MEDISANA®
HOME HEALTH CARE

Annual Report and Annual Financial Statement for 2001

of the MEDISANA Corporation

C O N T E N T S

Business Trend Slows Consumption

Economic growth in the leading industrial nations clearly lost momentum, particularly in the second half year of the year 2001. At only 0.6% last year, overall economic growth in Germany fell far short of the growth forecast of 2.5% which was still indicated by economic researchers even at the beginning of 2001. There was no upturn in the economic environment in autumn as had been anticipated. The domestic economy even showed recessive tendencies after the terrorist attacks on September 11th. The continued weakness in the economic environment, together with negative prospects for the job market led to both declining consumer confidence and restrained behavior in terms of consumption. This had an impact on precisely those product groups which are not required for primary and daily needs.

Against this backdrop the trend on the home health care market also lagged behind expectations. The interest of final consumers in electronic devices for health care and monitoring stagnated particularly in Germany. However, in other European countries as well the market for health products was not able to continue the double-digit growth rates of the previous year. As a result of the pessimistic prospects forboding a continued weakness of international economic activity, consumer confidence reached its lowest point in the final months of the financial year just elapsed. While the Christmas business for the classic consumer segments remained within the scope of expectations, sales of home health care products suffered unexpectedly from the reticent consumer behavior.

Year-on-Year Sales Down

MEDISANA Group achieved sales of Euro 26.7m in the financial year just elapsed (previous year: Euro 28.1m). Thus we were not able to match the record level of the previous year. While gross income from sales and services in the first six months continued to be higher than in the previous year, the sales figures in the second half of the year remained below the figures of the previous year due to the generally slow trend on the home health care market and due to special effects.

Germany Remains Core Market

As in previous years, the largest single share of sales in the financial year just elapsed was accounted for by the German home health care market – despite the clear decline in sales in this segment. Here we achieved Euro 13.6m (previous year: Euro 19.8m) or 51% (previous year: 70%) of overall sales. Italy was also a focus of our sales activities outside of our core market in Germany. The Milan subsidiary Sanico clearly increased its sales in the year 2001 with Euro 8.1m (previous year: Euro 5.4m and thus accounted for a 30% share (previous year: 20%) of consolidated sales. The trend on the U.S. market remained behind expectations. Our sales company in Charlotte was not able to increase its sales volume. The sales share of the other subsidiary companies involved in sales activities satisfied expectations. In contrast, MEDISANA Far East, which primarily functions as the central purchasing company, did not come up with anticipated contributions due to the fact that corporate sales fell below the target.

Focus on Specialized Retailers

Based on the various corporate sales segments, just under 67% of sales were obtained via retailers specialized in health care products and the mail order and teleshopping sales channels, while 27% was accounted for by the sale of health products through large-scale retailers (supermarkets, department stores, specialized retailers for electrical supplies, etc.).

OEM Business Below Expectations

Our high expectations for the OEM business (or private label business) were disappointed in the year 2001. Altogether, sales of Euro 1.6m or 6% of consolidated sales were achieved in this area with our partners Zepter International and the Moulinex Group. At the beginning of the year, sales of between Euro 3.0m and Euro 4.0m were still planned in the OEM segment.

The reasons for this unsatisfactory development consist, on the one hand, in the fact that products sales fell far short of the planned figures through Zepter International which is active in the direct sales segment. A portion of the projects which were not implemented in the year 2001 will probably now be realized in the current financial year. Moreover, the line of health products sold under the name of Krups was discontinued with the bankruptcy of the Moulinex Group in the third quarter of 2001. Moulinex created its new range of health products with four products which we developed and supplied only at the beginning of the financial year just elapsed. The tools developed for this production remain our property and are to be used within the scope of other projects in the future.

A New Direction for Our Range of Products

In light of the weak development on the home health care market, we have forced the restructuring of our range of products based on yield criteria. Expensive marketing campaigns and sales measures for low margin products were reduced over the course of the year. This affected the health monitoring segment in particular. Apart from the general trend on the market, the situation was made even more difficult in that – particularly in our core market of Germany – blood pressure monitoring devices were increasingly sold via the discount trade with a corresponding decline in prices and profit margin. In this product segment, which was one of the best selling segments in the company in the year 2000, the excess supply on the market led to declining sales of our high-quality products and to reduced margins. In the course of this development we cut the total number of blood pressure meter models offered by MEDISANA and LIGHTWAVE from fourteen to five. With the remaining models we are now concentrating on the upper price segment in terms of functionality and design in order to make a conscious distinction between our products and mass market items, while other mass-marketable products were accordingly refocused as well.

In contrast to this, we continued to develop our activities in the so-called "qualified personal hygiene" product segment. On the basis of our positive experience on the Italian health market, we have expanded our offer of hair and nail care items both via businesses specializing in health care products and other relevant sales channels. The focus of interest here was formed by micro-massage trousers produced exclusively for MEDISANA.

Sales Growth and Increased Corporate Costs Weaken Earnings

All in all, the MEDISANA Group achieved a total of Euro 6.8m (previous year: Euro 7.4m in earnings before taxes. The gross sales margin of 25% thus nearly matched the level of the previous year (26%). However, due to the increase in costs and extraordinary / special influences compared to the previous year, earnings before interest and taxes (EBIT) actually declined to – Euro 4.6m (previous year: –Euro 0.2m. Consolidated earnings amounted to – Euro 3.8m in the year under review (previous year: Euro 0.5m).

The declining earnings trend was particularly attributable to a clear increase in the costs of sales and personnel. In the year 2000 and in the first months of the financial year just elapsed we created the prerequisites throughout the company for our planned continuation of past dynamic growth. In this regard we continued to develop our capacities in the areas of marketing and distribution, particularly compared to the previous year. As a consequence, personnel costs in

these areas and the costs for individual sales measures increased significantly. In the course of the year, however, the first measures to ensure a lasting increase in group profitability were adopted and, in part, implemented. These measures primarily involved reducing both personnel marketing costs.

General administrative costs also increased compared to the previous year. Integration of the foreign subsidiaries acquired in the year 2000 and at the beginning of the year 2001 led to structural adjustment costs which exceeded the first positive synergies derived from coordination of our European sales activities. In the future, however, positive cost effects will prevail as a result of greater centralized management of group activities. Apart from the rise in individual expense items, a particular damper was put on earnings through unsatisfying sales of home health care products which remained below expectations due to the difficult economic situation. Furthermore, the collapse in prices for blood pressure items in Germany put even more pressure on the margins in one of our strongest product segments and thus contributed to the negative trend. In contrast to this, Sanico, our Milan subsidiary, made a satisfying contribution to earnings through the sale of high-margin articles in the qualified personal hygiene segment. The performance of our other European subsidiary companies turned out to be within the scope of expectations. Business activities in the USA and in Hong Kong were disappointing. Both the subsidiary active in the sale of our products on in North America and the subsidiary which is active in the area of purchasing as well as research and development in the Far East failed to make a positive contribution to earnings in the financial year just elapsed.

At the group level we invested a total of Euro 0.5m (previous year: Euro 0.7m) in tangible assets in the financial year just elapsed. These investments primarily involved acquisitions in the areas of office equipment and electronic data processing.

Development of the European Sales Network

In the financial year under review we also set forth our targeted efforts which were already begun in the year 2000 in order to establish an international sales structure with affiliate companies in the relevant European home health care markets. With the establishment and assumption of a respective 51% stake in Greek Medisana Hellas and Medisana Benelux based in Kerkrade in the Netherlands, we are now able to manage our activities in two further European home health care markets directly from within the group.

Medisana Hellas has already been active as a sales company on the Greek health care market since 1998. The company specializes in the primary channels required in order to sell health care products to consumers in Greece, i.e. pharmacies and health care products retailers, and was thus able to show satisfying increases in the period under review. All of the group sales channels in the Netherlands, Belgium and Luxembourg are tied together via Medisana Benelux. These markets exhibit structures that are similar to those on the German home health care market. The activities in the Benelux countries have also developed satisfactorily in the financial year.

Establishment of the group's own sales structures in England and France via subsidiary companies remained a central component of our strategic orientation at the beginning of the period under review. However, because of the slowdown in the dynamic growth of the local home health care markets and the associated risks, we have decided for the moment to continue to realize sales via licensed partners in the markets indicated.

New Sales Concept for Large-scale Retailers

In October 2001 we embarked on the lauch of a new presentation and sales concept in Germany under our brand LIGHTWAVE for the sale of health products via large-scale retailers. This

involves the first range of health products in the so-called clam shell blister: a high-quality, transparent and theft-proof packaging which provides for an eye-catching and clear presentation of the individual products. It has become clear that the detailed and transparent presentation of, in part, highly complex electronic devices on the home health care market serve to familiarize the potential customer with the functionality of the product and thus acts as a successful support to sales operations.

The aim of this new concept is to increase the turnover of merchandise among large-scale retailers as well as development of our presence in this segment. In the initial months of the period under review we were able to successfully install the system among our large-scale sales partners in Germany. However, in order to support the introduction of this new sales concept, an above average number of products had to be withdrawn in order to shake out the market after the initial launch of the new LIGHTWAVE concept. By contrast, the demand for LIGHTWAVE products by the trade developed well in the final weeks of the year and was slightly higher than our expectations. However, whether or not the final consumer will accept this system in the long run - and concomitantly our trade partners - will only become clear in the course of the current financial year.

Stabilization of Retailers Specializing in Health Products in Germany

MEDISANA sells home health care products in the retailing sector specializing in health products via the subsidiary Sanico GmbH. Apart from the group brands LIGHTWAVE and MEDISANA, the range of products also includes items from selected health brands outside the group. Based on the competence of our subsidiary company in this sales channel, Sanico increasingly added new items to its range of products in the year 2001. Thus a distribution agreement was reached with Sympatex Technologies which includes the full distribution rights for Europe for bed linen developed for allergy sufferers which is made of a special textile weave manufactured by Sympatex. This product has a high sale potential as a result of its exceptional functional features, i.e. the bed linen prevents allergy-inducing microscopic organisms from nesting and thus provides for natural air circulation through the material's good breathing properties.

Talks regarding cooperation have been held with a number of other manufacturers of brand-name articles in the health sector in the financial year just elapsed in order to supplement and develop the range of products offered by Sanico.

Goal-oriented Research and Development

In the financial year just elapsed we put our activities in the development of innovative technologies or the advancement of existing products for monitoring health and therapy by the final consumer more in line with the expected yield of new products. In the future we will increasingly apply our know-how to the development of completely new products which, in terms of their technical features, are not yet available for the final consumer on the health care market. We will limit the technical advancement of mass market products to those items where we have a promising market position in the high-quality segment of our MEDISANA brand. As a result of our short development and realization times, we can quickly respond in advance to emerging trends on the health market.

We launched a series of products on the market in the year 2001. These included, among other items, the world's first fully programmable, digitally operated muscle training device, a new device for the analysis of body fat as well as massage, manicure and pedicure devices. In the near future, between three and five new products are to be introduced annually on the home health care market.

Balance Ratios Continue to Stabile

The group balance sheet total as of December 31, 2001 amounted to Euro 29.9m (previous year: Euro 31.6m). The sum of fixed assets on the assets side developed stably, while there was a slight decline in current assets. Equity capital declined in the case of total equity and liabilities due to the reported balance sheet loss, while there was an increase in both reserves and liabilities. The equity ratio is still very solid with 51% (previous year: 62%).

The outflow of funds from operations amounted to – Euro 2.7m in the year under review (previous year: – Euro 6.8m). Cash assets added up to Euro 2.1m on the balance sheet target date (previous year: Euro 5.0m).

Personnel

As a result of the purchase of the new subsidiary companies the number of permanently employed staff within the group rose to 78 (previous year: 75). As part of our ongoing employee qualification program the imparting of new technological knowledge stood at the forefront during the financial year just elapsed. Mastery of innovative technologies and methods along with the pertinent background knowledge represent an important mainstay for the success of our brand. In the administration sphere there were, among other things, training courses on the new SAP software that was introduced in the previous year.

Future Development Risks

We developed our risk management system even further in the financial year just elapsed. The newest version of our existing risk management manual will now be employed in our consolidated subsidiaries as well. The core element of the system for early detection of risks consists in realistic planning of the individual sales and profit components. Integrated into a comprehensive reporting system, deviations can now be detected immediately and appropriate corrective measures can be introduced. The catalog of the recorded risks has been systematically modified.

Well-known types of risk are anticipated in particular by intensive and continuous observation of the both trends on the market and within the company. The market positions of our health products are ensured and product risks are minimized through constant advancement of our products and services in conjunction with effective quality management. As far as sales are concerned, only those segments will be expanded on in the future which are not capable of putting the financial and earnings situation of the company at risk with their capital commitment and where there are no uncertainties as far as sales are concerned. Thus an integral component in minimizing business risks consists in concentration on retailers specialized in the health trade and only selectively supplying large-scale retailers.

The dependence on individual suppliers or customers is reduced by allocating production and sales volumes to several partners. Constant expansion of our contacts in these areas and simultaneous stabilization of our European sales activities diversify the risk of losing individual partners or markets. Moreover, the risk potential arising from currency transactions has continued to decline with the introduction of the Euro. Beyond that, important foreign currency transactions are secured with the appropriate financial instruments if needed.

Successful Transactions in the First Months of 2002

There was stabile development of business activity throughout the group in the initial weeks of the new financial year. In several segments it was already possible to adjust inventories in line with the new direction of sales and products. Outside of the core market Germany there was satisfying development - above all as far the sales revenues of our European subsidiaries are concerned - while the situation on the US (sales) and the Far East markets (purchasing, research and development) did not improve. Altogether, however, we concluded a number of contracts in the first months of the year 2002, the implementation of which will provide for profitable growth in the future.

Thus there was further development in the range of products offered by Sanico in Barsbüttel near Hamburg, the consolidated subsidiary which is involved in sales of home health care products in the German retail trade specialized in health care products. As of May of this year the MEDISANA group will be responsible for the exclusive sale of BRAUN health and care products in the specialized retail trade. This cooperation includes, among other things, oral hygiene products from the successful Oral-B product series as well as the infrared ear thermometer "Thermalscan". In addition, Sanico has also assumed responsibility for selling Duracell batteries.

In the area of OEM or private label business we have agreed to cooperate with the Canadian PanGeo Group, one of the largest manufacturers of nutrition supplements (vitamin and herb preparations). We will exclusively develop and supply the home health care products in order to establish a new health care series from PanGeo. As of June 2002 PanGeo will offer the first seven products (among other things blood pressure meters and massage equipment as well as a body fat measuring device) under the brand name "BODYCHECK". This product portfolio is to be developed to up to 12 articles by end of the financial year.

The 95 German supermarkets belonging to the Wal-Mart Group have had our LIGHTWAVE brand home health care products on offer already since March of 2002. Discussions are also being held at present on introducing our products to the American market. Moreover, as of June the Swiss FUST Group, with 120 stores the largest specialized retailers for electrical supplies in Switzerland, will exclusively offer the complete range of products belonging to the MEDISANA brand.

Outlook

After the home health care market went through a disappointing trend due to the unexpectedly difficult economic situation in the year 2001, recovery of interest in health products is again expected for the second half-year 2002. Borne by the continued trend on the part of the population to carry out self-checks of bodily functions and independent therapy, home health care products will increasingly find their way into the households of final consumers in the future. Furthermore, the increasing health consciousness in connection with the restrictive budget policy of the health insurance companies and physicians also contribute to a further shift of activities relevant to health from the physician to the patient.

In light of the stabile development and satisfying business transactions in the first weeks we anticipate a slight increase in sales with balanced consolidated earnings for the current financial year. The basis for this is formed by increased selective use of existing and new sales channels through our brand and product segments in connection with a restructuring of group activities as well as a clear reduction in the costs for personnel and the costs of sales.

Concentration on offering our articles in the specialized health trade forms the focus when it comes to restructuring our sales activities. With the sale of high-quality products via pharmacies and health care stores we can further strengthen the good position of our MEDISANA brand on the market for quality health products. We have outstanding market positions in this segment already at this point. The development of these classic sales channels for health care items

makes it possible for us to stabilize profitability. The basis for this is formed by a new range of MEDISANA brand products with 18 articles altogether in the three segments of medical control, therapy and beauty. To this end other target markets are being focused on in addition to Germany. Apart from offering our brands in the sales sectors that have been planned, more effort will also be put into the sales business. Individual sales campaigns for selected products will be carried out either independently in the future or together with sales partners. By contrast to this, the sale of products via large-scale retailers will only be selectively pursued.

Parallel to the selective development of individual sales sectors, the cost structure at group headquarters is to be optimized even further. This includes, among other things, further centralization of purchasing throughout the group and pooling the administrative activities of foreign subsidiary companies. In addition, we will sell our group companies in the USA and the Far East toward the middle of the current financial year. Safe development or a clear recovery of our business activities in these markets is not to be expected over the medium-term.
In the future, the sale of our products in the USA will be managed by licensed partners with good access to the relevant sales channels on the home health care market. The activities of our consolidated subsidiary in Hong Kong, active in the areas of purchasing, research and development, will be incorporated in Meckenheim without additional costs.

In the current year we expect to see positive earnings contributions from the European companies acquired in the last two years. The export trade has already developed better than planned in the initial months of this financial year. The activities of the companies in Greece and the Netherlands that were integrated into the group in the year 2001 have already exceeded expectations. Both companies concentrate their sales activities on the high-margin specialized health care trade. Group activities in Italy and Spain will also continue to become more important.

In order to further stabilize business activity we are presently conducting talks with potential strategic partners that are already doing business on the international health care market. In the current financial year we will also make our know-how available to other manufacturers of consumer goods within the scope of OEM or private label business.

MEDISANA Group (Euro)

Balance Sheet

	As of: December 31, 2001 in Euro	As of: December 31, 2000 in Euro
A. Fixed assets	**4,576,252**	**4,828,992**
I. Intangible assets	3,309,303	3,819,667
1. Goodwill	3,011,691	3,073,737
2. Intangible assets	297,612	745,930
II. Tangible fixed assets	1,258,101	986,806
III. Financial assets	8,848	22,519
B. Current assets	**20,650,128**	**24,748,036**
I. Inventories	9,146,083	10,756,980
II. Receivables and other assets	9,406,836	8,830,687

1. Trade debtors	8,231,612	7,323,374
2. Other assets	1,175,224	1,507,313
III. Short-term securities	0	3,231,684
IV. Cash and credit at banks	2,097,209	1,928,685
C. Tax on earnings	**4,593,314**	**1,907,159**
D. Prepayments and accrued income	**94,392**	**94,181**
Total assets	**29,914,086**	**31,578,368**
A. Equity	**15,224,365**	**19,600,440**
I. Subscribed capital	3,725,757	3,800,000
II. Capital reserves	15,083,267	15,722,562
III. Exchange rate difference	116,695	20,198
IV. Net result	-3,701,354	57,680
B. Other shareholders' stock	**864,787**	**486,999**
C. Provisions	**2,227,238**	**1,844,344**
1. Pension provisions and similar provisions	914,767	1,014,529
2. Other provisions	1,312,471	829,815
D. Liabilities	**10,644,070**	**9,084,853**
1. Long-term financial liabilities	245,627	274,090
2. Short-term financial liabilities	6,715,380	5,606,239
3. Trade creditors	2,847,836	2,583,135
4. Other liabilities	835,227	621,389
E. Tax on earnings	**950,527**	**553,985**
F. Accruals and deferred income	**3,099**	**7,747**
Total equity and liabilities	**29,914,086**	**31,578,368**

MEDISANA Group (Euro)

Consolidated Statement of Income from January 1 to December 31, 2001

	2001 in Euro	2000 in Euro
Total sales	26,651,484	28,055,186
Cost of sales	-19,856,658	-20,681,341
Gross earnings	6,794,826	7,373,845
Purchasing & warehousing	-1,179,202	-1,251,169
Marketing & sales	-7,053,451	-4,525,593
Administration	-2,525,601	-1,642,151
Other operating costs	-932,173	-236,379
Other operating income	524,001	280,491
Goodwill amortisation	-208,650	-161,775
EBIT	-4,580,240	-162,731

Interest income	169,682	110,640
Depreciation on financial investments and on marketable securities	-112,957	-19,037
Interest costs	-568,846	-469,937
EBT	-5,092,361	-541,065
Income Tax	1,655,851	1,135,490
Results for the year including other shareholders' stock	-3,436,510	594,425
Other shareholders' stock	-322,524	-99,949
Results for the year	-3,759,034	494,476
Result brought forward	57,680	-436,796
Net result for the year	-3701,354	57,680
EPS [Euro] at 3,800,000 shares	-0.99	0.13
EPS [Euro] at 3,725,757 shares	-1.01	

Medisana AG, Meckenheim
Annex to the Consolidated Financial Statement for the Financial Year 2001

1. Basic Principles and Methods

The consolidated financial statement of Medisana AG as of December 31, 2001 has been prepared in accordance with the International Accounting Standards (IAS) published by the International Accounting Standards Board (IASB). In accordance with German Accounting Standard No. 1 [DRS 1] it complies with the 7th EU Directive. The present statement as specified by IAS satisfies the requirements of § 292 a of the German Commercial Code [HGB].

All standards valid on the balance sheet closing date have been applied. Furthermore, the interpretations of the Standing Interpretations Committee (SIC) have been taken into consideration. In addition to the balance sheet and income statement, a cash flow statement and the development in equity capital are exhibited.

The present consolidated financial statement includes the following balance sheet reporting and valuation methods by way of departure from German law:

- Scheduled write-downs are made on a linear basis over the estimated effective life.
- Receivables in foreign currency have been converted at the exchange rate on the closing date and the resulting variations in value are reflected in net income.
- Non-monetary items in foreign currency are valued at the exchange rate at the time of transaction.
- Congruent employer's pension liability insurances are valued at the level of pension commitments.
- Pension reserves are valued at expectancy cash value (Projected Unit Credit method), taking account of the corridor rule.

- Provisions for operating expenses have not been taken into account.
- Deferred taxes area assessed and valued in accordance with IAS 12
- The assignment of items which are the subject of finance leasing agreements to assets and of the residual balances to liabilities in accordance with the criteria defined in IAS 17 was discontinued in the year 2001.

2. Group of Consolidated Companies

In addition to Medisana AG, the financial statement also includes all subsidiaries in Germany and abroad where Medisana AG directly or indirectly holds a majority of voting rights. As a rule, companies are first consolidated or deconsolidated at the time of acquisition or disposal of the relevant holding.

The group of consolidated companies, apart from Medisana AG as the parent company, embraces seven subsidiary companies, one of them in Germany, four elsewhere in Europe and two elsewhere abroad. The comparative figures to December 31, 2000 are based upon the six subsidiaries which then existed. On January 1, 2001 Santec GmbH, Meckenheim, was folded into the parent company, Medisana AG. During the year 2001, Medisana AG invested some T Euro 204 in the purchase of the two newly acquired companies Medisana Hellas, Heraklion/Greece, and Medisana Benelux, Kerkrade/Netherlands. The effects in the change in the consolidated group of companies as of January 1, 2001 are reflected post consolidation in the following figures as of the balance sheet closing date of December 31, 2001:

Additions following the expansion of the consolidated group	As of Dec. 31,2001 in EUR
Fixed assets	150,113
Current assets excluding cash and credit at banks	551,824
Cash and credit at banks	154,320
Capitalized income taxes, prepayments and accruals	3,952
Minority interests in capital and results	80,798
Liabilities	281,774
Sales revenues	1,231,854
Result for the year	52,526

3. Consolidation Methods

All subsidiary companies within the meaning of § 290 of the German Commercial Code [HGB] have been integrated into the consolidated financial statement of Medisana AG. The companies within the consolidated group do not constitute joint ventures or associate companies. A list of the subsidiary companies is attached as Appendix III to the Annex.

In conformity with IAS 22, subsidiaries are first consolidated at the time of acquisition, or at 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. The cost of acquiring shares in associate companies is thereby set against the consolidated portion of the carrying value of the equity capital. 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. In turn, goodwill is written down on a linear basis over an effective period of 20 years in accordance with uniform Group practice.

For the purpose of implementing capital consolidation, any write-downs on shares in integrated companies which have been made in individual financial statements are reversed and possible goodwill correspondingly reduced at Group level.

Any effects of Group-internal 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 consolidated, as are in-phase dividend receipts and Group-internal expenses and income. Deferred taxes on temporary differences resulting from consolidation are treated in accordance with IAS 12.

The consolidation methods remain unchanged vis-à-vis the preceding year.

4. Currency Conversion

The annual financial statements of foreign Group companies are converted into Euro in line with the functional currency concept. The functional currency is the respective national currency. Assets and debts are therefore converted at the mean rates applying on the balance sheet cutoff date, while income statements are converted at annual average rates. Conversion differences arising herefrom and from the currency conversion of carry-forwards from the preceding year are booked to equity without affecting net income. Goodwill arising from the capital consolidation of foreign companies is carried forward at the historic cost of acquisition.

The consolidated financial statement has been prepared in Euro while applying the officially determined EUR conversion rate of DM 1.95583. Exchange rates vis-à-vis the Euro have developed as follows:

Exchange rates					
		Mean rate in EUR on balance sheet closing date		Annual average rate in EUR	
		Dec. 31, 2000	Dec. 31, 2001	2000	2001
USA	1 USD	1.0747	1.1347	1.0827	1.1166
Hong Kong	1 HKD	0.1378	0.1455	0.1389	0.1432

5. Balance Sheet Reporting and Valuation Methods

The valuation methods remain unchanged vis-à-vis the preceding year. Presentational changes in the interests of a clearer presentation of the financial statement were made in the case of financial liabilities, deferred income taxes and, in the cash flow statement, as well as to the breakdown of the movement of funds derived from operating activities. Figures for previous years were similarly adjusted to guarantee comparability.

a) Realization of Income and Expenditure

Sales revenues and other operating income are realized upon transfer of risk to the shipping company or customer. Operating expenses impact upon results at the time they are incurred. Guarantee provisions are formed simultaneously with the corresponding sales revenues. Development costs are recognized as expenses in the year in which they are incurred. The conditions for capitalization in accordance with IAS 38 are not fulfilled. Interest expenditure and income are recognized on an accrual basis.

b) Intangible Assets

Intangible assets which are acquired are valued at cost of acquisition less scheduled linear depreciation. The write-downs are reported under the item headings to which each respective write-down relates.

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

c) Tangible Fixed Assets

Tangible assets used in business operations for longer than one year are reported at cost of acquisition less scheduled linear depreciation. The underlying useful service corresponds to the expected useful service within the Group. Write-downs based exclusively on tax rules are not included. The write-downs are reported under the item headings to which each respective write-down relates.

In accordance with IAS 17, economic ownership of items on lease is attributed to the lessee insofar as the latter essentially bears all of the risks and opportunities associated with ownership of the leased item. Insofar as economic ownership is attributable to the Medisana Group, capitalization takes place at the time of entry into contract at the known actual cost of acquisition. The depreciation methods and service life correspond with those of comparable fixed assets.

Intangible and tangible assets are subject to unscheduled write-downs at the balance sheet cutoff date where the higher of the utility or net sales values has fallen below the carrying value.

d) Financial Assets

Financial assets are capitalized at cost of acquisition. The cost of acquisition of low- or non-interest bearing loans equates with their cash value. In other respects depreciation to a lower value will impact on net income as of the balance sheet cutoff date insofar as the impairment of value is expected to endure.

e) Inventories

Inventories are reported at the lower of either purchase cost including freight or realizable net sale price less costs still to be incurred. The valuation follows the benchmark method defined in IAS 2 at average costs. 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 not taken into account.

f) Receivables and Other Assets

Receivables and other assets are reported at cost of acquisition. Appropriate value adjustments are made to take account of the risk of default. Receivables in foreign currencies are valued at the exchange rate on the balance sheet closing date.

In accordance with IAS 19, recoverable sums under employer's pension liability insurances are valued at the cash value of the insured commitment.

Marketable securities are reported at the attributable current market value at the cutoff date.

g) Capitalized Income Taxes

Income taxes are capitalized in the amount of 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. The condition therefor is a valuation of the development of profits in the medium-term financial planning of the parent company. To the extent that adequate substantial indications of the achievement of future profits no longer exist, write-downs to the attributable value are undertaken.

h) Equity Capital

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 and the setoff of stock market launch costs in the year 2000 which were not reflected in net income. Exchange rate differences constitute the variations in the acquired equity of subsidiary companies in foreign currency between the date of first consolidation and the balance sheet closing date due to currency fluctuations.

i) Provisions

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 increases and other actuarial assumptions. In the event of deviations between actuarial assumptions and the actual development of the underlying accounting parameters, actuarial profits or losses will arise which will lead to discrepancies between the expectancy cash value (DBO) and the balance sheet provision. 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 costs are treated as personnel costs.

Other provisions take into account all commitments recognizable on the balance sheet closing date and pertaining to past business transactions or past events, the occurrence of which is probable but 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 permissible to offset such commitments against positive profit contributions. Provisions are only made where an obligation to a third party exists either in law or in fact. Long-term provisions, to the extent that the rate of interest effect resulting from any discounting is of significance, are reported at the discounted settlement figure at the closing date. The settlement figure likewise includes cost increases which require to be taken into consideration at the closing date in accordance with IAS 37.

j) Liabilities

Liabilities are in principle recognized at their repayment value. Liabilities resulting from finance lease agreements are carried at the cash value of the lease rentals. Liabilities denominated in foreign currency are valued at the mean exchange rate on the balance sheet closing date.

k) Deferred Income Taxes

Deferred income taxes are carried as liabilities in accordance with IAS 12 to cover both actual tax owed to the financial authorities and valuation differences between the tax balance sheets of the individual companies and the consolidated financial statement. Deferred taxes resulting from consolidation entries are uniformly based upon the 39.2% rate applying in Germany.

6) Comments on the Consolidated Statement of Income

a) Sales revenue

Gross sales revenue in the amount of T Euro 27,586 was achieved (previous year: T Euro 29,594). This figure is contrasted with reductions in proceeds in the amount of T Euro 935 (previous year: T Euro 1,539).

Sales are accounted for by the individual group companies as follows:

	2001	2000
	T Euro	T Euro
Medisana AG	10,502	18,295
Santec	0	21
Sanico Italy	8,109	5,447
Sanico GmbH	3,075	2,123
Medisana USA	1,783	1,798
Medisana Far East	1,052	241
Medisana Spain	898	130
Medisana Hellas	619	0
Medisana Benelux	613	0
	26,651	28,055

Allocation of Sales Domestic / Foreign

	2001	2000
	T Euro	T Euro
Domestic	10,001	17,062
Foreign	16,650	10,993
	26,651	28,055

b) Cost of Sales

The cost of sales in the amount of T Euro 19,857 (previous year: T Euro 20,681) include the costs for procuring the goods sold and specific sales costs. Material procurement costs amount to T Euro 18,432 (previous year: T Euro 19,181). Specific sales costs amount to T Euro 1,425 (previous year: T Euro 1,500).

c) Gross Result

The gross result in the amount of T Euro 6,795 (previous year: T Euro 7,374) represents the result from sales revenue as well as directly assignable costs.

d) Purchasing and Warehousing, Sales and Marketing, Administration
The costs of purchasing and warehousing, sales and marketing as well as administration which amount to a total of T Euro 10,758 (previous year: T Euro 7,419) cover the personnel costs, depreciation and other expenditures attributable to this segment.

The positions are as follows:

aa) Purchasing and warehousing

	2001	2000
	T Euro	T Euro
Personnel costs	708	655
Depreciation	36	63
Other expenses	435	533
Total	1,179	1,251

bb) Sales and Marketing

	2001	2000
	T Euro	T Euro
Personnel costs	2,847	1,911
Depreciation	104	125
Other expenses	4,102	2,490
Total	7,053	4,526

The research and development costs incurred in the financial year were not deferred at the group level.

cc) Administration

	2001	2000
	T Euro	T Euro
Personnel costs	901	677
Depreciation	320	52
Other expenses	1305	913
Total	2,526	1,642

e) Other Operating Expenses
Other operating expenses in the amount of T Euro 932 (previous year: T Euro 236) essentially include neutral expenditures in the form of exchange rate differences and losses from asset disposal and value adjustments on receivables.

Other operating expenses are allotted to the following positions:

	2001
	T Euro
Value adjustments on receivables	289
Reserves for litigation expenses	155
Exchange rate losses	78
Losses from asset disposal	58
Expenses unrelated to accounting period	64
Other expenses	288
Total	932

f) Other operating income

Other operating income is attributable to the following group companies:

	2001
	T Euro
Sanico Italy	339
Medisana AG	138
Sanico GmbH	25
Medisana Far East	19
Medisana USA	2
Medisana Hellas	1
Total	524

Income in the amount of T Euro 245 was obtained from asset disposals at Sanico Italy.

g) Goodwill Depreciation
The useful life of goodwill is uniformly shown within the Medisana Group over a period of 20 years.

Goodwill in Medisana Far East was completely written off in the year under review because of the intended closing of the subsidiary in the year 2002. A plan for further use of the company is available at present. Altogether, write-offs for the year 2001 amounted to EUR 208,650 (previous year: EUR 161,775)
The write-offs are attributable to the following companies:

	2001
	EUR
Sanico Italy	110,681
Medisana AG	48,544
Sanico GmbH	41,741
Medisana Far East	4,512
Medisana USA	2,819
Medisana Hellas	353
Total	208,650

h) EBIT

Earnings before interests and taxes show the result for the year for the Medisana Group before taking the financial result and taxes into consideration. A net loss for the year in the amount of T Euro 4,580 results (net loss for the year in the previous year amounting to T Euro 163).

i) Financial Result
The financial result of the Medisana Group amounts to T Euro./. 512 (previous year: T Euro ./. 378) for financial year 2001.

	2001	2000
	T Euro	T Euro
Interest income	170	111
Depreciation on financial investments	-113	-19
and on marketable securities		
Interest costs	-569	-470
Financial result	-512	-378

j) Income Taxes

	2001	2000
	T Euro	T Euro
Current income tax expenditure	568	448
Refunds from previous years	-28	-11
Deferred taxes	-2,196	-1,572
Total	-1,656	-1,135

The current tax expenditure is based on the net profit before taxes (EBT) of Sanico Italy in the amount of T Euro 1,172 and Medisana Hellas in the amount of T Euro 70.

Earnings from deferred tax claims from financial year 2001 are attributable to the following group companies:

	2001
	T EUR
Medisana AG	1,742
Medisana USA	365
Medisana Italy	46
Sanico GmbH	39
Medisana Far East	4
	2,196

k) Results for the Year and Other Shareholders' Interest

The results for the year before distribution of the result allotted to foreign shareholders amounts to T Euro./. 3,436. After deduction of the share allotted to minority shareholders the Medisana Group shows a net loss for the year in the amount of T Euro 3,759 (in the previous year a net profit in the amount of T Euro 494).

The shares of other partners in the amount of T Euro 323 (previous year: T Euro 100) are as follows:

	2001	2000
	T Euro	T Euro
Results for the year including the shares of other partners	-3,436	594
Profit shares of other partners	-353	-181
Loss shares of other partners	30	81
Results for the year	-3,759	494

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

	2001
	T EUR
Sanico Italy	325
Medisana Spain	2
Medisana Benelux	1

Medisana Hellas	25
Total	353

The total loss shares of other partners (T Euro 30) involve the results for the year of Sanico GmbH.

l) Earnings per share
Earnings per share is determined as the quotient from the consolidated result and the weighted average of the number of shares outstanding since the company went public. The original figure of 3,800,000 shares declined by 74,243 to a total of 3,725,757 shares due to the repurchase of the company's own shares. Taking the group result in the amount of Euro ./. 3,759,034 into consideration, this translates into a group performance of Euro ./. 1.01 per share. The undiluted earnings per share corresponds to the diluted earnings per share.

7) Notes on the Consolidated Balance Sheet – Assets
The development of fixed assets is shown in the Schedule of Fixed Assets attached as Appendix I to the Annex.

a) Fixed Assets
Additions to intangible assets almost exclusively involve the goodwill paid with the acquisition of the subsidiaries Medisana Hellas, Heraklion/Greece and Medisana Benelux in Kerkrade in the Netherlands in the amount of T Euro 147 altogether. The goodwill from the acquisition of the merged Santec GmbH shall be written off as scheduled in accordance with IAS 38. Regular depreciation on all of the goodwill arising from capital consolidation amounts to T Euro 209 (previous year: T Euro 162). The write-downs are shown under the position "Goodwill Depreciation".

Up to the year 2000 leased assets in the amount of T Euro 72 were also included as part of tangible assets that are assigned to the economical, but not the legal property of the company because of the design of the underlying leasing contracts which formed the basis of finance leasing. The respective leasing contracts expired in the year 2001. Thus as of the balance sheet target date the group only maintained contracts which may be qualified as "operating leasing" and which affect net income in the year in which they were concluded.

The value shown in the consolidated financial statement as financial assets involves long-term loans to employees.

b) Inventories
Only goods are included in inventories. Adjustments in the amount of T Euro 439 (previous year: T Euro 36) were carried out within the scope of the consolidated financial statement due to diminished utility and lower net sale values. Inventories of Medisana AG in the amount of T Euro 6,317 have been pledged to the Bonn Savings Bank in form of a storage security transfer as a credit collateral.

c) Trade Debtors
Trade debtors arise result the customary trade in goods and services with companies outside of the group. Loan-securing assignments in the amount of T Euro 3,578 were provided to Bonn Savings Bank by Medisana AG in the form of a global transfer as of the balance sheet target date. The receivables of Sanico Italy amount to T Euro 2,897. Receivables in Italy are essentially collected by the banks. Receivables with a residual maturity of more than one year are limited to T Euro 14 (previous year: T Euro 0).

d) Other Assets
Other claim include in particular activated reinsurance claims in accordance with IAS 19 (revised 2000) in the amount of T Euro 610 (previous year: T Euro 741). The book values shown in

accordance with IAS 19 §104 d exceeded the current market values by T Euro 418 as of the balance sheet target date. Adjustment will be carried out by the time the insurance contract matures through the payment of additional contributions for reinsurance. The remaining time greater than one year amounts to T Euro 13.

e) Cash and Credit at Banks
Liquid assets represent the short-term liquid reserve of the company. A total of T Euro 1,125 has been assigned as security to Dresdner Bank AG, Bonn on an overnight money account. The interest charges of the overnight money account amount to 3% per annum. Credit balances in foreign currency are valued at the rate prevailing on the balance sheet target date.

f) Income Tax Claims
The activated deferred taxes essentially include capitalized tax reduction claims apart from tax prepayments (T Euro 304) and deferred taxes derived from conversion of financial statements based on national law to accord with the provisions of IAS (T Euro 46). A total of T Euro 3,463 (previous year: T Euro 1,568) of the tax reduction claims shown are attributable to fiscal losses brought forward from the previous account of Medisana AG (control item 39.2%). As a result of the strategic reorientation of the company from difficult to predict large-scale business to the more easily more calculable special sales business and intensified activity as an OEM partner and the reorientation on specialiced retailers, Medisana AG plans to return to profitable business after restructuring within the entire group. To this end the fiscal losses brought forward from previous account of Medisana AG are to be used in the foreseeable future. Further reference to future profits are derived from cooperation with new investors. Concrete negotiations to this end will be carried out within the balance sheet preparation period.

g) Deferred Items
This position contains prepaid amounts for which the pertinent expenditure is assigned to subsequent years

8) Notes on the Consolidated Balance Sheet – Liabilities

a) Subscribed Capital
The capital stock is divided into 3.800.000 bearer shares
In accordance with the resolution adopted by the General Meeting of Shareholders from July 19, 2001, the executive committee has been authorized to purchase the company's own shares in as specified in Section 71 Paragraph 1 No.8 of the German Stock Corporation Law [AktG]. As of the balance sheet target date Medisana had purchased of 74,243 shares. Thus the outstanding capital stock decreased to EUR 3,725,757 as of the balance sheet target date.

At the General Meeting of Shareholders on May 17, 2000 a conditional capital increase of up to 259,572 shares was decided upon. The conditional capital increase serves to ensure subscription rights to employees and members of the executive committee of Medisana AG or an associated company. Initial exercise is possible after three years. At the same time, the executive committee was authorized, provided there is approval by the supervisory board, to increase the capital stock by T Euro 1,298 new shares against cash or non-cash investment by April 30, 2005.

b) Reserves and Exchange Rate Differences

The capital reserve of the Medisana Group is made up from the premium of the capital increases in the amount of T Euro 15,723 less the excess amount paid with the acquisition of the company's own shares in the amount of T Euro 639.

The increase in the exchange rate difference which is evident in the equity capital schedule (Appendix II to the Annex) derives from the deviation in the equity capital of the subsidiaries to be consolidated due to exchange rate differences.

In accordance with German Stock Corporation Law [AktG] the dividends payable to the shareholders is determined according to the balance profit shown in the annual financial statements of Medisana AG as stipulated by the German Commercial Code. A dividend payment is not intended for the year 2001.

c) Shares of Other Partners
Adjustment items for the shares of other partners consists of the shares of other partners in the available capital in the amount of T Euro 542 (previous year: T Euro 387) and the shares of other partners in the result in the amount of T Euro 323 (previous year: T Euro 100).

d) Pension Reserves
The pension reserves include vested rights of a total of 17 entitled and active employees as well as former employees. The benefits in Germany are based on individual promises, while in Italy benefits are based on a comprehensive corporate fund.

Pension obligations on the part of Medisana AG amount to T Euro 610 which are congruently covered through reinsurance. The asset value to be shown in the same amount in accordance with IAS 19 (revised 2000) is reported under other assets.

The unrecognized actuarial losses in accordance with the 10% corridor rule amount to T Euro 2.

The waiver of a former member of the executive committee of Medisana AG to liquidate his retirement benefits in the amount of T Euro 189 coupled with the amount of T Euro 4 which has already been drawn upon leaves an excess of T Euro 100 over and above the T Euro 93 already allocated by the group.

For the determination of the pension obligations the following premises were at the basis put:
• Interest rate: 5.5 % (previous year: 6.0%)
• Pension index: 2.0% (previous year: 2.0%)
• Expectancy index: 0.0% (previous year: 0.0%)

The 1998 Guideline Tables by Dr. Klaus Heubeck have been applied as a biometric basis of calculation.

e) Other Provisions

	Jan. 1, 2001	Drawn	Liquidated	Allocated	Dec. 31, 2001
	T Euro	T Euro	T Euro	T Euro	T Euro
Trading risks	526	524	0	757	759
Personnel	105	105	0	107	107
Others	199	758	9	386	447
	830	758	9	1,250	1,313

The provisions for trading risks relate to guarantee risks (T Euro 125), outstanding accounts (T Euro 360), premiums and rebates (T Euro 234) and outstanding credits (T Euro 40).

The remaining other provisions cover litigation risks (T Euro 277), annual financial statement and auditing costs (T Euro 75), sums payable to trade representatives (T Euro 74) and Supervisory Board remunerations (T Euro 21).

These are primarily short-term provisions. The provision for claims by trade representatives (T Euro 74) is the only one to exceed a term of one year.

f) Liabilities

The long-term financial liabilities include liabilities to banks with a residual term of more than one year. Of these, T Euro 53 have a residual term of more than five years.

The short-term financial liabilities are comprised of the redemption payments on loans due in the following year (T Euro 43) as well as current account borrowings. The residual term is less than one year.

The trade creditors represent short-term liabilities arising from current supplies and performances. The residual term is less than one year.

Other liabilities include sundry short-term liabilities. In particular, the reported figures include customer credit balances and social security contributions, as well as employees' income and church tax deducted and remittable by the company.

g) Provisions for Taxes on Earnings

The provisions for taxes on earnings comprise the tax obligations of the consolidated companies amounting to T Euro 554 (previous year T Euro 290) as well as deferred taxes carried as liabilities in the amount of T Euro 397 (previous year T Euro 264). The amount allocated to this provision was T Euro 723, while T Euro 326 was drawn down.

h) Accruals and Deferred Income

This item includes payments which will not be taken to income until later periods.

9) Other Explanatory Notes

a) Contingencies and Events after the Balance Sheet Closing Date

There are no contingencies, nor have any events of particular relevance occurred after the balance sheet closing date.

b) Other Financial Obligations

Medisana AG has undertaken to repurchase 61,000 Medisana AG shares in the year 2002. The resulting financial commitments amount to T Euro 427.
Other financial obligations are restricted to rental agreements which have been entered into and contractual obligations deriving from other leasing agreements, the extent of which is insignificant to the Group.

c) Personnel

As of the closing date, the Group employed 78 (previous year 75) fulltime and 14 (previous year 16) part-time staff.

d) Hedging Policy and Financial Derivatives

Currency hedging transactions were entered into at the beginning of the year 2001, but had fully expired by the closing date. New hedging transactions were not entered into because of the current poor dollar exchange rate.

Medisana is exposed to risks arising from interest rate changes with respect to its short-term financial liabilities. A change in the terms of current account borrowing is possible at any time. The intention is to attract investors in order to counteract this risk.

Adequate consideration of the risk of default has been provided in the form of adjustments to trade debtors in the consolidated financial statement.

e) Cash Flow Statement

The cash flow statement for the Medisana Group is attached as Appendix V to the Annex.

f) Segmental Reporting

The business of the Medisana Group worldwide is concentrated exclusively on its core area of home health care. The formation of segments on this basis is not possible. A breakdown of the consolidated financial statement into segments has therefore been dispensed with.

g) Supervisory Board and Executive Board

The composition of the Executive and Supervisory Boards is listed in Appendix IV to the Annex.

Meckenheim, April 26, 2002

Medisana AG
The Executive Board
Eisbachstraße 2
53340 Meckenheim

Appendix IV

The Executive Board of MEDISANA AG

Rainer H. Behnke, Wachtberg
- Chairman -

Jutta Tetsch, Meckenheim
Member of the Executive Board until June 30, 2001

Rainer Effinger, Bonn
Member of the Executive Board from July 1, to December 19, 2001

As of March 31, 2002 the members of the Executive Board held a total of 679,000 MEDISANA AG shares.
In accordance with the provisions of the German Commercial Code [HGB], the Executive Board members' remunerations are not disclosed.

The Supervisory Board of MEDISANA AG

Dr. Herbert Groeger, Bad Honnef
- Chairman -
Business Consultant

Additional mandate:
Member of the Supervisory Board of allesklar.com AG, Sankt Augustin

Tony E. Kirk, Walchwil/Switzerland
- Vice Chairman -

Independent Business Consultant
Vice Chairman and member of the Supervisory Board until November 12, 2001

Additional mandate:
Member of the Board of Directors of Deotexis, Inc., New York/USA
Wulf Matthias, Königstein/Taunus
- Vice Chairman (from November 12, 2001) -
Spokesman for the executive Board of Credit Suisse (Deutschland) AG, Frankfurt am Main

Hans J. Müller, Bad Honnef
Formerly General Manager of Lancôme Deutschland GmbH
Member of the Supervisory Board from November 12, 2001

As of March 31, 2002 the members of the Supervisory Board held a total of 52,397 MEDIANA AG shares.
Remunerations paid to the Supervisory Board totaled T Euro 20.

MEDISANA®
HOME HEALTH CARE

MEDISANA AG
Eisbachstraße 2 • D-53340 Meckenheim
Tel.: +49 (0) 22 25/91 96-0 • Fax +49 (0) 22 25/91 96-26
info@medisana.de • www.medisana.de