the aim being a continuous reduction in our dependency on Germany. In January, at the important Chicago Houseware Show, Royal Appliance made its first presentation of our products that are intended for the comprehensive distribution network in North America. In the near future we are also expecting to conclude a follow-up order to supply new “Bodycheck” products for our private-label partner PanGeo.

As well as pushing the existing foreign projects, we have reorganized the sales structure on individual markets. Since the beginning of April 2003 we have been represented in the UK by our own subsidiary. In view of the positive experiences that we have gained from the establishment of our other foreign group companies, we have acquired a majority stake in MEDISANA Healthcare UK Ltd. We won the sales director of our previous licensing partner as Managing Director and she has also acquired a minority stake in the company. In France, moreover, we have signed a new licensing agreement for the sale of MEDISANA articles via pharmacies.

Focusing on further increase in profitability

In 2003 our aim is to continue increasing our profitability in the way that we initiated successfully in 2002. In doing so, we also intend to expand our business activities internationally by establishing additional strong partnerships. In this context, the intensification of our cooperation with Gimelli will play a key role. Based on our cooperation agreements we will be benefiting far more strongly from the positive trends on the home healthcare market than we could on our own. We are focusing our attention particularly on achieving sales security for high-volume orders, the objective being to minimize the sales risks that such orders involve. In spite of the difficult environment, we expect to increase sales and further improve margin conditions in 2003.

MEDISANA GROUP
Balance Sheet as of December 31, 2002

€	Note	12.31.2001	12.31.2002
Assets			
Fixed Assets	(1)	4,576,252	4,612,156
Intangible assets	(2)	3,309,303	3,616,692
Tangible fixed assets	(3)	1,258,101	995,464
Financial assets	(4)	8,848	0
Current Assets		20,748,713	13,974,369
Inventories	(5)	9,146,083	6,462,679
Trade accounts receivable	(6)	8,231,612	4,813,412
Other receivables and other assets	(6)	1,273,809	1,732,482
Liquid funds	(7)	2,097,209	965,796
Claims for refunds on income tax	(8)	4,589,121	5,850,749
		29,914,086	24,437,274
Liabilities			
Equity Capital	(9)	15,224,365	13,395,234
Subscribed capital		3,725,757	4,225,850
Capital reserves		15,083,267	15,706,860
Exchange rate difference		116,695	.169,405
Result brought forward		57,680	.13,520,926
Result for the year		.1. 3,759,034	.1.2,947,145
Shares of other partners	(10)	864,787	502,552
Provisions		2,227,238	2,016,179
Provisions for pensions	(11)	609,617	743,045
Other provisions	(12)	1,617,621	1,273,134
Liabilities	(13)	10,644,070	7,765,854
Long-term financial liabilities		245,627	221,290
Short-term financial liabilities		6,715,380	4,153,687
Trade accounts payable		2,847,836	2,361,514
Other liabilities		835,227	1,029,363
Income tax liabilities	(14)	953,625	757,456
		29,914,086	24,437,274

MEDISANA GROUP
Statement of Income for Fiscal Year 2002

€	Note	2001	2002
Sales revenue	(15)	26,651,484	20,533,118
Cost of sales	(16)	./. 19,856,658	./. 14,173,179
Gross result		6,794,826	6,359,939
Purchasing and storage	(17)	./. 1,179,202	./. 717,567
Sales and marketing	(17)	./. 7,053,451	./. 5,338,888
Administration	(17)	./. 2,525,601	./. 3,585,044
Other operating costs	(18)	./. 932,173	./. 654,015
Other operating income	(19)	524,011	591,136
Goodwill depreciations	(20)	./. 208,650	./. 194,334
EBIT		./. 4,580,240	./. 3,538,772
Interest income	(21)	169,682	54,206
Depreciations on long-term and short-term investments	(21)	./. 112,957	./. 18,891
Interest paid	(21)	./. 568,846	./. 610,947
Earnings before tax (EBT)		./. 5,092,361	./. 4,114,405
Taxes on income	(22)	1,655,851	1,323,228
Result for year including shares of other partners	(23)	./. 3,436,510	./. 2,791,177
Shares of other partners	(23)	./. 322,524	./. 155,970
Result for year		./. 3,759,034	./. 2,947,145
Earnings per share (EUR) for 3,800,000 shares	(24)	./. 0.99	
Earnings per share (EUR) for 3,725,757 shares	(24)	./. 1.01	
Earnings per share (EUR) for 4,225,850 shares	(24)		./. 0.70
Earnings per share (EUR) for 4,680,000 shares	(24)		./. 0.63

MEDISANA GROUP
Cash Flow Statement for Fiscal Year 2002

€	Note (26)	2001	2002
Liquid funds 01.01.		4,989,002	2,097,209
Result for year		./ 3,759,034	./ 2,947,146
Depreciations		668,435	770,970
Result from asset disposals		209,562	256
Change in inventories		1,610,897	2,683,404
Change in provisions		382,894	./ 211,059
Change in accounts receivable, accounts payable (excluding financial liabilities)		61,605	2,648,629
Taxes on income		./ 2,282,322	./ 1,457,797
Other expenses and income not affecting payments		421,478	77,851
Outflow of funds from day-to-day business		./ 2,686,485	1,565,108
Investments in fixed assets excluding acquisition of shares		./ 485,982	./ 258,346
Investments in consolidated companies (gross amount)		./ 204,053	./ 501,255
Other effects of consolidation not affecting payments		./ 36,733	./ 36,658
Outflow of funds from investment activity		./ 726,768	./ 796,259
Capital increase resulting from listing of Medisana AG		0	1,980,000
Repurchase of own shares		./ 713,538	./ 855,356
Distribution of dividends to third parties		0	./ 514,490
Short-term financial liabilities		1,109,141	./ 2,561,693
Long-term financial liabilities		./ 28,463	./ 24,337
Inflow of funds from financing activity		367,140	./ 1,975,876
Change in liquid funds affecting payments		./ 3,046,113	./ 1,207,027
Consolidated group and exchange-related changes in liquid funds		154,320	75,614
Liquid Funds 12.31.		2,097,209	965,796

MEDISANA GROUP

Development of Equity Capital

Note (9) €	Subscribed Capital	Capital Reserve	Revenue Reserve		Result for year	Total
			Difference resulting from currency conversion	Result brought forward		
Situation as at January 1, 2001	3,800,000	15,722,562	20,198	.i. 436,796	494,476	19,600,440
Appropriation of net income				494.476	.i. 494,476	0
Acquisition of own shares	.i. 74,243	.i. 639,295				.i. 713,538
Currency differences			96,497			96,497
Consolidated result for year					.i. 3,759,034	.i. 3,759,034
Situation as at December 31, 2001	3,725,757	15,083,267	116,695	57,680	.i. 3,759,034	15,224,365
Appropriation of net income				.i. 3,759,034	3,759,034	0
Capital inpayments	880,000	1,100,000				1,980,000
Dividend payments to third parties				.i.514,091		.i. 514,091
Acquisition of own shares	.i. 379,907	.i. 384,449				.i. 764,356
Currency differences			.i. 186,100	159,838		.i. 26,262
Other neutral changes		.i. 91,958		534,681		442,723
Consolidated result for year					.i. 2,947,145	.i. 2,947,145
Situation as at December 31, 2002	4,225,850	15,706,860	.i. 69,405	.i. 3,520,926	.i. 2,947,145	13,395,234

MEDISANA GROUP

Segmental Reporting by Region (part of Annex)

Segments	Germany		Italy		Rest of Europe		North America		Other Regions		Consolidation		Group	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
T€ <i>Note (27)</i>														
Balance Sheet														
Equity capital/Shares of other partners	16,079	15,385	1,563	890	207	197	85	-388	166	-33	-2,877	-2,656	15,224	13,395
Segmental assets	25,039	21,724	5,689	4,567	1,412	1,798	2,192	602	1,036	183	-5,454	-4,437	29,914	24,437
Segmental liabilities	9,540	7,250	4,126	3,676	1,205	1,637	2,107	990	870	217	-3,158	-2,729	14,690	11,042
Net financial liabilities	5,093	2,739	1,122	1,719	97	132	1,890	826	681	139	-1,922	-1,181	6,961	4,375
Statement of Income														
External sales	11,753	8,236	7,481	6,887	2,128	3,557	1,783	397	0	0	-733	-817	22,410	18,260
Inter-segmental sales	6,431	934	782	429	4,609	3,583	344	636	1,535	455	-8,449	-2,992	5,252	3,045
Segmental sales	18,184	9,170	8,262	7,316	6,737	7,140	2,127	1,032	1,535	455	-9,183	-3,810	27,662	21,304
EBITDA														
Depreciations	-538	-565	-65	-113	-19	-23	-10	-32	-36	-38	0	0	-668	-771
EBIT	-4,554	-3,303	1,212	633	96	128	-747	-368	-405	-170	-182	-459	-4,580	-3,539
Net interest income	-233	-381	-41	-8	-20	-74	-194	-89	-22	-21	-2	-2	-512	-576
Earnings before tax (EBT)	-4,787	-3,653	1,172	625	75	54	-941	-457	-427	-192	-184	-493	-5,092	-4,114
Taxes on income	1,776	1,801	-508	-284	-18	-17	361	-54	9	0	36	-123	1,656	1,323
Result for year	-3,011	-1,883	663	327	57	37	-580	-510	-418	-192	-148	-571	-3,437	-2,791
Other data														
Expenses/income not affecting payments (excluding tax depreciation)	421	78											421	78
Investments	699	630		99		22		0		8			699	760
Employees 12.31	56	53	19	17	16	22	1	0	0	0			92	92

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF MEDISANA AG

ACCOUNTING PRINCIPLES

GENERAL INFORMATION

The consolidated financial statements of Medisana AG as of December 31, 2002 were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB). In accordance with the regulations of DRS 1 it complies with EU Directive No. 7. The figures for the previous year were ascertained following the same principles. This IFRS financial statement complies with the regulations of § 292a HGB (German Commercial Code).

All standards (IAS) in force on the balance sheet cutoff date have been applied. The interpretations of the Standing Interpretations Committee (SIC) were also observed. In addition to the consolidated balance sheet and the consolidated statement of income, a consolidated cash flow statement and notes to the consolidated financial statements including segmental reporting and the development of the consolidated equity capital are shown.

In order to improve the clarity of presentation, various items from the consolidated balance sheet and the consolidated statement of income have been combined. These items are classified and explained accordingly in the notes to the consolidated financial statements. The consolidated statement of income was prepared using the cost-of-sales accounting method.

CONSOLIDATED GROUP

In addition to Medisana AG, the consolidated financial statements include all German and foreign subsidiaries in which Medisana holds the majority of voting rights, either directly or indirectly. In principle, first and final consolidation take place at the time when shares are acquired or sold.

Apart from Medisana AG, the parent company, the consolidated group includes eight subsidiaries, two in Germany, four elsewhere in Europe and two elsewhere abroad.

	12.31.2001	Accruals	Disposals	12.31.2002
Fully consolidated companies				
-in Germany	1	1		2
-abroad	6			6

In the year under review, a further 30% of the shares in Medisana Far East Ltd., Hong Kong and a further 2.3% of the shares in Sanico GmbH, Barsbüttel, were acquired. This is not linked to any change in the consolidated group. The newly established Lightwave GmbH did not conduct any operating business in 2002.

Consolidated Medisana Group as at 12.31.2002

<i>Company</i>	<i>Holding %</i>	<i>Consolidated since</i>	<i>Consolidation</i>
Medisana AG, Meckenheim (Germany)	Parent	01.01.2000	Full
Sanico, s.r.l., Cusago (Italy)	51.0	01.01.2000	Full
Sanico GmbH, Barsbüttel (Germany)	52.0	01.01.2000	Full
Medisana Far East Ltd., Hong Kong	90.0*	07.05.2000	Full
Medisana USA Inc., Charlotte, NC (USA)	100.0	01.01.2000	Full
Medisana Healthcare, S.L., Barcelona (Spain)	51.0	10.01.2000	Full
Medisana Hellas Ltd., Iraklion (Greece)	51.0	01.01.2001	Full
Medisana Benelux NV, Kerkrade (Netherlands)	51.0	01.01.2001	Full
Lightwave GmbH, Meckenheim (Germany)	100.0	11.20.2002	Full

* 100 % voting rights quota

CONSOLIDATION METHODS

All subsidiaries have been integrated into the consolidated financial statements of Medisana AG. There are no holdings in joint ventures or associate companies.

In conformity with IAS 22, subsidiaries are first consolidated at the time of acquisition, i.e. on the date from which the purchaser acquires the ability to determine business and financial policy.

Capital consolidation of the subsidiary companies follows the purchase method of accounting in accordance with IAS 22. Under this method the cost of acquiring shares in associate companies is set against the consolidated portion of the carrying value of the equity capital (share-proportional revaluation). Where there are no undisclosed reserves or encumbrances, the difference between the cost of acquisition and the pro rata equity capital is reported as goodwill. Goodwill is written down on a linear basis over an effective period of 20 years.

For the purpose of implementing capital consolidation, write-downs on shares in integrated companies which have been made in individual financial statements are reversed and instead corresponding goodwill arising from the capital consolidation is written down on a unscheduled basis.

Any effects of intra-Group transactions are eliminated. Accounts receivable and payable and borrowings between the consolidated companies are set off against one another as part of the consolidation of debt. Interim gains in inventories at consolidated companies are also consolidated, as are dividend receipts and intra-group expenses and income. Deferred taxes on temporary differences resulting from consolidation are calculated in accordance with IAS 12.

The consolidation methods remain unchanged in relation to the previous year.

CURRENCY CONVERSION

The annual financial statements of foreign group companies in the US and Hong Kong are converted into Euro in line with the functional currency concept. The balance sheet is converted at the mean rates applying on the balance sheet cutoff date. Conversion differences are booked to equity without affecting net income. The statement of income is

converted at annual average rates. Conversion differences arising herefrom and from the currency conversion of carry-forwards from the previous year are booked to equity without affecting net income.

The consolidated financial statements are prepared in Euro. Exchange rates in relation to the Euro developed as follows:

Exchange rates

		<i>Mean rate in EUR on balance sheet cutoff date</i>		<i>Annual average rate in EUR</i>	
		<i>12.31.2001</i>	<i>12.31.2002</i>	<i>2001</i>	<i>2002</i>
USA	1 USD	1.1347	0.9536	1.1166	1,0575
Hong Kong	1 HKD	0.1455	0.1223	0.1432	0.1356

In the individual financial statements of the consolidated companies prepared in local currency, receivables and liquid funds in the foreign currency, and foreign currency liabilities, are converted at the mean rate on the balance sheet cutoff date. Currency conversion differences are reported in the financial result as affecting the operating result.

BALANCE SHEET REPORTING AND VALUATION METHODS

The valuation methods remain unchanged from the previous year. Reporting changes in the interests of a clearer presentation of the financial statements were made in the case of financial liabilities, accrued and deferred income taxes and in the cash flow statement in terms of the breakdown of the movement of funds derived from operating activities. Figures for previous years were similarly adjusted to ensure comparability.

Intangible assets which were acquired are valued at cost of acquisition less scheduled linear depreciation. The write-downs on concessions and industrial property rights are based on an effective life of 5 to 20 years.

Goodwill deriving from consolidation is written down on a linear basis over its anticipated effective life of 20 years. The anticipated effective life thereby reflects the expected exploitation of the market position gained through acquisition of the company concerned and the value-added potential of that company.

If checkpoints for a reduction in value exist and if the obtainable sum is less than the continued costs of acquisition or production, intangible assets are written down on an unscheduled basis. If the grounds for unscheduled depreciations no longer apply, write-ups are effected accordingly.

Tangible fixed assets are valued at cost of acquisition or production less scheduled and if necessary unscheduled depreciation. Tangible fixed assets are written down on a linear basis over the anticipated effective life, unless in exceptional cases a different write-down method corresponds more closely to the effective life.

Tangible fixed assets are regularly written down over the following periods of effective life:

Plant and machinery	3-4
Other factory and office equipment	4-10

If checkpoints for a reduction in value exist and the obtainable sum is less than the cost of acquisition or production, tangible fixed assets are written down on an unscheduled basis. If the grounds for unscheduled depreciations no longer apply, write-ups are effected accordingly.

Financial assets are capitalized at cost of acquisition. The cost of acquisition of long-term low- or non-interest bearing loans equates to their cash value. If necessary, write-downs to a lower value are effected on the balance sheet cutoff date. No financial assets existed as at 12.31.2002.

Inventories are reported at the lower of either purchase cost including freight or realizable net sale price less costs still accruing. Valuation is at average cost in accordance with the benchmark method defined in IAS 2. Appropriate mark-downs are made to take account of inventory risks associated with a reduction in marketability. In the event of a rise in the net sale price of inventories which have previously been written back, the resulting increase in value is applied as a reduction in material costs. Financing costs are only taken into account if they are product-related.

Receivables and other assets are reported at cost of acquisition. Appropriate value adjustments are made to take account of the risk of default. Receivables denominated in foreign currency are valued at the mean market price on the balance sheet cutoff date.

Claims for refund of income tax are capitalized in the amount of income tax prepayments made, deferred tax claims resulting from the conversion of financial statements prepared under national legislation to IAS, and anticipated tax savings deriving from tax loss carried forward. A prerequisite in this case is assessment of the development of profits in the parent company's medium-term financial planning. Where there are no longer adequate substantial indications of the achievement of future profits, write-downs to the obtainable value are undertaken.

Subscribed capital and capital reserves are reported in the amount of the payments made by shareholders for the purchase of shares. Reductions are made as a result of the repurchase of own shares.

Revenue reserves comprise the results brought forward of the integrated companies and currency differences. Exchange rate differences equate to the changes in the acquired equity capital of subsidiary companies in foreign currency caused by exchange rate fluctuations between the date of first consolidation and the balance sheet cutoff date.

Provisions for pensions and similar commitments are calculated according to the standard international projected unit credit method. Under this method, the extent of the commitment is ascertained on the basis of anticipated future salary and pension increases and other actuarial assumptions. Differences between actuarial assumptions and the actual development of the underlying accounting parameters will result in actuarial profits or losses, producing discrepancies between the expectancy cash value (DBO) and the provision reported on the balance sheet. Actuarial profits or losses outside of a range of 10% of the expectancy cash value are distributed over the average residual period of service. The period of service costs are treated as personnel costs, while the interest quota of the appropriation to provisions is posted in the financial results.

Other provisions take into account all commitments identifiable on the balance sheet cutoff date and pertaining to past business transactions or past events, the amount or due date of which is uncertain. The provisions are set at an amount equal to the probable settlement figure. It is not permitted to offset such commitments against positive profit contributions. Provisions are only created where there is an underlying obligation to third parties either in law or in fact. Long-term provisions are reported at the discounted settlement figure at the balance sheet cutoff date, provided there is a significant rate of

interest effect as a result of discounting. The settlement figure also includes cost increases which have to be taken into consideration at the balance sheet cutoff date in accordance with IAS 37.

Liabilities are in principle reported at their repayment value. Liabilities denominated in foreign currency are valued at the mean exchange rate on the balance sheet cutoff date.

Income tax liabilities are carried as liabilities in accordance with IAS 12 to cover both actual tax owed to the tax authorities and valuation differences between the tax balance sheets of the individual companies and the consolidated financial statements. Deferred taxes resulting from consolidation entries are uniformly based on the 39.2% rate (previous year: 39.2%) applicable in Germany.

Sales revenue and other operating income is realized at the time when a service is performed or the risks transferred to the customer.

Operating expenses affect net income at the time when a service is utilized or when said expenses are incurred. Provisions for guarantees are created at the time when the related sales revenue is realized. Development expenses are reported as expenditure in the year in which they accrue, unless they have to be capitalized in accordance with IAS 38. Interest income and expenses are reported on an accrual basis.

Derivative financial instruments were used in the Medisana Group for the first time in 2002 exclusively to hedge against currency risks resulting from operating business (a USD call option). Option premiums paid on the conclusion of currency hedging transactions were valued under other assets at cost of acquisition until exercise or expiry of the option, and at the lower of either acquisition cost or market value at the reporting date.

All derivative financial instruments are valued at the attributable current market value (fair value). Derivative financial instruments are reported at a positive fair value under other assets, derivatives with a negative fair value under other liabilities. A derivative is reported for the first time on the settlement date, which is normally a few days after the trading day.

NOTES TO THE CONSOLIDATED BALANCE SHEET

(1) FIXED ASSETS

Goodwill in the subsidiary companies is reported under goodwill fixed assets, in addition to the rights to the brand names "Medisana" and "Lightwave". The change of T€ 497 under the item Changes in consolidated group relates to the acquisition of a further 30% of the shares in Medisana Far East Ltd., Hong Kong. In future the company will obtain income from commissions from suppliers and manufacturers of products in the home health market for introducing customers. As the reasons for the unscheduled write-down in the previous year no longer applied, a write-up of T€ 40 was made in the fiscal year.

Development of fixed assets

T€	Gross Values					Write-downs				Net values					
	01.01.2002	Accruals	Disposals	Book transfers	Changes in consolidated group	12.31.2002	01.01.2002	Accruals	Disposals	Book transfers	Write-ups	Changes in consolidated group	12.31.2002	12.31.2001	12.31.2002
Goodwill	3,382				497	3,879	371	194		40			525	3,012	3,354
Intangible assets	477	68				545	179	136	33				282	298	263
Tangible fixed assets	2,026	190	37		.12	2,167	768	444	44			4	1,172	1,257	995
Financial assets	9		9			0	0						0	9	0
Total	5,894	258	46	497	.12	6,591	1,318	774	77	40	4	1,979	4,576	4,612	

(2) INTANGIBLE ASSETS

Write-downs on intangible assets totalled T€ 150 (previous year: T€ 306).

Goodwill reported breaks down as follows:

T€	2001	2002
Sanico SRL, Italy	110	110
Santec (merged with Medisana AG in 2001)	49	49
Medisana Far East	42	26
Medisana Benelux	5	5
Medisana Hellas	3	3
Sanico GmbH	0	1
Total	209	194

The unscheduled write-down of T€ 42 for Medisana Far East Ltd., Hong Kong carried out the previous year, was made good again in 2002 in line with current company planning. An examination of the goodwill's ability to hold its value did not reveal any further need for depreciation.

(3) TANGIBLE FIXED ASSETS AND LEASING

As in the previous year, depreciations on tangible fixed assets do not include any unscheduled write-downs.

Leasing payments in subsequent years - Operating leases

T€	2002	2003-2006	2007 -
Buildings	270	1,080	1,283
Sundry automobile leasing agreements	70	102	0
Total	340	1,182	1,283
Inpayments from subleasing	0	0	0

Medisana AG's long-term leasing agreement for offices and warehouses will give rise over the next few years to total liabilities of T€ 2,363, and T€ 102 for automobiles.

(4) FINANCIAL ASSETS

The value reported under financial assets in the consolidated financial statements relates solely to long-term loans to employees, although no such agreements exist at 12.31.2003 (previous year € 8,848).

(5) INVENTORIES

Only goods are included in inventories. A write-down of T€ 379 (previous year: T€ 439) was made to a book value of T€ 1,122 in the consolidated financial statements, due to diminished utility and lower net sales values. Inventories of Medisana AG totalling T€ 4,010 (previous year: T€ 6,317) have been pledged as loan collateral to Sparkasse Bonn in the form of a storage security transfer.

(6) ACCOUNTS RECEIVABLE

Trade accounts receivable result from the customary trade in goods and services with companies outside of the group. Medisana AG made loan-securing assignments of receivables in the amount of T€ 1,638 (previous year: T€ 3,578) were made to Sparkasse Bonn in the form of a global transfer as of the balance sheet cutoff date. The receivables of Sanico SRL, Milan (Italy) total T€ 1,838 (previous year: T€ 2,897). In Italy receivables are mainly collected by the banks. Receivables with a residual term of more than one year are limited to T€ 15 (previous year: T€ 14).

<i>T€</i>	<i>2001</i>	<i>of which residual term > 1 year</i>	<i>2002</i>	<i>of which residual term > 1 year</i>
Trade accounts receivable	8,232	14	4,813	15
Other receivables and other assets	1,175	13	1,674	506
Prepayments and accrued income	99		59	
	9,506	27	6,546	521

Other assets include in particular capitalized employer's pension liability claims in accordance with IAS 19 (revised 2000) totalling T€ 724 (previous year: T€ 610). Residual terms of more than one year amount to T€ 469, tax demands total T€ 94 and there is a tax prepayment by Sanico SRL, Italy in the amount of T€ 548 (previous year: T€ 304).

The book values reported for recorded assets are more or less in line with market values.

(7) LIQUID FUNDS

Liquid funds constitute the Group's short-term liquidity reserve. A total of T€ 264 has been assigned as security to Stadtparkasse Bonn, Bonn on an overnight money account. The interest charges on the overnight money account are 3% p.a. Credit balances in foreign exchange are valued at the rate prevailing on the balance sheet cutoff date.

(8) CLAIMS FOR REFUND OF INCOME TAX

Following the change-over from financial statements based on national law to IAS, capitalized income taxes included, in addition to actual income taxes, deferred taxes totalling T€ 46 (previous year T€ 0). Of the tax reduction claims, an amount of T€ 5,279 (previous year T€ 3,463) is attributable to tax losses brought forward from the previous accounts of Medisana AG (tax rate 39.2%).

<i>T€</i>	<i>12.31.2001</i>	<i>12.31.2002</i>
Deferred taxes		
- derived from valuation differences	0	46
- derived from losses brought forward	4,243	5,805
Income tax claims against the tax authority	346	0
	4,589	5,851

Owing to the company's strategic reorientation from difficult to predict large-scale business to more easily calculable special sales business and intensified activity as an OEM partner, Medisana AG plans to return to profitable business after restructuring within the group as a whole. To this end the tax losses brought forward from the previous accounts of Medisana AG will be used in the foreseeable future. Further references to future profits are derived from cooperation with new investors. Concrete negotiations to this end will be carried out in the balance sheet preparation period. The deferred taxes in the amount of T€ 5,851 (previous year: T€ 4,243) include capitalized tax reduction claims totalling T€ 5,805 (previous year: T€ 4,243), resulting from the expected use of existing losses brought forward in subsequent years. Realization of these loss carryovers is guaranteed with an adequate degree of certainty. No reduction in the value of the deferred taxes was offered in this context.

(9) EQUITY CAPITAL

The equity capital of Medisana AG amounts to T€ 4,226 and comprises the same number of shares. The number of shares has been increased from 3,800,000 to 4,680,000. 454,150 of these shares were bought back by Medisana AG.

The capital reserve only contains the premium from capital increases. Apart from the result brought forward in the amount of ./ T€ 3,521, the profit reserves include currency differences of ./ T€ 69.

(10) SHARES OF OTHER PARTNERS

The adjustment item for shares of other partners comprises the shares of other partners in the capital, amounting to T€ 206 (previous year: T€ 542) and the shares of other partners in the result, amounting to T€ 156 (previous year: T€ 323).

(11) PENSION RESERVES AND SIMILAR OBLIGATIONS

Reserves are created for obligations arising from the expectancies and current benefits of entitled and active staff. The obligations relate in particular to retirement pensions, partly in the form of basic pensions and partly in the form of supplementary pensions. Benefits are based on individual promises, whose format differs from country to country and company to company. They are normally based on an employee's length of service and salary.

Employee pension schemes consist solely of benefit-oriented pension systems. Under these pension plans the company is obliged to make the promised payments to active staff as well as former employees. The reserves of benefit-oriented pension plans are valued using the projected unit credit method in accordance with IAS 19. Under this method, the expectancy cash value of the pension obligation (DBO) is calculated actuarially, based on assumptions concerning life expectancy, salary and pension increases, fluctuations, development of interest levels and other accounting parameters. The reserve is reduced by the market value of the net worth of the existing pension funds. Length of service expenses are reported in the personnel costs, while the interest expenses are reported in the financial result.

Actuarial calculation of the expectancy cash value for all pension obligations was based on the following parameters:

	12.31.2001	12.31.2002
Interest rate for accounting purposes	5.5 %	5.5 %
Salary development	0.0 %	0.0 %
Pension development	2.0 %	2.0 %

Development of the pension reserves as at 12.31.2002 was as follows:

Pension reserve - Development

T€	2001	2002
Brought forward	741	610
Appropriated (pension expenses)	95	133
Retransferred	226	0
Utilized	4	0
Final position	610	743

The following table shows the transfer of the expectancy cash value (DBO) to the pension reserves reported in the consolidated financial statements in accordance with IAS 19:

Pension reserve - Transfer

T€	12.31.2001	12.31.2002
Expectancy cash value of obligations not financed through fund	610	743
Expectancy cash value of obligations financed through fund		0
Expectancy cash value of pension obligations (DBO)	610	743
Fund assets considered at market values		0
Adjustment based on costs not accounted for		0
Adjustment based on actuarial profits and losses not accounted for		0
Pension reserves and similar obligations	610	743

Under IAS 19 actuarial profits and losses are recorded as expenses over the average remaining length of service of the staff, provided these exceed 10% of the scope of the obligation. In the year under review, there were no actuarial profits and losses which met these conditions.

The obligations are covered by taking out capital sum insurances.

Costs break down as follows:

Pension expenses

T€	2001	2002
Length of service costs	41	107
Amortized actuarial profits and losses	0	9
Accumulation of anticipated pension obligations	54	35
	95	133

(12) OTHER PROVISIONS

T €	Situation as at 01.01.2002	Consumption	Appropriation/ New creation	Retransfer	Situation as at 12.31.2002
Commodity trading risks					
- Warranties	125	125	100	0	100
- Outstanding invoices	359	356	259	3	259
- Bonuses and discounts	233	233	150	0	150
- Outstanding credit notes	40	40	0	0	0
	757	754	509	3	509
Personnel and social welfare					
- Vacation provisions	58	58	40	0	40
- Christmas bonuses	44	44	36	0	36
- Provision for compensation payment following termination of employment (Italy)	305		36		341
- Overtime	5	5	8	0	8
	412	107	120	0	425
Other					
Commercial agent claims	74	74	74	0	74
Litigation expenses	277	207	1	70	1
Annual financial statement costs	20	20	3	0	3
Audit costs	55	54	86	0	86
Supervisory Board fee	22	22	24	0	24
Other	0	0	151	0	151
	447	447	339	70	339
	1,617	1,311	968	73	1,273
of which residual term > 1 year	74				74

The provisions attributable to commodity trading risks break down into T€ 100 (T€ 125) for warranty risks, T€ 259 (T€ 359) for outstanding invoices, T€ 150 (T€ 233) for bonuses and discounts.

Other Provisions include annual financial statement and audit costs of T€ 89 (T€ 74), commercial agent claims of T€ 74 (T€ 74), Supervisory Board fees of T€ 24 (T€ 22) and compensation obligations resulting from the creation of new sales organizations of T€ 72 (T€ 0).

Taking national legal conditions into consideration, provisions for payment on termination of employment contracts were reported under Other personnel and social welfare provisions. In the previous year the corresponding claims were reported under Pension provisions. In 2002 the provision created for this purpose stood at T€ 341 (previous year: T€ 305).

These are mainly short-term Other provisions. Only the term of the provision for commercial agent claims T€ 74 (T€ 74) in Italy.

(13) LIABILITIES

T€	12.31.2001	of which residual term < 1 year	of which residual term > 5 years	12.31.2002	of which residual term < 1 year	of which residual term > 5 years
Financial liabilities						
- Bank loans and overdrafts	6,961	6,715		4,375	4,154	5
Trade accounts payable	2,848	2,848		2,362	2,362	
Other liabilities	835	835		1,029	1,029	
	10,644	10,398	0	7,766	5,612	5

Other liabilities mainly include tax liabilities, social security liabilities, amounts owed to staff members, the Supervisory Board and credit balances on debtor accounts..

The following tables show the terms and conditions of the financial debts and their book and market values:

Terms and conditions

Weighted average interest rate T€	Book value 12.31.2001 €	Market value 12.31.2001 €	Interest commitment until	Book value 12.31.2002 €	Market value 12.31.2002 €
Bank loans and overdrafts	6,961	6,961	Variable	4,375	4,375

T€ 1,924 (previous year: T€ 3,479) of the liabilities are secured by global assignment of receivables and inventories.

(14) INCOME TAX LIABILITIES

T€	12.31.2001	12.31.2002
Deferred taxes	397	447
Provision for income tax	554	291
Income tax obligation	3	19
	954	757

Deferred taxes totalling T€ 447 (previous year: T€ 397) are mainly attributable to temporary differences. Provisions for income tax were created in the amount of T€ 291 (T€ 554).

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

(15) SALES REVENUE

Gross sales revenue totalling T€ 21,426 (previous year T€ 27,586) was achieved. This figure contrasts with reductions in proceeds amounting to T€ 893 (T€ 935).

T €	2001	2002
Sales revenue		
Medisana AG	10,502	6,317
Sanico Italy	8,109	7,341
Sanico GmbH	3,075	2,614
Medisana USA	1,783	404
Medisana Far East	1,052	402
Medisana Spain	898	1,127
Medisana Benelux	613	1,476
Medisana Hellas	619	852
	26,651	20,533

In its capacity as the Group's parent company, Medisana AG made an additional (intercompany) sales payment of T€ 2,248 (previous year: T€ 2,030), which was consolidated out in the Group review. In addition Medisana bore the majority of the expenses resulting from the reduction in proceeds, with a share amounting to T€ 708 (previous year: T€ 794). A breakdown of sales revenue by region is contained in the segmental reporting in Section F.

(16) COST OF SALES

The cost of sales totalling T€ 13,990 (previous year: T€ 19,857) includes the acquisition cost of goods sold and marketing costs directly attributable to sales revenue. Material acquisition costs amount to T€ 12,335 (previous year T€ 18,432). Directly attributable marketing costs total T€ 1,655 (previous year: T€ 1,425). Retroactive allocation of sales costs for 2001 was waived for materiality reasons, as the costs were allocated to the Functional divisions and the data was not available in the new presentation format.

T€	2001	2002
Cost of materials	19,857	13,947
Staff costs	0	109
Depreciations	0	117
Other	0	0
	19,857	14,173

The gross result of T€ 6,360 (previous year: T€ 6,795) comprises the result from sales revenue and the costs directly attributable thereto.

(17) PURCHASING & STORAGE, SALES & MARKETING, ADMINISTRATION

Purchasing & Storage, Sales & Marketing and Administration costs totalling T€ 9,642 (previous year: T€ 10,758) include staff costs, depreciations and other expenses allocated to this division. These items are made up as follows:

a) Purchasing and Storage

T€	2001	2002
Staff costs	708	601
Depreciations	36	9
Other expenses	435	108
	1,179	718

b) Sales and Marketing

in T€	2001	2002
Staff costs	2,847	2,090
Depreciations	104	139
Other expenses	4,102	3,110
Total	7,053	5,339

c) Administration

in T€	2001	2002
Staff costs	901	1,270
Depreciations	320	242
Other expenses	1,305	2,073
	2,526	3,585

The increased Staff and Other expenses were incurred in the Administration division following reallocations (in particular of the top-executive function and all related expenses) from the Sales and Marketing division.

The main appropriations to the pension reserves reported (see Note 11) are employee pension plan contributions.

The average staff figures in the fiscal year were:

Average staff figures over the year

Employees	2001	2002
Germany	56	53
Italy	19	17
Rest of Europe	16	22
Other	1	0
	92	92

(18) OTHER OPERATING EXPENSES

Other operating expenses in the amount of T€ 654 (previous year: T€ 932) essentially include neutral expenditure in the form of exchange rate differences and losses from asset disposal and value adjustments on receivables.

Other operating expenses were allocated to the following items:

<i>in T€</i>	2001	2002
Value adjustments on receivables	289	272
Appropriation to reserves for litigation expenses	155	0
Exchange rate losses	78	198
Losses from asset disposal	58	0
Expenses unrelated to accounting period	64	0
Other expenses	288	184
	932	654

(19) OTHER OPERATING INCOME

T€	2001	2002
Income from disposal of intangible assets and tangible fixed assets	245	0
Income from increase in employer's pension liability insurance	0	64
Income from write-up on current assets	22	198
Income from retransfer of provisions	5	82
Other income	252	247
	524	591

Other operating income results essentially from income derived from the write-up of current assets, in this case from the value make-good of the inventory of own shares amounting to T€ 198 (previous year: T€ 22) and income from the increase in employer's pension liability insurance, T€ 64 (previous year: T€ 0), as well as from the retransfer of provisions in the amount of T€ 247 (previous year: T€ 252).

(20) GOODWILL DEPRECIATIONS

The effective life of goodwill is shown uniformly within the Medisana Group over a period of 20 years. Depreciations for 2002 total T€ 194 (previous year: T€ 209). Please refer to Note (2) for the residual book values of the goodwill reported and the write-up made to the book value of Medisana Far East in the year under review.

(21) FINANCIAL RESULT

The financial result of the Medisana Group for fiscal year 2002 amounts to ./.. T€ 576 (previous year: ./.. T€ 512).

T€	2001	2002
Interest income	170	54
Depreciations on financial assets	- 113	-19
Interest expenses	- 569	-611
Financial results	- 512	-576

(22) TAXES ON INCOME

T€	2001	2002
Current income tax expenses	540	466
Deferred taxes	- 2,196	-1,789
	- 1,656	-1,323

Current tax expenses are based on a pre-tax profit for the year (EBT) for Sanico Italy amounting to T€ 625, T€ 71 for Medisana Hellas and T€ 21 for Medisana Benelux.

The following table shows a transfer from anticipated tax expenses to those actually reported. To calculate the anticipated tax expenses, the pre-tax profit is multiplied by a tax rate of 39.2%. This comprises a tax rate of 25% for corporation tax plus solidarity surcharge and 17.5% for trade earnings tax. The anticipated tax expenses are compared with the actual tax expenses.

Transfer from anticipated to actual income tax expenses

T€	2001	2002
Pre-tax profits	./. 5,092	./. 4,114
Anticipated tax expenses	./. 1,996	./. 1,612
Differences from foreign tax rates	207	196
Tax-free income and non tax-deductible expenses	137	93
Other	./. 4	0
Actual tax expenses	./. 1,656	./. 1,323
Effective tax rate as %	32.5%	32.2%

Deferred taxes for 2002 and 2001 are attributable to the following situation:

Tax accrual and deferral situation

T€	2001 Deferred	2001 accruing	2002 deferred	2002 Accruing
Fixed assets		29		27
Current assets		221		269
Losses brought forward and tax credits	4,243		5,288	
Pension reserves including employer's pension liability		94		113
Other		21	46	
Consolidation measures		32		38
Consolidated balance sheet	4,243	397	5,334	447

Value adjustments totalling T€ 46 were made on deferred tax claims as a result of exchange rate changes (previous year: € 0).

(23) RESULT FOR THE YEAR AND SHARES OF OTHER PARTNERS

The shares of other partners comprise profit shares of T€ 197 (previous year: T€ 353) and loss shares of T€ 41 (previous year: T€ 30).

The profit shares of other partners comprise the results for the year of the following associated companies:

T€	2001	2002
Sanico Italy	325	160
Medisana Spain	2	0
Medisana Benelux	1	11
Medisana Hellas	25	26
	353	197

The loss shares of other partners comprise shares in the results for the year of Sanico GmbH amounting to T€ 23 (previous year: T€ 30) and Medisana Health Care S.L., Spain, amounting to T€ 18 (previous year: 0).

(24) EARNINGS PER SHARE

Earnings per share (EPS) are determined as a quotient from the Group result and the weighted average of the shares outstanding during the fiscal year. There were no shares outstanding either at 12.31.2002 or 12.31.2001 which might dilute the earnings per share. In the year under review the undiluted earnings per share therefore equate to the diluted earnings per share.

T€	2001	2002
Consolidated result for the year of shareholders of Medisana AG	<i>.i.</i> 3,759	<i>.i.</i> 2,947
Weighted average of number of shares	3,725,757	4,225,850
Earnings per share (EPS)	<i>.i.</i> 1.01	<i>.i.</i> 0.70

(25) OTHER INFORMATION ON STATEMENT OF INCOME

Group expenditure on research and development amounts to T€ 83 (previous year: T€ 433). As the requirements for capitalization in accordance with IAS 38 were not met, expenditure is reported as expenses in the year during which it accrued.

NOTES TO THE CASH FLOW STATEMENT

(26) CASH FLOW STATEMENT

The cash flow statement is prepared in accordance with the regulations of IAS 7 and is broken down into payment flows from current business, investment and financing activity. The effects of exchange rate changes on funds are presented separately.

The inflow of funds from current business activity includes interest income amounting to T€ 54 (previous year: T€ 170) and interest expenses of T€ 611 (previous year: T€ 569). Income tax paid amounts to € 466 (previous year: T€ 540), and tax refunds to T€ 1,789 (previous year: T€ 2,196).

The outflow of funds from further share acquisitions in consolidated subsidiaries amounts to T€ 501 and includes in particular the purchase cost of 30% of the shares in Medisana Far East, amounting to T€ 501 and 2.3% of the shares in Sanico GmbH, amounting to T€ 0 .

The funds in the cash flow statement correspond to the liquid funds. Fixed-term deposit investments in the amount of T€ 264 have been pledged.

NOTES ON SEGMENTAL REPORTING

(27) SEGMENTAL REPORTING

The business of the Medisana Group worldwide is concentrated exclusively on its core area of home health care. The creation of segments based on operating areas is not possible. Instead the business has been divided into the following regional segments on a geographical basis:

- **Germany**
- **Italy**
- **Rest of Europe**
- **North America**
- **Other regions**

Segmental assets and liabilities include necessary operating assets and capital from outside sources excluding liquid funds and interest-bearing liabilities.

Net financial liabilities include total financial liabilities (long- and short-term) minus liquid funds.

Sales between the segments are effected in principle under generally accepted market conditions, which are also used as a basis for transactions with outside third parties.

EBITDA refers to the earnings before interest, income tax and depreciations on tangible fixed assets and intangible assets; EBIT refers to earnings before interest and income tax. The EBIT return is defined as EBIT in relation to segmental sales. Investments and depreciations refer respectively to tangible fixed assets and intangible assets including goodwill.

OTHER NOTES

(28) EVENTS AFTER THE BALANCE SHEET CUTOFF DATE

No contingencies or events particularly relevant to the development of the operating result occurred between the balance sheet cutoff date and the date on which the consolidated financial statements were prepared.

(29) HEDGING POLICY AND FINANCIAL DERIVATIVES

The operating business and financing transactions of the Medisana Group as an internationally operating group of companies are subject to financial risks. These are risks resulting in particular from exchange rate fluctuations and changes in the level of interest rates. The risk management system of Medisana AG, which is applied throughout the group, in addition to identifying, analyzing and assessing these risks, also limits the use of derivative financial instruments. Holding such instruments for speculation purposes is not permitted.

When entering into business contracts involving derivative financial instruments, the companies in the Medisana Group have as sole business partners German and foreign banks with excellent credit standing. This contracting party requirement minimizes default risks which arise when contractual partners are unable to meet their payment obligations. They are reported in the balance sheet on the settlement date.

Currency risk

As a result of the international orientation of the Medisana Group, operating activity sometimes gives rise to currency risks caused by exchange rate fluctuations between the Euro and other currencies. Outstanding items subject to a currency risk are hedged on an individual basis using derivative financial instruments. Currency options were used to this end in the year under review. These transactions were concluded by Medisana AG.

As of 12.31.2002 the hedging transactions shown in the following tables existed to limit currency and interest risks. Nominal volumes are stated on a non-netted out basis and therefore reflect the amounts of all individual transactions. Market values of derivative financial instruments correspond in each case - in relation to the balance sheet cutoff date - to the price at which an independent third party would acquire the rights and/or obligations deriving from the instruments.

Currency hedging	Nominal volume		Residual terms to (in months)	Market values	
	12.31.2001	12.31.2002		12.31.2001	12.31.2002
Currency options	0 TUS\$	500 TUS\$	1	0	0TUS\$

The requirements for hedge accounting have not been met. (IAS 39.169)

(30) INFORMATION ON RELATIONS WITH AFFILIATED COMPANIES AND INDIVIDUALS

The companies in the Medisana Group also perform many services for affiliated companies as part of their normal business activity. Conversely, the respective group holdings also perform services for the Medisana Group in the context of their business purpose. Goods and services are traded at market prices.

The volume of services provided to or used by affiliated companies breaks down as follows:

A leasing agreement exists between the CEO and Medisana AG for the office and warehouse building of Medisana AG under generally accepted market terms. This gives rise in 2002 to costs of T€ 270 (previous year: T€ 230) and by the time it expires in 2011 costs accruing will be T€ 2,363 (previous year: T€ 2,865). An amount of € 1,013 (previous year: T€ 1,283) is allocated to the period of more than five years.

No other relationships subject to reporting within the meaning of IAS 24 existed within the period under review.

(31) SUPERVISORY BOARD AND EXECUTIVE BOARD

EXECUTIVE BOARD

Mr Rainer H. Behnke, Wachtberg (CEO)

Mr Norbert Schwella, Bonn (Vice President Finance from 08.01.2002)

SUPERVISORY BOARD

Dr. Herbert Groeger, Lamprechtshausen/Arnsdorf/Austria, Management Consultant
(Chairman of Supervisory Board)

Additional mandate:

Member of the Supervisory Board of allesklar.com AG, St. Augustin

Mr Wulf Matthias, Königstein/Taunus, Spokesman of the Executive Board of Credit Suisse
(Deutschland) AG, Frankfurt am Main.
(Vice Chairman of the Supervisory Board)

Mr Hans J. Müller, independent, Bad Honnef.

In return for performing their duties in the parent company and subsidiaries, the Executive Board members of Medisana AG received T€ 243 for 2002. The Supervisory Board's fees for the fiscal year amounted to T€ 20.

June 23, 2003

Executive Board

SHORT-TERM AUDIT REPORT

We have performed an audit on the consolidated financial statements prepared by Medisana AG, comprising the balance sheet, statement of income, statement of development of equity capital, cash flow statement and annex, for the fiscal year January 1 to December 31, 2002. The preparation and contents of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Executive Board of the Company. Our task is to assess on the basis of our audit whether the consolidated financial statements comply with IFRS.

We have performed our audit of the consolidated financial statements in accordance with German audit regulations and in compliance with the German standards of proper auditing set forth by the Institute of German Certified Public Accountants (IDW). According to said standards, the planning and execution of audits must be such that it is possible to confirm with a sufficient degree of certainty that the consolidated financial statements do not contain substantial incorrect information. The audit includes spot checks of supporting documents on which the valuations and information in the consolidated financial statements are based. The audit includes an assessment of the principles applied in balance sheet reporting and the principal judgements of the Executive Board, as well as an evaluation of the general presentation of the consolidated financial statements. We believe that our audit constitutes a sufficiently secure basis for our assessment.

In our opinion the consolidated financial statements for fiscal year 2002 of **Medisana AG, Meckenheim**, present, in compliance with IFRS, a true and fair view of the net worth, financial position and results of the Group and the payment flows during the fiscal year.

Our audit, which in accordance with German audit regulations, also covered the group management report for fiscal year January 1 to December 31, 2002 prepared by the Executive Board, did not give rise to any objections. We believe that the group management report provides overall a correct picture of the group's position and accurately presents the risks inherent in future development. We further certify that the consolidated financial statements and the group management report for fiscal year January 1 to December 31, 2002 fulfill the requirements for discharging the company from preparation of a consolidated financial statement and group management report under German law. We have checked that the consolidated accounting complies with EU directive no. 7 as required for discharge from the commercial group accounting obligation.

Düsseldorf, June 30, 2002

WARTH & KLEIN
G.M.B.H.
CPA Company

Dipl.-Volksw. Manfred Salgert
Certified Public Accountant

Dr. Jens W. Brune
Certified Public Accountant

Publication or disclosure of the consolidated financial statements and/or the group management report in any form other than the certified version (including translation into other languages) requires our prior approval, if our audit report is quoted therein or if reference is made therein to our audit; we refer in particular to § 328 of the German Commercial Code.
